49621474- J & J Snack Foods – Second Quarter Earnings Call – 04-28-2020

Operator: Welcome to the J&J Snack Foods second quarter earnings conference call. My name is Richard and I'll 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-and-answer session, if you have a question, please press star then one on your touchtone phone. Please note that this conference is being recorded. I'll now turn the call over to Gerald Shreiber, president and CEO. Mr Shreiber, you may begin.

Gerald Shreiber: Thank you. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially 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 hereof.

Results of operations. Net sales decreased 2% for the quarter. Without sales from the acquisition of Icee Distributors in October 2019 and BAMA Icee in February 2020, sales also decreased 2% for the quarter.

Food service. Sales to food service customers decreased 2% for the quarter and decreased 1% for the six months. Our sales decrease for the quarter was due to decrease sales of soft pretzels, down 8%; churros, down 6%; funnel cake, down 44%; and handhelds, down 7%. Bakery sales were up 6% and frozen juice and ices sales were up 6%. Sales to restaurant chains, which were heavily hit during this period, were down 15% this quarter, while sales to schools were up. Operating income in our food service segment decreased 56% to $11 million from $24.8 million last year, primarily because of higher costs, product mix changes and lower volume throughout the quarter, and due to decreased production at quarter's end due to the effects of COVID-19 on demand.

Retail supermarkets and grocery. Sales of products to retail supermarkets were up 10% for the quarter. Soft pretzel sales were up 14% for the quarter; sales of frozen juice and Italian ices were up 8%; handheld sales were up 26%; and bakery and biscuit sales were up 4%.

Operating income in our retail supermarket segment increased in the quarter to $4.3 million from $3.0 million a year ago.

Icee and frozen beverages. Frozen beverage and related product sales were down 6% in the quarter, and beverage-related sales were down 5%. Without the sales of Icee Distributors and BAMA Icee, two acquisitions of about a year ago, overall sales were down 10% and beverage-related sales were down 14%. Service revenue for others was up 9%. Machine revenue was $8.9 million, down from $13.2 million last year, as last year had a large installation project to one quick-service restaurant chain. We had an operating loss in our frozen beverage segment of $1.3 million, compared to $2.6 million operating income in last year's quarter, primarily due to relocation costs and expenses related to Icee headquarters' move to Tennessee of approximately $1.5 million this quarter and lower volume due to COVID-19. In February, we purchased the assets of BAMA Icee, which does business in Alabama and Georgia with annual sales of approximately $3.5 million. With this purchase, more significantly, we now have distribution rights in the entire United States.

Consolidated. Gross profit as a percentage of sales was 25.53% in a three-month period this year. This was down from 28.68% last year. Gross profit percentage decreased because of lower unit – lower unit volume throughout our business, generally higher costs on unfavorable product mix changes. Total operating expense as a percentage of sales was 21.5% in the quarter, up from last year's 19.7%. The percentage was increased – was due to increased marketing spending in our retail supermarket and frozen beverage segments, largely Icee relocation expense and higher distribution expenses, primarily due to higher freight and storage costs and Icee relocation expenses, and because of lower sales in the second quarter. Our EBITDA – that's earnings before interest, taxes, depreciation and amortization – for the past 12 months was a healthy $163 million.

Capital spending and cash flow. Our cash and investment securities balance of 267 million was down $29 million from our December balance, primarily because of the purchase of BAMA Icee and buyback of common stock of $9 million. $109 million of our investments are in corporate bonds with a purchase price yield to maturity of 2.8%, of which 99 million mature within two years. Our bank preferred stock and mutual funds – $13 million – dropped in value by about 15% at the end of March. Our capital spending was $19 million in the quarter as we continue to invest in plant efficiencies and growing our business. Likely our spending for the year will be cut back due to other priorities at the present time. A cash dividend of 57.5 cents a share – that's 0.575 – was declared by our board of directors and paid on April 7th, 2020. This was a 15% increase. As I mentioned earlier, we bought back $9 million of our stock during the quarter. We had an investment loss of $413,000 this year, compared to investment income last year of $2.8 million, primarily because of $2.1 million of unrealized losses this year compared to $760,000 of unrealized gains a year ago.

Regarding where we are now, net sales for the first four weeks of our third quarter that will end in June are down approximately 45% from a year ago. Although we cannot estimate whether net sales will continue to be down at the same rate for the balance of the quarter, we estimate that we may have an operating loss in the quarter, which would compare to operating income of $39 million in the year-ago June quarter.

Approximately two thirds of our sales are to venues and locations that have either shut down or sharply curtailed their food service operations, so we anticipate COVID-19 will continue to have a negative impact on our business. As we have $267 million of cash and marketable securities on our balance sheet, we do not expect to have any liquidity issues. We have good management in place, strong brands and a broad base of highly respected customers. We continue to monitor and adjust our costs and expenses as we evaluate our business on a daily, weekly and monthly basis. We are monitoring consumer behavior, customer shifts and industry needs to adopt our product and marketing mix for the post-pandemic landscape. In what is the true J&J Snack Food entrepreneurial spirit, we are ready to fight our way back to sales growth and business performance when customers begin to reopen this summer.

Keep in mind that all of our leisure and theme parks and sports venues are either shut down or haven't begun the 2020 seasons yet. We are being careful not to reduce our costs so much that we won't be able to service our customers when they return, making sure that we have the proper staffing and resources in place for when business opens up again. And at the same we are working around the clock, updating preventative measures to keep our employees safe. We have always been a company that has been cautious in the way we spend and use our cash. Today, as I mentioned, we have $267 million in cash and securities. We are protecting it and using it to prepare for the future as we monitor and shape what looks like – what it looks like in this changing landscape.

I will now introduce Deb Kane, our director of food service – safety and quality assurance. Deb has been with the company from – for about three years, and we recruited her from Campbell's. Deb?

Deb Kane: Thank you. So J&J Snack Foods Corporation is fully committed to maintaining operations amid the COVID-19 pandemic. We started implementing a number of precautionary measures, as Gerry mentioned, and mitigation strategies in all of our facilities as early as late January. We distributed through all our facilities a robust COVID-19 plan which aligns with the latest recommendations of the CDC and local health departments. Our plant teams were very supportive of all our precautionary measures and, because of their early adoption, we are able to continue to operate and meet our customer orders. Our crisis management teams and subcommittees meet anywhere from daily to weekly.

We enhanced our hygiene protocols in all facilities and increased frequencies of cleaning and disinfection for all production lines and frequently touched surfaces. We practice social distancing and, when that practice is not feasible in certain production areas – for example, packing rooms – we've erected physical barriers between personnel. All non-essential manufacturing employees are working remotely. All visitors and travel is limited to business critical. Procedures such as illness screening and temperature monitoring is being conducted at all doors prior to entering our facilities. Employees are wearing facial coverings, so those would be face masks and face shields, to further reduce risk for exposure to COVID-19.

In addition to all the measures I just spoke about, we are – we have active communications with our suppliers to monitor our inventory level, and we've proactively identified alternate suppliers where needed to ensure supply chain continuity. Logistics and transportation schedules are being managed by our team to ensure the ability to transport throughout the J&J snack Foods network.

We monitor our positive COVID-19 employees, or even those who've come in close contact with a positive, and we have strict protocols for 14-day quarantines to protect our other employees and keep our workplace safe. We follow our COVID-19 plan for when employees can safely return to work after an illness and, of our positive employees, there has been no direct linkage to workplace exposure. So that means the positives are likely due to external community spread from carpools or community interactions outside of the workplace. We've met with FDA and several local health departments, as well as OSHA, and all the agencies are satisfied with our actions and responses to keeping our workplace safe.

Gerald Shreiber: Thank you, Deb, for a very detailed and safe analysis. I also wanted to comment on the announcement you might have seen recently regarding Dennis Moore. Dennis is retiring this July 30th, and we are so grateful for all the years of dedication, efforts and guidance that he has provided us over the years. We are truly sad to see him retire, and we'll miss him. However, we wish him all the best in the next chapter of life. Thank you, Dennis.

Dennis Moore: Thank you, Gerry. Thank you.

Gerald Shreiber: You're welcome. I just want to add that this COVID stuff is another wrinkle in our life, in our history, which we are confident that we will deal with it well and it'll just be a distant memory in years to come. I will now turn it back to the listeners and entertain any questions or comments.

Operator: Thank you. We will now begin the question-and-answer session. If you have a question on the line, please press star then one on your touchtone phone. If you wish to be removed from the queue, please press the pound sign or the hash key. There will be a delay before the first question is announced. And if you're using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, for any questions on the line, that's star then one on your touchtone phone. And we're standing by for questions.

And our first question on the line comes from Rob Dickerson[?]. Please go ahead.

Rob Dickerson: Great. Thank you so much. And thank you, Dennis, as well. Everything that Gerry said, I'd like to reiterate. You've been a huge help, and hopefully you get to enjoy some of your life a little more. So, Gerry, I just had a couple of larger kind of thematic questions here, just kind of around the business model. You know, obviously coronavirus has changed a number of different games and, you know, we understand that there's, you know, a fair amount of, you know, traffic decline, obviously, in the away from home space – you play in the way from home space. We've heard from the likes of some larger CPG companies like Coke and Pepsi and, you know, and there are a lot of questions out there, right? And with a lot of answers left, really, within the unknown. So I guess the question I have for you is, if you've been in this business for so long, maybe the frozen, you know, pretzel piece of the business might not change as much. It actually could be better than it has been the past couple of years. But in terms of that frozen beverage business, you know, that's largely away from home, do you already have to sit down and say, you know, okay, well, maybe, you know, the dynamics of that business – the drivers of this business – have changed, and maybe we should start to think about putting them in bottles or selling them, you know, in a different manner through a different channel? Or should we be selling powder? You know, other, you know, just ways to try to almost very quickly change, you know, with market demand. And then I just have a quick follow-up.

Gerald Shreiber: That's a good question. However, if you look at our Icee business, which includes Icee, Arctic Blast and Slush Puppy, it has been growing nicely year after year.

Speaker: And perhaps – I think Dan Fachner is on the line, if he wants to comment on that as well.

Gerald Shreiber: Dan, do you want to comment on that?

Dan Fachner: Sure. Hi, Rob, how are you? I think that's a great question, and we are looking at other alternative ways to sell our product. The product lines you mentioned is being sold in some great locations today that many people would love to be in, like amusement parks, theaters – wherever there is high foot traffic. Unfortunately, because of that, during the pandemic many of those are shut down. We believe that many of them will open back up and it will still be a strong business at its core. But in addition to that, we are looking at other alternative ways to sell the product. maybe around the take home section – how to do that properly. It's still a treat. It can be sold in locations and then delivered to the house. We do a lot of different licensing types of things with it. As you mentioned, in a powder. How to have it at home and enjoy it at home more often. And so we're looking at several different factors, but we do still feel bullish about the way that the business will come back and still be strong in those locations that we're in as well.

Rob Dickerson: Okay. And then –

Speaker: And I think it's –

Rob Dickerson: Go ahead, Gerry.

Gerald Shreiber: I'm sorry. I think it's important to mention, it's not like we've lost any customers or business, you know? Business is down, that's true, but a lot of it's down because of people's feet – foot traffic.

Rob Dickerson: Right –

Dan Fachner: Right. Rob – in addition to that, Rob, our service side of our business as we've continued to grow that is – has been healthy during this time as well.

Rob Dickerson: Okay. No, that's a clear positive. And then, I guess, just in terms of, you know, kind of, you know, that the go-forward, you know, you mentioned, you know, what the kind of the sales trend's been up front and in the third quarter, and where operating profit could actually, you know, sit potentially when you get through the quarter. It sounds like you're doing the best you can, you know, to, you know, alleviate some costs potentially in your P&L, but at the same time you're also – it sounds like you're trying to, you know, hold on to pretty much, you know, your very loyal employee base. You know, and that's a sensitive topic. I would – I'd feel like, you know – you know, a lot of kind of the moving parts in your P&L are obviously contingent upon, you know, those venues opening up and then people actually going back to the venues, and pretty much sounds like you're trying to hold that cash to be able to hold on to your cost structure as is, as long as you can. Does that make general sense?

Dennis Moore: Rob, can I – this is Dennis. This is Dennis. Can I comment on that?

Gerald Shreiber: Go ahead, Dennis.

Dennis Moore: Alright. First of all, I would say we have had significant reduction in costs during the quarter, but you are correct in that, you know, there are some costs that we don't necessarily want to cut right now. And, for a couple of reasons. One, , it's, we have some valuable people that we will need once the business starts to turn around again. And, and we also have a sense of loyalty to them as well. And on top of that, , to now save, you know, perhaps another, , couple million dollars or whatever of costs during this particular quarter will have no impact on, , our performance and what we do a year from now, considering that, , we have the cash to do so. So we've taken, you know, into account a lot of different factors. But, , I don't want – we shouldn't be giving the impression that we have not cut costs significantly during this time, because we have. I mean, , if we're going to have a drop-off in sales of $150 million in this quarter, , we have to take steps. Otherwise, you know, the drop in earnings would be a lot more than what we're anticipating it to be.

Rob Dickerson: Okay. That's a fair answer. Thank you so much, and please stay safe.

Gerald Shreiber: Thank you.

Operator: Thank you. Our next question on the line comes from Ryan Bell[?]. Please go ahead.

Ryan Bell: Hi. You said that the –

Speaker: Hi, Ryan.

Ryan Bell: – first four weeks of – hey. You said the first four weeks of your June quarter were down about 45%. Can you speak about the differential ways you're seeing this reduction impacting different parts of your business – the retail supermarkets, frozen beverages and food service? And are there any additional details you could provide on the composition of your on-premise exposure, and any differences that we'd see in the pockets of the channels and how they're performing?

Gerald Shreiber: [Inaudible] –

Dennis Moore: This is – alright.

Gerald Shreiber: Before I turn it over to [inaudible] and Dennis, keep in mind that we started our third quarter, which is traditionally a good upswing, with all of our sports teams inactive or the season being on hold. Additionally, many, many schools were closed. And so we started off with a sizeable limp. We do expect, as the quarter heats, up both by weather and opening, that we will get past that quickly. Bob, do you want to add something?

Robert Radano: Yeah, I mean, from the food service aspect of the business, as Gerry mentioned, with many of our partners shut down at this time, right now we're formulating a plan to be able to get back in business with those customers as they start to recover. And then the other thing is, on the retail side of the business, our at-home consumption has been very strong, which we anticipate continuing to move forward in a positive direction, primarily, obviously, driven by, you know, the, you know, the stay-at-home orders. And so we're also figuring out how we can continue to grow that aspect of our business. And I'll let Dan comment on Icee as far as the moving forward.

Dan Fachner: Yeah. Hey, Ryan. So the Icee company continues to feel good about what will happen in the future, right? And then they – in the third quarter, we're still measuring those accounts that are not opened at this point. I mentioned earlier on the call with Rob that our service side of our business continues to grow and is operating almost at the same pace that it had been. And we see that growing in the third quarter as we start to open up these locations and more people need service for that. And even our outside service, outside of the Icee division – that portion of it is growing as well, and see that continuing to grow in the third quarter, although the core product will be hit during the third quarter.

Ryan Bell: Great. Thank you. And, given your strong balance sheet it seems like you'll be able to ride out the storm. Are there any changes that you might think about in terms of your capital allocation over time? And are there any ideas, maybe, about what could happen or any opportunities that could arise from the disruption in terms of potential acquisitions as we exit it?

Gerald Shreiber: Well, this is Gerry. We've managed our finances well over the years when we didn't have a lot of cash reserves. We will continue to manage our finances, including cash, just as we have in the past. So that will be a good sign.

Ryan Bell: Okay, great. Thank you.

Dennis Moore: And to just add to that, I mean, I think your comment regarding maybe there will be some acquisitions now that were not available six months ago because, you know, other companies are hurting, as everyone's hurting, and perhaps it will bring some additional opportunities to us. And we will be looking and evaluating and, hopefully, be making some acquisitions over the next six months to a year.

Gerald Shreiber: Dennis is right. We have the cash, we have the balance sheet. We have all of the things going forward to continue to build a healthy company. And we've made acquisitions in the past. We've turned some down of more recent vintage, but we'll be looking to make acquisitions in the future.

Ryan Bell: Great. Thank you. That's it for me.

Operator: And thank you. Once again, for any questions or follow-ups, that's star then one on your touchtone phone. Our next question online comes from John Anderson[?]. Please go ahead.

Gerald Shreiber: Hi, John.

John Anderson: Hi, Gerry. I hope you're well and safe and –

Gerald Shreiber: I am well. We spoke the other day.

John Anderson: Very good. Very good. You sound good. And I did want to say thanks to Dennis for all the help over the years, and best of luck in your next phase. And I look forward to staying in touch.

Dennis Moore: All right. Thank you, John.

John Anderson: You bet. I guess I wanted to start with the retail business, which was strong in the quarter – the retail supermarket business. You know, what – could you comment a little bit on what you're seeing there in terms of overall consumption growth for your supermarket brands, and do you think the growth is kind of sustainable going forward or was there a large kind of one time, you know, stock-up component to that?

Robert Radano: Well, , John, as far as the business itself, I mean obviously there's been increased consumption again in the at-home segment. We saw that in, you know, the past couple of months. Our customers which we're trying to support are focused on in-stock positions and supply chain, which we are working very diligently to fill as well. We have very strong brands and I think that, as a result of that, we are going to continue to be looked at by our customers as a good partner and that, you know, there will be opportunities moving for us forward. With that said, we also, have an unknown as far as what the consumer behavior will be. And, as mentioned in the conference call notes that Gerry mentioned, we are monitoring consumer behavior, and we will go to what the new consumer need is once the new normal's established. So that requires some product development, it requires some modification of our marketing, and all those things are being in process now to be able to answer that once the changes that are – that the industry are undergoing happen. So that's really how we'll be handling it, and we're very positive about the product portfolio and what we can do with that product portfolio.

John Anderson: That's helpful. Thank you. Do you – could you talk a little bit about your ability to meet the demand? How is the supply chain working on the retail side of the business? Have you been able to keep retailers in stock? Are you able to maybe reallocate some production capacity from your food service business into retail, to better service retail customers during this kind of demand surge that they're experiencing?

Robert Radano: I think, again, tied into the fact that we took the very proactive steps on the COVID-19 sanitary procedures and employee safety that we started, back in January, that's allowed us to have a stable supply chain. And, quite honestly, I think some of the issues are our customers, in terms of their outbound freight to their stores and servicing their stores, and obviously some panic buying on the part of the consumers. That seems to have started to abate a bit. So, you know those are the issues. We have not really, , experienced any significant supply chain issues in terms of our manufacture.

Gerald Shreiber: Where there were issues with some of the retailers, we filled that gap with our own trucks getting product to them, and they appreciate that very much. Somebody – Elias Jensen[?] said to Bob, 'You know, you companies make the product, you get it here, you do this, you stock the shelves. You deserve an award.'

John Anderson: Yeah, I'm sure –if you see – kind of help, you know, your customers out in ways like that during a difficult time, they do appreciate it.

Gerald Shreiber: And they appreciate it. And they appreciate it.

John Anderson: Yes, absolutely. So maybe I could ask about the 40 – the trend that you commented on in April. Am I right to say that the most difficult kind of situation right now is within the food service segment, not the frozen beverage segment, but within food service, because of the nature of the locations where that is sold? Is that seeing that the biggest downtrend at present?

Gerald Shreiber: I think it – I think it may be all over. If you look back a year ago, April comes, yes, it's spring, the birds are chirping, but there's baseball, there's playoff hockey, there's playoff basketball. There's all of these little sports leagues in there. That adds a nice little boost to business. We were completely shut down, if not surprised, by the restrictions this year. Now, we know that's not going to continue, but we expect that it will be a while until we're able to get back onto the field, so to speak, and enjoy those benefits of those sales. We have a team that is dedicated to that. We have a team that enjoys working with the youth and the major sports arenas, and we're good at it, and that business has been growing every year.

Dennis Moore: But with regard to what you mentioned on the frozen beverages segment, the frozen beverages product sales are severely impacted by this. I mean, the portion of the frozen bar beverage business, as Dan mentioned, service component is continuing to perform well, but the beverage side of it is, down well over 80%.

John Anderson: Okay. Okay. Alright. So it's – okay, so it's affecting beverages as significantly, it sounds like, as the food service segment as well.

Gerald Shreiber: A few years ago – let me make a comment. A few years ago – and it was spearheaded by Dan Fachner – we discovered movie theatres. We started putting equipment in movie theaters all around the country, and we enjoyed plus sales from that for many years. Now I understand almost every movie theater is closed or has restricted hours for cartoons on a Saturday morning and whatnot, but that business will come back. We're confident it will, and we'll start enjoying the benefits of that business, hopefully in the not too distant future.

John Anderson: Okay. Just a couple of additional ones, if I might. So you talked about, you know, this balance you're trying to strike of keeping, you know, the people and the capabilities and the capacity, you know, intact as you work through this temporary, you know, kind of issue. But how much have you – would you say you've – but you also said you've taken some actions already. I mean, if you – how much have you kind of done in terms of kind of cost discipline, you know, to this point? And do you have a kind of a – an additional slate of potential actions, you know, depending on the timing of some of your customer re-openings? I'm just trying to get a feel for how much you've maybe already done and how much is potentially yet to come.

Gerald Shreiber: Well, we have 18 facilities across the country, and we are really dedicated to our people and our plants and our business. We did have a layoff that affected 221 people a couple of weeks ago. We don't anticipate growing or having another round of it.

Dennis Moore: And, there aresignificant c osts that we've had in payroll due to hours reductions as well in –, in our manufacturing plants.

John Anderson: Okay. Just the last one –

Dan Fachner: John, I'll add to that too. This is Dan Fachner. We've looked at it in several different fashions. We've had some layoffs, we've had some salary reductions, we've had some furloughs, we've had hour reductions. So we're monitoring it really close, with some scenario planning based on where the business is today and where we expect it to be and where it might end up. And we're watching that really closely.

John Anderson: Okay. And the last one, I guess, for me – I mean, would it be fair to assume that – you bought some stock back in the quarter – you know, raised the dividend. Should – what should we expect going forward in that front? I'm assuming you're going to go into more of maybe a defensive posture regarding those uses of capital going forward. And will you – how much would you think of optimizing capital expenditure, you know, on a full-year basis at this point?

Gerald Shreiber: Well, I think we spent about 50 to $60 million last year, and we probably were on target for that this year. We may trim that a bit because of needs, but right now we have adequate supply of products and we have adequate cash reserves, and we meet regularly on that. And we're going to pay careful attention to that, because we don't want to go either side of the tracks.

John Anderson: Okay. Thanks. Thanks, everybody. I really appreciate all the color. And stay safe, and talk soon.

Speaker: Thank you.

Operator: And thank you. Our next question –

Gerald Shreiber: [Inaudible] – okay. I'm sorry.

Operator: Not a problem. We have Todd Brooks[?] online with a question. Please go ahead.

Todd Brooks: Hey, good morning everybody. A quick question, Gerry. If you talk about the down 45% sales trend that you're seeing quarter to date, you pointed out a couple of things. One, schools were – widespread closures in April, but I imagine the education business becomes less important as you get into May and June. And then, additionally, you do have a big convenience store business. Part of the – it's – outside of the venue closures and event cancellations, it's been the shelter-in-place and people not being free to move around. As you look out over the course of this quarter and you're starting to see states open up a bit and people getting some free freedom of movement back. If you could talk about maybe this down 45 that we've seen for the first four weeks – if there is an element that that could moderate as people are out moving – outside of their homes and driving, hitting the convenience stores, and the drag year-over-year should moderate from education over the next two months.

Dennis Moore: Yeah. This is Dennis, Scott. I'll answer this. Yeah, the – I guess, if you look at who we're selling to now in the food service segment and the frozen beverages, non-service component of the business, we're basically selling right now to restaurants, chains to a limited extent, and to convenience stores. There really is not much else that is open and selling our products. And most of the other venues are going to probably [inaudible] remain shut throughout the balance of the quarter – the amusement parks, the baseball stadiums and, the – many of the snack bars that we sell to that had, that had been down so far this quarter. So, you know, there may be some opening up and there may be some improvement, but to think – at this point, at least, to think that, there'll be anything of significance –, we don't see that.

Todd Brooks: Fair enough. And then in that environment, Dennis, if you can talk about maybe what we're doing on the marketing spend side and how distribution costs – I mean, it sounds like distribution costs – you're going the extra mile for your customers now, but just what should we be seeing? I know marketing and distribution were up year-over-year about 10% in aggregate over the prior year. But what are the – what are the outlooks for marketing and distribution costs in the current environment? Thanks.

Dennis Moore: Well, a good portion of that will obviously drop off considerably with the drop-off in volume. I mean, there is some component of it that is fixed. And – but, however, we do continue to work with our customers on projects that we've been working on and – or working on for – that – and that they want to continue to work on for when they open up and, you know, perhaps have new menu items and new products to sell. So, we're – but the spending should be down significantly. In terms of distribution, costs were higher for a lot of different reasons in the first quarter. , We just were – you know, had some changes in our product distribution. We changed the way we took on some distribution that previously had been done –, we're selling to distributors. Part of the chunk in the marketing and distribution costs was –, the increase was the $1.5 million of Icee relocation costs, which had to do with their warehouse relocations and their customer service relocations. And we're also looking at – and actually before all this began were looking at changing perhaps some of the – where we warehouse our product throughout the country to reduce our costs regarding that. But, , all I can say is we're looking to drive those costs down as we move forward, and we should be able to, to some extent.

Gerald Shreiber: All we need is a little bit of nice weather, together with the ball meeting the bat and the fielder fielding the ball. That is going to have a significant change in our business.

Dennis Moore: Gerry's right. The only question is, hopefully it'll be sooner rather than later.

Gerald Shreiber: Right.

Do we have a next question?

Speaker: Richard, are you there? Moderator?

Operator: Yes, so we have Jeff Osher[?] online with a question. Please go ahead.

Jeff Osher: Oh, Hey. Good morning, gentlemen. Just two quick questions. Dennis, can you just share the composition of finished and raw as it relates to inventory?

Dennis Moore: Hang on a second.

Jeff Osher: Sure.

Dennis Moore: Roughly half of our inventory is – a little less than half is finished goods.

Jeff Osher: Yeah.

Dennis Moore: You know, raw materials and packaging that we use to manufacture the products in our snack foods business [inaudible] is a little – is about a quarter of the inventory. And then another quarter is the equipment parts that are primarily in our Icee business related to service.

Jeff Osher: Got it. And just refresh my memory –

Gerald Shreiber: And that's pretty much normal, isn't it?

Jeff Osher: Yeah. Yeah, yeah. That's very consistent with where you've been historically. So when we think about spoilage costs and cost allocation across far fewer units looking into Q2 and potentially Q3 – hopefully not, but potentially Q3, how do we think about the potential for spoilage costs in that finished goods inventory in the context of, you know, sales, at least to date are less than 1%?

Dennis Moore: most of our products – I guess [inaudible] –

Speaker: Sorry, less than 1% of –

Speaker: [Inaudible] –

Speaker: Less than 1% of finished goods?

Dennis Moore: Well, most of our products –

Speaker: Less than 1% of inventory.

Dennis Moore: Most of –

Speaker: Let Dennis answer. You're both talking.

Dennis Moore: Yeah. Most of our product is – most of our finished goods product is frozen, so it has an extended shelf life. So at this point at least, we don't see that there would be a large amount of spoilage related to that.

Jeff Osher: Great. Thank you. That's very helpful. And any – as you guys were talking about earlier, are there extensions with customers with regard to the existing receivable balance? And maybe just walk through how we can expect, as the year progresses, receivables, and if we need any bad debt reserves against receivables?

Dennis Moore: Well, this is Dennis again. At this point, we – we're sure there'll be some amount of customers that will end up not being able to pay us. But at this point – and again, these will be our much smaller customers. And at this point today, we don't have – we haven't seen any of that. So most of our customers, or almost all of our customers, continue to pay us in the normal course. We do have a handful of customers who are not – who are shut down now, who have asked for extended terms. And – but again, it's a relatively small portion – surprisingly small portion, from what I would have expected a month ago, that have asked for extended terms.

Jeff Osher: Got it. Makes sense. And did you take – last question for me. Did you take a bad debt reserve against those customers that you're anticipating will have problems? Did you take [inaudible] fiscal Q3?

Dennis Moore: Well, [inaudible]. Well, we did not. We did not. And like I said, when I say it, I'm talking about, you know, really small customers. So, at this point at least, we're not anticipating anything of significance.

Jeff Osher: Okay.

Gerald Shreiber: You know, one of the –

Jeff Osher: Best of luck. Thank you.

Gerald Shreiber: – benefits – this is Gerry. One of the benefits of having dominant brands is that we have dominant shares. So there is a continuous relationship between us and the customer, and everybody realizes, when we have an 80% share or whatnot, there's not many alternatives for the other guys, and certainly not many alternatives of equal value and economy. So we're satisfied with our receivables management and our current positions.

Jeff Osher: Okay. Thank you. Stay safe, and appreciate the update.

Gerald Shreiber: Thank you.

Operator: And thank you. Once again, for any questions, that's star then one. We have a question online from Howard Briarman[?]. Please go ahead.

Howard Briarman: Yes, thank you for taking my call. I don't think there's any doubt that you have a very solid business model, excellent brands and a very solid management team. In my humble opinion, this is a liquidity exercise, and I apologize if you gave this out at the beginning of the call. I couldn't get on so quickly. Did you – have you disclosed what a monthly – what a monthly burn rate is at this point? And that would be all-inclusive of you thinking through inventory spoilage – hello?

Gerald Shreiber: Dennis? You want to answer that, Dennis, because –

Howard Briarman: [Inaudible] –

Dennis Moore: Yeah. Well, what we've said is that we may have a operating loss in the quarter, which would also mean that we may not. So when you look at that and you – you know, you consider that – add the amount of depreciation that we have in capital spending, you would see that that pretty much is an offset. So at this point we do not have a cash burn, and we haven't since the beginning of this episode back in the middle of March.

Howard Briarman: So that's great. So looking forward, going six months, assuming things go the way they are, you should be breakeven for the next – for the foreseeable future? And then I wasn't able to finish my question. What is your cash balance and your availability on your revolver?

Dennis Moore: Well, we have a revolver that can go from 50 million to $100 million dollars. But we have cash and investments of $267 million, so we anticipate no liquidity issues now going forward, unless things –

Speaker: Period.

Dennis Moore: – are dramatically different from what everyone is anticipating, which we don't expect.

Howard Briarman: And then, just finally, would there be other levers that you could pull? I mean, it sounds like liquidity is very, very strong, which comes back to your point of a strong balance sheet. Should you need to go into the revolver and/or the cash balance, are there other levers you can pull for additional liquidity?

Dennis Moore: If we needed to –

Gerald Shreiber: Well, I think –

Dennis Moore: – sure. I mean –

Gerald Shreiber: There are banks that would line up to push money towards us, and Dennis has done a good job managing that over the years. But we're in a far different financial condition than we were two years ago, five years ago, 20 years ago. So we have plenty of resources available to us, and we're glad to have that, but we don't expect to have to extend.

Howard Briarman: Okay. Very good. So it seems like it shouldn't be in – I mean, we eventually will see the light at the end of the tunnel. I agree with you guys. Could be six months before –

Gerald Shreiber: I'm sure.

Howard Briarman: – before a therapeutic comes out, and a year before a vaccine comes out, which would be the ultimate safety net. So you wouldn't have any problem running for 12 months and coming out the other side of this –

Gerald Shreiber: Not at all.

Howard Briarman: – without a –

Gerald Shreiber: Not at all.

Howard Briarman: Very good. Excellent. Thank you. Thank you very much.

Operator: And our final question comes from Robert Costello[?]. Please go ahead.

Robert Costello: Hi.

Gerald Shreiber: Hi, Bob.

Robert Costello: How you doing? At Wawa, some of the convenience stores have changed where your products are made available now, like the pretzels and obviously the Icee, and you shrink-wrap the bakery products. Those costs – have they added anything to what your manufacturing costs are?

Gerald Shreiber: You know, Wawa's one of our premier customers, and we have a great relationship with them. We're in contact with them regularly. Both of those projects – particularly the wrap – they came to us a few months ago, and our people worked it out. We charge them for the wrapping. And the only problem we've had with Wawa is that the self-service machines have been shut down, at least temporarily, while they manage through their issues. But we work with them closely, and we don't expect to have any significant downturns.

Robert Costello: Right. What about the pretzel business in the convenience stores? They've been impacted plus or minus by this, or is it just stayed the way?

Gerald Shreiber: Actually it's up, because they wrap the pretzels – on the Dairy Express, we wrap them two or three at a time, and they're selling them in units now, which gives us a little bit of benefit on individual sales. It's no longer, 'Can I have a pretzel?'. 'I'll have the pretzels.'

Robert Costello: Right. You talked about 18 facilities. Is there any talk in the near future, given what's going on with consolidation, of more going forward into, say, half that number? Or is that cost not something right now that you –

Gerald Shreiber: Not half that number. Not half that number, but we are closing one in the Midwest, and we'll probably do that at some point this third quarter.

Robert Costello: Right. The 260 million of cash –

Gerald Shreiber: [Inaudible].

Robert Costello: Could you –

Gerald Shreiber: 67.

Robert Costello: Right. Could you break that out? Like, how much is liquid, how much is invested, and who manages it? Is it in – done internally or externally?

Dennis Moore: Yeah, you see, this is – well, this is Dennis. I mean, in terms of the investment, we essentially manage it ourselves, but we do use brokers and – who do advise us on what we're buyingg. In terms of liquidity, if we – you know, not that we would have to, but if we needed to, we could liquidate all of it probably at very close to what we're carrying it on our books for. But, under the normal course of time, we have about 99 – about close to a million – a hundred million dollars of corporate bonds that mature within the next two years.

Gerald Shreiber: What are we earning on those bonds, Dennis? About 3%?

Dennis Moore: Well, roughly 2.8% based on their purchase price, which essentially is what they're trading at today.

Robert Costello: Right. Last question. Gerry, a couple of years ago you, on a call, talked about the growth rate in the different industry segments that you service. And you mentioned the – food service as being your best opportunity at the time for growth percentage-wise. Is that – you still hold to that as your industry segment that offers the best upside?

Gerald Shreiber: On long term, yes. Short term, probably retail, where we seem to be getting a nice little boost – one, because we're – you know, our core products, pretzels and Icee and whatnot – have dominant shares. And most of the – we're at 35 to 40,000 retail grocery supermarkets. Our packaging is good, the product is good, it's priced right.

Robert Costello: Right. Last question. How come the churros product is not sold in the supermarket category? Like, was the, you know –

Gerald Shreiber: That's a good question, and we keep addressing that amongst ourselves every quarter. That has plenty of opportunity for growth. Sometimes it's a matter of space and, you know, just getting it in there. We don't want to lose that – any feature space in there.

Robert Radano: I think also – this is Bob. The other thing that we're looking at is is food service is – as it continues to grow and be popular within food service venues. Usually the axiom is that, you know, the retail at-home consumption will follow. So more and more consumers are becoming aware of the product. It's a very strong product category for us on the food service side. And as that continues to happen, we would anticipate that we will look at the viability of a retail product and recreating the experience that people are having in a food service environment.

Robert Costello: Right. Alright. Thank you.

Gerald Shreiber: Thank you, gentlemen and ladies,

Operator: And we have no further questions at this time. I'd like to turn the call over to our presenters for closing comments.

Gerald Shreiber: I want to thank everybody for participating in this, our second quarter conference call. We're not happy that we have to go through these kind of adjustments, as they are, but, long term, our business is in strong condition. We have plenty of cash reserves, we have popular brands. Some of our brands are 80% of the category, so the long-term outlet – outlook is good, and we expect it will be – continue to be good, or perhaps even get better. Thank you very much.

Operator: And thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]