49338755 - J & J Snack Foods - Dennis Moore - J & J Snack Foods First Quarter Earnings

Operator: Welcome to the J&J Snack Foods first quarter earnings conference call. My name is Paulette and I will be your operator for today's call. At this time, all participants are in a listen only mode. Later we will conduct a question and answer session. During the question answer session if you have a question, please press star then one on your touch tone phone. Please note that this conference is being recorded. I will now turn the call over to Gerry Schreiber. You may begin.

Gerry Schreiber: Thank you, Paulette. Good morning everybody and welcome to our conference call for our first quarter. Let me begin by introducing who is in the room with me. Dennis Moore, our chief financial officer; Bob Radano, our chief operations officer; Bob Pape, our vice president of sales; Gerry Law, senior vice president of operations; Marjorie Shreiber Roshkoffuh, our legal representative and Bo Powell, sales manager for food service. Did I get everybody? Let me begin. The forward-looking statements contained herein are subject to certain risks of uncertainties that could cause actual results to differ from those projected in the forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements which reflect management's analysis only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date era.

Results of operations – net sales increased 4% for the quarter, which includes sales from the acquisition of an ICEE distributor in October 2019, without that sales increased 3%; food service - sales to food service customers increased 2% for the quarter. Our sales increase was due to increased sales of soft pretzels up 2%, churros up 8%, funnel cake products up 25% and bakery sales up 2%. Frozen juice bars and ices sales were down 6% and handheld sales were down 18%. Sales to a restaurant chains were up this quarter while sales to schools were down. Operating income in our food service segment increased to $18,034,000 from $17,697,000 last year, primarily because of higher volume and improved operations at our Hill and Valley plant in the Midwest. Retail supermarket sales of products to retail supermarkets were down 6% for the quarter, soft pretzel sales were down 4% for the quarter, sales of frozen juice bars and Italian ices were down 8%, handheld sales were down

15% and bakery sales including biscuits were down 11%. Operating income in our retail supermarket segment was essentially the same as last year as the benefit of price increase implemented a year ago offset the impact on slightly lower volume. We expect to see volumes at least stabilizing and improving in this second quarter.

Frozen beverages which include ICEE, SLUSH PUPPIE, Arctic Blast brands - frozen beverage and related products sales were up 16% in a quarter and beverage related sales were up 13%. Without the sale of ICEE distributors, an acquisition in the first quarter from the Festervan group overall sales were up 12% and beverage related sales were up 4%. Service revenue for others was up 13%. Machine revenue was $12 million up from $8.9 million last year. Operating income in our frozen beverage group decreased to $1,452,000 from $2,174,000 in the quarter primarily because of relocation costs and expenses related to the ICEE headquarters move to Tennessee. Approximately $1 million this quarter and estimated to be about $800,000 in our second quarter in connection with the relocation of ICEE headquarters. In October we purchased the assets of ICEE distributors Festervan Group which does business in Arkansas, Louisiana and Texas with annual sales of approximately $13 million.

Consolidated - gross profit as a percentage of sales was 27.52% in the three-month period this year down from 28.3% last year's; gross profit percentage decreased because of lower unit volume on the snack side of our business, generally higher costs and unfavorable product mix changes. Total operating expense as a percentage of sales was 19.9% in a quarter down from last year's 20.2%. The decrease was due primarily to lower distribution causes in connection with freight. Capital spending and cash flow. Our cash and investment and securities balance of $306 million was down $37 million from our September year-end, primarily because of the purchase of the ICEE distributor. We continue to look for acquisitions as a use of our cash. $116 million of our investments are in corporate bonds with a purchase price yield to maturity of 2.8%. Our capital spending was $18 million in a quarter as we continued to invest in plant efficiencies and growing our businesses. We estimate our spending for the year to be about $60 million as we continue to invest in our manufacturing plants and the ICEE business. Cash dividend of $0.575 a share was declared by our board of directors and paid on 7th January. This was a 15% increase from the previous dividend. We did not buy back any shares of our stock during the quarter. Our investment income this year was $746,000 more than last year because we recognized $1,027,000 of unrealized investment losses in last year's quarter. Last year we had a tax benefit of $900,000 related to the Tax Cuts & Job Act which benefited last year's EPS by $0.05 a share.

Thank you for your continued interest and we look forward to continuing our growth and success. Well, that concludes my upfront analysis.

Operator: Thank you. We will not begin the question and answer session. If you have a question, please press star then one on your touch tone phone. If you wish to be removed from the queue, please press the pound sign or the hash key. There will be delay before the first question is announced. If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star then one on your touch tone phone. Our first question comes from Rob Dickerson. Please go ahead.

Rob Dickerson: Great. Super. Thank you so much.

Gerry Schreiber: Morning Rob.

Rob Dickerson: Good morning. How are you?

Gerry Schreiber: I'm good. I think you just did a recent report on us?

Rob Dickerson: I did. We,Jefferies as a firm and my team just recently initiated on a number of food companies and you happen to be in that group, so look forward to working with you going forward.

Gerry Schreiber: We appreciate it and we want to make you a hero.

Rob Dickerson: I always love hearing that, not everyone thinks I am. So, a couple of questions I have, I think fairly basic hopefully. The first one is just on the supermarket division. You stated there was a little lost distribution there, driven maybe by some of the higher prices and then stating hopefully things stabilizing Q2. If you could just provide a little color as to kind of how that happens and one, you do always leave lose distribution when you take prices up, right? Cause that doesn't always happen. It sounds like that was happening a little bit here.

Gerry Schreiber: We'll stabilize. We certainly haven't lost any share and we still dominate that with our product in that category.

Rob Dickerson: Okay. So, but when you think, Q2 going forward, it sounds like maybe there was a little bit of distribution loss, but things seem to be okay and as long as the kind of velocities are okay that you don't expect, more distribution loss. It sounds like things should get better.

Gerry Schreiber: I mean, we don't expect any more distribution loss than we expected. We expect the recovery to start as we have our new products going into the summer selling season, this is generally the time when we see the quarter resets. We've been selling our pretzel bites in Auntie Anne's, we've seen good placements for, so we expect that we've brought them down.

Rob Dickerson: Okay. All right. That's great. Then in terms of the frozen beverage segment, just a couple of questions. One, just on the top line you did great in the quarter, decent growth, even on organic basis, which is always nice to see as we think forward. Though for the rest of the year we'll know the comparisons get a little bit more difficult. Machine sales seem to be advantaged, let's call it in the back half of last year. Is there when you look forward there for the rest of the year, could there be some deceleration in that business? Not because the overall basis is doing terribly, but just more so because you had a great back half in 2019. That's the first question.

Gerry Schreiber: We had another good quarter in our frozen beverage group, which is led by our ICEE brand. But that was complemented to some degree by the acquisition of one of the last remaining independent ICEE distributors. We don't expect that to have a major impact on the year, but it's significant to note that that added some $35 million or so for the quarter. ICEE group, which includes Slush Puppie and Arctic Blast continues to perform or outperform. Dan Fachner on the call. I'm going to let him comment on the rest of the year and Dan, rest assured I will kill you if we don't have a great year.

Dan Fachner: Thank you, Gerry. Yeah, Rob, it was a really a good quarter for us for sure. Top line was great. I don't know that I would anticipate the top line being at that rate through the rest of the year. We are up against some good equipment sales as we get deeper into the year and I think those will taper down some and our increases will be more normalized in that probably 4% range or so. And then we will, as I said, we'll be fighting some really good equipment sales as we get later into the year.

Rob Dickerson: Okay, fair. Good answer.

Gerry Schreiber: Dan is president of our ICEE group and I didn't introduce him at the beginning of the meeting, but he's in California. I'm sorry. He's in Tennessee now participating in the call.

Rob Dickerson: Okay, that's great. It's a very, a unique business, which continues to perform well, so good job. And yes, it's a uniquely positive. In terms of the margin, progression, Delta, we saw on Q1 both gross and operating. The gross margin was down a little bit more than operating margin, but then you call out some of the incremental expenses for the frozen beverage headquarter move. I was just trying to understand, if it seems like from my kind of distant perspective that maybe the gross margin was a little pressured more because of that kind of near term, distribution pressure in retail. Along with maybe some product mix shift, not necessarily expenses flowing through from a headquarter move, which I would think would be [inaudible]

Dennis Moore: Hi and its Dennis Rob. I think essentially you are correct. I think the lower volume at our manufacturing plants, which is snack food side of the business being down, will always almost always have a negative impact on your margin. Simply to have less volume flowing through and costs for the most part go up from year to year, payroll costs go up, insurance costs go up, they have higher costs and lower volume. So that was the biggest component of why the gross margin dropped.

Rob Dickerson: Okay. But like, so if, but then it's, you know, if there's a little Q1 pressure given you have retail distribution but then that picks up back in Q2 and hopefully that gross margin the client does not continue to decline at an increasing rate going forward it would seem, if volumes stabilize.

Gerry Schreiber: But expected to improve as volume improves.

Rob Dickerson: Okay. Perfect. And then lastly for me keep it quick, Just balance sheet capital structure. You don't have any debt. When I started looking at your company, it's always fascinating when you see a company with zero debt.

Gerry Schreiber: We have cash.

Rob Dickerson: You're right, you have cash, you have free cashflow generation, cash flow balance sheet; dividend growth is obviously healthy, which you stated on the call upfront. It just in terms of a kind of go forward, think internally strategically, is this continue to look for great companies that can complement our business to acquire or is it more, hey, if our cash builds and yes, we might think about continuing to increase the dividend at a high rate. I'm just basically trying to figure out where your head is right now in terms of cash allocation if that cash continues to build?

Gerry Schreiber: I think we increased the dividend by 15% in the last quarter, which is a healthy, healthy increase. We will continue to operate our business in a strong dynamic manner. And we expect to perhaps we're still looking for acquisitions. They have to be right. They have to be a right fit not withstanding our balance sheet of cash and liquidity. We're not going to let it burn a hole in our pockets.

Rob Dickerson: Okay. Fair. Okay. That makes complete sense. Well, thank you so much. I really appreciate your time and I'm happy to pass it on.

Gerry Schreiber: Where you located at? Are you in New York, Connecticut?

Rob Dickerson: I'm in New York city. Big Apple.

Gerry Schreiber: Okay, well you're close enough that someday you can come down and visit us.

Rob Dickerson: Yes. That's the plan. That is the definite plan. I look forward to seeing you.

Gerry Schreiber: Make your plans through Dennis and when you're here, I look forward to meeting you.

Rob Dickerson: Sounds great. Likewise. Thank you.

Operator: Once again, if you have a question, please press star then one on your touch tone phone. And our next question comes from John Anderson. Please go ahead.

Gerry Schreiber: Good morning John. How are you?

John Anderson: Good morning everybody. I'm doing well. Hope you're all well.

Gerry Schreiber: We are.

John Anderson: Terrific. Well maybe I'll start with a question on the top line on sales and I'm thinking more as we look to the second quarter, I'm trying to understand if there are anything we should pay particular attention to. I think last year there were some new items that you may have shipped. I think maybe in Q2 there might've been some pipeline benefit and there may have been some movement of some of your business with some co-packers that we haven't lapped yet. So, if you could talk a little bit, I don't know, Dennis, maybe you have some more of the detail around that just so that we can think through how the top line might progress as we move through the year. Thanks.

Dennis Moore: Yes. I think in the second quarter, you're right, we did, last year we had the Burger King limited time offer program which generated roughly $3 million of sales in the quarter, which we don't have this year. And then around last year as Dan had mentioned our machine sales were relatively high compared to what they normally are. And we would probably expect a drop off in those sales, the balance of the year, maybe in as much as say

$10 million. So that is going the other way. But on the other hand, there are some positives that perhaps Gerry Law can talk about.

Gerry Law: Yeah, we have a group of new items rolling in the food service. We have more our new fries rolling out. We have a new funnel cake product rolling out. We have group of savory crackers. We feel good about schools rolling forward, which has been a headwind for us in the first quarter. Retail, the resets are going to be great for us we think. We've refreshed our Luigi's packaging, which we feel like we're going to get a bump out of. We have a more robust, I guess more comprehensive marketing program going forward in the next couple of quarters. We're doing a lot around the business to get that the top line to move.

John Anderson: On the retail side did you mention Gerry earlier, something around Auntie Anne's that you're doing that's been well received ahead of the resets?

Gerry Schreiber: Right. Well, we acquired Auntie Anne's about almost two years ago and it's been a good acquisition for us, although it was a competitor to us in the soft pretzel category and supermarkets, now it's a complementary product to our super pretzel, so we expect to benefit from that this year and beyond.

Bob Pape: Yeah, it continues to grow. There's a lot of white space for Auntie Anne's and we continue to push that out there. And we have a new Minute Maid novelty rolling out or Minute Maid sticks this year, which we expect benefit from.

John Anderson: So those net-net couple of headwinds, but you've got a good, it sounds like a strong pipeline that's going to start working its way into the end of the business over the course of the next quarter or two?

Dennis Moore: Yeah. And another thing I didn't mention with regard to frozen beverages is that there will be an offset, a positive offset which comes from the acquisition that would be $11 million of sales or so of the balance of the year.

John Anderson: Is that from the ICEE? The acquisition of the...

Gerry Schreiber: We acquired one of the very, very last independent ICEE distributors this past quarter. Their sales were in the $35 to $40 million range.

Dennis Moore: No, their sale was roughly $13 million.

Gerry Schreiber: Oh, I'm sorry. Right. But we expect that will continue and that will be a positive overall halo for the business, not only in the areas that we acquired it, but elsewhere.

John Anderson: Okay. Are there you said it's one of the last, how many are left and do you plan to pursue that? Is there something important about having all of them?

Gerry Schreiber: Fast and we're in almost regular communication with them. They kind of look to us as the leader to set the profile and whatnot. So, there's no doubt that one day they will be included in our group. It's only a matter of when.

John Anderson: Okay. And then, the other question I had was on the reloc costs in the quarter. So, there were a million of relocation costs in the quarter, another $800,000 in the second quarter, where did those show up in Q1, in the P&L and where would we expect them to show up in Q2? Were they split across cost of goods and operating expense or were they heavily more heavily weighted in one or the other.

Gerry Schreiber: Heavily weighted in operating expenses.

John Anderson: Okay, great. Thanks. Thanks very much guys. And look forward to seeing the new products on the shelf going forward.

Gerry Schreiber: And incidentally, you covered the relocation, but we thought long and hard about the Exodus from California for all right reasons and we think it's going to work out very well for us.

John Anderson: Well, maybe I should ask about that. And then, so presumably there's some kind of return on this, the cost or investment that you're making right now. What are the benefits from making that move? Because you're not moving manufacturing, right? You're just moving the kind of the administrative headquarters.

Dennis Moore: Yeah, this is Dennis again. You know, most of the benefit comes from the hard dollar benefit comes from what our lease costs would have increased in California if we had stayed there. So even our costs are going to be we may save $1 million a year going forward compared to what our costs where are you, you really don't see most of that because our cost would have gone up in California, close to that number maybe $700,000 or so because we would be having higher lease costs, once the lease we are in now expires.

John Anderson: Oh, okay. I see cost avoidance. Then okay. Okay. Thanks everybody. Thanks for the help in the color. Talk soon.

Operator: My next question comes from Ryan Bell. Please go ahead.

Gerry Schreiber: Good morning Ryan. This is Gerry Schreiber.

Ryan Bell: Hey Gerry, would you be able to walk some of [inaudible]?

Gerry Schreiber: Ryan, are you there?

Ryan Bell: Yeah, I'm here. Can you hear me now?

Gerry Schreiber: Yeah, it's better, but it's not real clear yet.

Ryan Bell: Okay. Could you walk through some of your recent innovations from your press release? It looks like the food service innovation is coming along well. And can you talk about the recent progress you've been making into C-stores?

Gerry Schreiber: Sure. A couple of years ago, we laid out a determined effort and plans to increase our sales and C-stores. And there are roughly, oh, there's tens of thousands of C-stores. We have gotten both our pretzel products and some of our ICEE products and our juice bar products in good distribution. And now that we're in there, we're going to be methodically out of the consumer agencies[?]. Many years ago, if you walked into a convenience store, you might get a hot dog, you might get a drink. Now there are soft pretzels there. There is the ICEE group in there.

Ryan Bell: Great. And if I'm looking at the IRI traction or trends through your December quarter; it looks like they were a little bit healthier than what you'd reported in the quarter. Is there anything that you could talk about that would help to explain that dislocation?

Bob Pape: All right. This is Bob Pape. Mostly it's just the consumers to the new retail pricing and we feel that that is starting to recover. And as a result, the takeaway numbers continue to improve.

Ryan Bell: Okay, great. Thank you. That's it for me.

Operator: And we are showing no further questions.

Gerry Schreiber: All right. I want to thank everybody for their participation in this call and we look forward to all of you in our next quarters call, which will be approximately three months or so from now. Have a good day. Thank you.

Operator: Thank you ladies and gentlemen, this concludes today's conference. Thank you for participating and you may now disconnect.

[END OF TRANSCRIPT]