

**50143409-J & J Snack
Foods- Second Quarter
Earnings- 04-27-2021**

Operator: Welcome to the J&J Snack Foods Second Quarter Earnings Conference Call. My name is James, and I'll be your operator for today's call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. During the Q&A session, if you have a question, please press star one on your phone. And also note this conference is being recorded. I'd now like to turn the call over to Dan Fachner. Dan, you may begin.

Dan Fachner: Thank you very much. Good morning, everyone. I'm Dan Fachner, president of J&J Snack Foods. And we're just so excited to talk to you today about our Q2 performance. While we all are continuing to see the impacts of COVID-19 on our business and personal lives, we are starting to see some real positive momentum in the business. The environment is changing as more venues are opening, capacity restraints are being lifted. More people are getting the vaccine and overall consumer confidence is improving every month. Our J&J associates have worked so hard, and I'm really so proud of them over the past last year to manage through unprecedented year, and we are in great position to bounce back as traffic in our customers' venues and retail outlets recover. Despite the challenges of this past year, our financial position remains strong and we continue to improve our liquidity, even as profits are challenged.

Joining me today in the room are Jerry Schreiber, founder, chairman and CEO; Ken Plunk, senior vice president and CFO; Marjorie Roshkoff, vice president, and general counsel; Bob Radano and Bob Pape, senior vice president of sales. Let me take a few minutes to review our results. 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.

So results of operations – really excited about it. Net sales were \$256.2 million for the quarter, a decrease of 6%. Sales improved throughout the quarter led by venue openings,

accessibility to COVID-19 vaccine, improving consumer confidence and the spring season. Both our Food Service and Frozen Beverage businesses improved substantially during the quarter due to these improving consumer trends.

Our retail business again continued to hold strong, growing at 17% in the quarter. Operating income was \$7.2 million for the quarter, a decrease of \$3.8 million compared to last year. Improved sales volume and a strong focus on cost efficiencies helped drive improved gross margins and profitability when compared to last year.

Now I'd like to review the results of each of our business segments. Food Service. Sales to Food Service customers decreased only 1% for the quarter, an improving trend when compared to Q1 2021 that had declined 13% versus the prior year. Traffic continues to improve as theaters are reopening, entertainment and amusement venues increased capacity, and strong growth across QSR and casual dining restaurants. Soft pretzel sales decreased 19% and frozen juices and ices the increased 12%. Churros sales were relatively flat for the quarter, and sales of bakery products declined 7%.

Our handheld business had a strong sales quarter, exceeding last year by \$12.5 million, or 168%. That was driven by a new product developed for one of our wholesale club customers, as we previously discussed. Operating income in our Food Service segment decreased \$1.9 million in the quarter, driven by lower sales and product mix. Gross margins improved progressively over the quarter, driving a much improved profitability versus Q1. Retail supermarkets continue to do really well for us. Our retail business continues to perform well as sales increased 17% for the quarter. Those sales were led by our SUPERPRETZEL brand, with an increase of 28% in the quarter, frozen juice and ices sales were up 22%, and sales of biscuits declined 2%. Handheld sales declined 28% for the quarter. Operating income increased 2 million or 47% in the quarter, driven by higher sales and operating income margins near 15%, over 300 basis points better than last year.

Frozen Beverage. Sales of the Frozen Beverage business segment were down 32% in the quarter. Beverage-related sales were down 42%, driven primarily by a 40% decline in gallons as traffic in theaters, amusement parks and retailers faced continued impacts from COVID-19.

These trends are improving, though, compared to a 56% decline in gallons during our first quarter, as consumers returned to our customer venues.

Service revenue declined 16%, almost entirely from a cancellation at one of our key customer's preventative maintenance programs. Machine revenues decreased 36%, due mainly slower customer expansion and replacement during another COVID-19 impacted period. Our Frozen Beverage segment incurred an operating loss for the quarter of \$5.2 million, as the COVID-19 restrictions continued to pressure sales. While these sales challenges to impact gross margin mix and efficiency, margins improved steadily across the quarter, and operating and profits improved over \$5 million when compared to Q1.

Consolidated. Gross profit as a percentage of sales was 23.8% this quarter, down from 25.5% last year. Gross profit percentage decreased because of the previously-mentioned COVID-19 sales pressure on our Food Service and Frozen Beverage segments. Total operating expense as a percentage of sales was 20.9% in the quarter, leveraging 60 basis points compared to last year's 21.5%. Total expenses were \$4.8 million, below last year, through diligent management of some variable expenses in our operations – really proud of that accomplishment and what we were able to do. Net earnings for the quarter was \$6.1 million, down from \$7.3 million last year.

Our capital spending and cash flow. Our cash and investment securities balance was \$280 million as of 27th March, 2021; an increase of \$2 million from our September year end. We continue to drive positive cash flow and our balance sheet and liquidity remain strong in this challenging COVID-19 environment. We continue to look for acquisitions and remain focused on the long-term growth and opportunities of our business. We spent \$19 million in capital expenditures through six months ended 27th March, 2021, as we continue to invest in our plant efficiency and growing our business. We estimate our spending for the year to be about consistent with prior years.

A cash dividend of \$0.575 a share was declared by our board of directors and paid on 13th April, 2021. We didn't buy back any shares of our stock during the quarter. Our investment income this year was \$0.6 million, \$1 million greater than prior year's second quarter, due to

improved market conditions. We are really encouraged by this quarter and look forward with great anticipation to the rest of the year. We want to thank you for your continued interest in J&J Snack Foods. And I will now open it up for any questions and answers. Thank you very much.

Operator: Thank you. We can begin our question-and-answer session. If you have a question, please press star one on your phone. If you wish to be removed from the question queue, you may press the pound sign or the hash key. There may be a slight delay before the question is announced. If you're 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 one on your phone. Our first question comes from Ryan Bell[?].

Ryan Bell: Hey – good morning, everyone.

Dan Fachner: Good morning, Brian. How are you?

Ryan Bell: Ryan – good. Could you provide some details about the trajectory of the improvements throughout the quarter? You'd highlighted that in some of your comments. And then maybe give an indication of where performance stands for Food Service and the Frozen Beverage business in the current month?

Dan Fachner: Sure, Ryan. I'll take a crack at that, and then I'll let Ken Plunk answer some of the questions as well. But the quarter – continued to grow as we went throughout the quarter. So January and February were pretty much the same, but March really started to take off, and we're starting to see that continue through the next quarter. On the Frozen Beverage business side of the business, we saw a great increase from quarter one to quarter two, and as we ended Q2 with the Frozen Beverage business, we even saw a profit in that business, which was really encouraging as we look forward through the rest of the year.

Ken Plunk: Yeah. Hey, Ryan. Ken Plunk here. I would just add – so I think your question kind of is how did things progress through the month of the quarter? I would say February quarter today, particularly if you look at Food Service, it was still considerably better than Q1. So I think we ended quarter-to-date through February, probably at 50% improvement over

Q1. You add in March. when things opened back up, when we got into spring season, March certainly helped that number as well ultimately drive into Food Service being down just 1%. So, but it wasn't just March. It was – you know, it was healthy gain throughout the month of March. Certainly played a bigger impact on that.

For frozen, March was really when we saw the business turn around. Theaters started announcing they're opening up. New York's open, California's open. Capacities are increasing. Amusement parks are expanding capacity.

Gerald B. Shreiber[?]: And I think essentially we had thousands of venues open up doing that period of January through March that we didn't have a year ago.

Dan Fachner: We did, and it really peaked during the March month.

Ken Plunk: So the frozen business really benefited from spring, and we really leave the quarter with a lot of confidence as to what we're going to do in April and into Q2 as we see that business rebound.

Ryan Bell: Great. That's very helpful. And in terms of timing of shipments, is there anything that we should be expecting for Food Service and Frozen Beverages, maybe selling in a little bit more to help us[?] rebuild inventories as parts of the economy are reopening? Or is it just – or is that not as relevant?

Ken Plunk: Can you elaborate a little bit more, Ryan, on your question to make sure we answer that?

Ryan Bell: Sure. I just wanted to see if some of the improvements, say, that we were seeing in the Food Service business and the Frozen Beverage business, was that due to shipments – the timing of shipments rather than the demand on the other side? As I would imagine that some businesses are going from being fully closed to reopening, or opening up more locations and they need to build up their inventories.

Gerald B. Shreiber[?]: Well, we can see demand to remain high at this time, Ryan, and we were encouraged by March. And sure there was some backlog of some supplies that were left, but we're seeing a continued demand as we enter into April here.

Ryan Bell: Okay, thank you.

Ken Plunk: I don't have a number for you, Ryan, but I think you're asking was there sales pulled forward, you know, as demand peaked all of the sudden? You know, I would say that would be marginal. I mean, it's steadily picked up throughout the quarter, but I certainly don't see where there's anything material in terms of sales being pulled into March, and not consistent – you know, you should expect much of the same improvement, I think, as we go into the second quarter.

Ryan Bell: Okay, perfect. That's helpful. And then I think the last question for me. The retail business continues to perform well. Is there anything – any way that we should frame that as we lag[?] some of the tougher compares and some of the demand shifts towards away from home? Is there anything potentially incremental about that business that will stay after the pandemic?

Dan Fachner: Well, we're continuing to see good momentum in that business. We're certainly going to start the cycle, two of the biggest months that retail had last year in that April and May time, but we are continuing to see good sales increases in that area. Bob, do you want to elaborate on that a little bit?

Robert Pape[?]: Yeah. I think, you know, that you'll continue to see the business be strong by virtue of our promotional planning with our customers, and also new product distribution that we've secured that will start to bear some fruit as we get into Q3 and Q4.

Ryan Bell: Thanks. That's it for me.

Dan Fachner: Thank you, Ryan.

Operator: Next question from Jon Anderson[?].

Dan Fachner: Hey, John.

Jon Anderson: Hey, good morning everybody. How are you?

Dan Fachner: We're doing great. How about you?

Jon Anderson: Good, thank you. Yeah. Congratulations on some of the good news in the quarter.

Dan Fachner: Thank you very much. We're excited about it. We're excited about the momentum.

Jon Anderson: I just wanted to revisit one of Ryan's questions, if I could, and maybe it's for Ken. On the Frozen Beverage, business still trying to understand, like, if we think about March or how you exited March in the Frozen Beverage business, what kind of performance you were seeing, you know, on a year-over-year basis? Were we kind of back to level, were we still down? You know, at what kind of rate – I know there's been real trend improvement sequentially, and it sounded like it really accelerated in March, but it would be helpful to have some sense of kind of the exit trend in that portion of the business.

Ken Plunk: Yeah. Thank you, Jon, and good question. Yes, March, for example, on the Frozen business, it was our first month in many months of profitability. So as you look at March by itself, it was a profitable month for Frozen, where we've struggled with sales and margin. Proud of the month of March. Sales, I think, were probably roughly 90% of FY19. So you're starting to see that claw its way back to kind of – call it our base. And then even gross margin, while not entirely back, was within 2 or 3 – 200 or 300 basis points of kind of what I would consider a bit more of a run rate for the Frozen business, at probably around 30%.

Jon Anderson: That's super helpful. I do appreciate that additional color. Okay. So let's see. Maybe for Dan – Dan, in your new role, you've had several months now – and not to put you on the spot – but I'm kind of curious as you've kind of surveyed the business if there's any – how you thought about maybe changes, whether there are things that you think the organization can do from a structural perspective, maybe? An emphasis in certain areas that could benefit the business in aggregate going forward? So anything maybe a little bit new or different, even if it's on the margin, or on the periphery that you think we could look forward to going forward with some new eyes on the business. Yeah.

Dan Fachner: Yeah. Thank you, Jon. Well, as you know, this has been a great business for a long time, and so coming into it with some fresh eyes, able to do some new and exciting things as well. I think I mentioned this to you once before, we have now hired on a new CMO who had 22 years of experience with Coca-Cola, and he's come in with some fresh ideas around marketing and we're looking at ways to kind of do a brand stretch with both our ICEE and SUPERPRETZEL brands, finding ways to expand those strong brands out in sales wise.

On the operation side, we're doing some exciting things there. We're looking at distribution centers and we're looking at transportation and ways to do that maybe a little bit different. We have organized the procurement group and the R&D in alignment in a way that we think that we're – it might be some cost savings there, but also some efficiencies. We've got some really great growth going in the sales side. Some really tremendous energy going around that. You've mentioned on ICEE, and I think on our last call at ICEE we talked about some diversification of outside-of-the-theater groups. And we've had some really good success. We have a couple of rollouts going on in that group right now, both Golden Corral and QSR chains down in the Southeast. We're picking up every rock. I think I had said that to you once before. We're picking up every rock and being able to improve what we think – margins in the future. I think that will continue to show. It showed a little bit this quarter. I think it will continue to show next quarter, and even greater into quarter four. I feel like we are hitting on all cylinders, quite frankly. I think we've got a good leadership team in place and have uncovered lots of different areas to make this company even better than what it's been, and it's been a great company all along. So I think it's a great question and I'm just really encouraged, Jon.

Jon Anderson: That's great to hear and agree, it's been a great company for so many years and look forward to it continuing to be. The last question for me is it's just – it's interesting with this – the demand coming back on your away-from-home business, you know, you're already kind of back – well, you're seeing improvement, obviously, in both segments, Food Service and Frozen Beverages, and at the same time retail continuing to grow. Is there anything – I mean, is supply just being able to kind of meet demand? I mean, this might be

the – this is the reverse of what you've experienced over the last year, but how are you feeling about your ability to kind of meet demand with high service levels going forward as things do begin to continue to return to normal? Thanks.

Dan Fachner: No, I think that is a great question, and that is one of the areas that we're heavily focused on. Just like you said, it started off with the role, really picking up every rock and looking at ways that we can improve margin and grow sales. I think we're well on our way to doing that. Now we have this labor shortage nationwide that we're having to deal with, and so we're looking at each plant and evaluating it closely and finding ways to make sure that we get the labor in there so that we can keep up with this peak demand that we're going through.

Jon Anderson: Maybe I'll tag one onto that, because you made me think about it. So talk broadly – and this could be for Ken, I'm not sure – about cost inflation and pricing – your ability to price or desire to price. Just how should we think about that going forward? Because it's becoming obviously a big talking point for a lot of different companies.

Dan Fachner: Yeah, it really is, and we are seeing some costing coming to us in certain areas like oil and flour and chocolates and plastic cups, things like that. And so we are – we have passed on pricing on the Frozen Beverage business and we are in the midst of evaluating that on the snack-food side of the business as well. Hope that we can see some impact from that – probably by the time that we get an implemented in the fourth quarter.

Jon Anderson: Thank you so much. Good luck.

Dan Fachner: Great. Thank you, Jon.

Operator: Our next question is from Todd Brooks[?].

Dan Fachner: Hey, Todd.

Todd Brooks: Hey, good morning everybody. Congratulations on just the visceral start of the recovery here. So great to see.

Dan Fachner: Yeah, it really is exciting. It's a good time to be on the call for sure.

Todd Brooks: Absolutely. Just a few questions. Ryan and Jon covered a lot of mine. if you look at your Food Service customer base, can you maybe quantify how much of that base is fully reopened, reopened with capacity restrictions or still closed and the reopening still to come?

Dan Fachner: Bob, could you quantify that in any way? What I would tell you is it's continuing to open piece by piece. So some of them are advanced. Certainly the QSR side is doing really, really well for us, and the restaurant side is coming back. The theaters are coming back slowly. They're at about a 30% opening through the first or the second quarter. We expect that to jump to the 50%, 60% range during Q3, and then as high as 80%, 85% in Q4. The school business is still somewhat slow to open, but really encouraged what might happen there in the fall. Everything that we're reading and hearing is that many of the schools – college campuses, K through 12 – will be back in action in the fall, and so we're really encouraged by that. Bob, do you have anything –

Robert Pape: Yeah, also on the sports and entertainment side, we've been very encouraged by the results we've seen there against S&E[?], and we anticipate that it's going to continue as capacities are increased.

Dan Fachner: Yeah. And one more – just made me think while he was talking – the amusement sector. We expect to have a really, really strong year in the amusement parks. In March, we were up at 90%, 95% 100% range in amusement parks, and we feel like that will continue all the way through.

Ken Plunk: Yeah. And I'm just –

Todd Brooks: That's great.

Ken Plunk: – [inaudible] just saw – I listened to the news this morning, and they were talking about basically we're leaving requirements on mask outside.

Dan Fachner: Exactly.

Ken Plunk: So as vaccines are getting out there, and as you're seeing, you know, Dr. Fauci and these experts say you can be outside without a mask, typically, if you've had the vaccine,

we expect that'd just be another feather in the hat as particularly the sports and entertainment, amusement park type parts of our channel recover.

Todd Brooks: That's great. And then we had spoken earlier on in the pandemic – and I'm wondering how it's benefiting J&J now – that, like a lot of the restaurants, you get to theaters, amusement parks, stadiums, that a lot of the operators have condensed the menus, and as they're reopening – and I'm thinking, especially in theaters – it may be with a more streamlined menu, but that may be a higher percentage of J&J content ,that you guys didn't lose any of your slots, so to speak. Is that still a reality in a lot of the Food Service channels that are opening up?

Speaker: Very much so.

Dan Fachner: There are – they have done that, and it's really played in our favor, Todd, in almost all cases that I can think of sitting here today where they have limited the SKUs, both J&J and the Frozen Beverage side, both sides have withstand that and been a part of it. So when you think about the theaters, the information I'm getting back from them is they measure the cents per head spend of the people coming in in the snack bar, and that's up about 20%. And both the pretzel and the ICEE side has stayed in. When you think about some of the other locations, like maybe a wholesale club where we're continuing to have some really big success, it's a smaller menu, but our products are still there. So they have limited it, but that's kind of played into our favor.

Todd Brooks: Okay, great. And then a final one. Just looking forward to the summertime and what I'm and others are expecting will be kind of an explosion in travel by car as people get out, they vacation, again, they just start living again. Update on your C-store channel – kind of penetration, additional products and categories that you're bringing to that channel and any sort of distribution gains with new partners on that front? Thank you.

Dan Fachner: Yeah. C-stores have continued to do really, really well for us. J&J had put together a team a couple of years back to really go after the C-store and that has paid some real benefits for us. And we continue to see that; we continue to see some opportunities on

the Frozen Beverage side. As we speak right now, we're in conversations with a couple of the large C-stores that I think we'll see some really good expansion in before the end of this year. And we see that as a growth market for us, and continue to be a growth market, on all sides of the business. Todd, you still there?

Speaker: Hello?

Operator: Yeah, I'm sorry. I thought he was finished, so I let him go.

Dan Fachner: Yeah. Okay. Is this James?

Operator: Yes, it is. I apologize.

Dan Fachner: Right. Let's just make sure he was finished real quick. Let's ask him.

Operator: Okay. Well, dial in with star one. Here we are. Go ahead, Todd. I do apologize.

Todd Brooks: I was finished. No worries. I was finished. Just congrats – congrats to everybody on the momentum, so...

Dan Fachner: Thank you very much. Really appreciate it. Look forward to following up with you.

Todd Brooks: Thanks.

Operator: Okay. Our next question is from Rob[?].

Rob Dickerson: Hey, how's it going?

Dan Fachner: Is this Rob Dickerson?

Rob Dickerson: This is Rob Dickerson from Jeffrey's, yeah.

Dan Fachner: Yeah. Hey, how are you, Rob?

Rob Dickerson: Yeah, just known as Rob. I like that. So just a couple of questions on the Food Service line. So Dan, I thought I heard you say, or kind of alluded to maybe last quarter – the hope at least, right? Hope and prayer was as you kind of got through the year, that you may be able to kind of get back to kind of pre-pandemic levels. And I'm just speaking to revenue now. At Q2 to your revenues in Food Service were approximately \$6 million lower

relative to Q2 fiscal 2019, right? And even though some parts of the business still declined a bit, or less so than we saw last quarter, obviously that cost[?] handheld businesses has really helped support, which is great, right? That's incremental.

Dan Fachner: Right.

Rob Dickerson:

So the first question I just have is, if I look at Q2 and say, "Well, you're only \$6 million lower in Q2 relative to Q2 2019, but then given the seasonality of your business, usually you're putting up higher revenue levels in the back half of the year. I'm assuming, right, that progression sequentially from Q2 kind of relative to the back half of 2019 would continue, right. And I just kind of ask because, frankly, I think consensus is still kind of under-forecasting what that potential could be in the back half of this year. So if you could just kind of clarify what happened Q2 versus kind of prior comments as you move through the year. Would you expect maybe we can get kind of back to those pre-pandemic levels as you get through this fiscal year?

Dan Fachner: Well, we were really encouraged with Q2, and as we've said, really loved the way that it finished, right? March was really strong. January, February up from Q1, and then March was really strong. And we're continuing to see that after March. I do believe Todd – Rob, that we'll be able to get up to those levels again, right? Now, the mix is still a little different than what it once was, and so we have some growth that needs to happen on the Frozen Beverage side still. Whether that will get up to the pre levels by the end of the year, I'm not sure. We believe that we'll continue to grow on the retail side, although we're up against a couple of tough months, but still believe that we'll be able to grow on the retail side. And really love what we're seeing on the Food Service side. So, where maybe I had a hope and a prayer a quarter ago, I'm feeling more and more confident that we can get up to those levels by the time that we end the year – mix might be a slight difference, but I think we can get up to those levels.

Rob Dickerson: Got it. Okay, great. Good answer. And then, I guess just on the margin side – and again, this is kind of more directed to the Food Service business – like I said earlier, \$6 million lower on a revenue basis in Food Service in Q2, but almost, like, \$13 million lower on the operating profit side, right? So revenues seem to be kind of inflecting a little bit more quickly than the profits are. And – but again, given seasonality of the business, you know, usually total company, your margin's a little bit higher in the back half. So I'm just curious, are there specific COVID-related costs that could increasingly roll off in the back half of the year, number one? Or is it more of maybe pricing catches up a little bit more to cost inflation the back half of the year? And lastly, maybe profitability was just better, like, in March, relative to January, February, like you said on the top? I'm trying to kind of get a feel as to tie to the timing recovery potential just in Food Service on the margin side as we get through the year. Hopefully that's clear.

Dan Fachner: Yeah, I think so. Ken, do you want to tackle that?

Ken Plunk: Yeah, Rob, great question. Again, similar to what I was saying about frozen. Gross margin steadily got better for Food Service over the month of the quarter. If you look at just the quarter, it was 100 basis points better than Q1. And if you look at each of the months in the quarter, each month the gross margin improved. March gross margin was 40 basis points better than February gross margin. So as we mix in more sales of higher-margin products like pretzels and churros, and we kind of get the engine going with [inaudible] enabling us to leverage expenses better, we start to see those margins creep back up. So, I think you can expect to see with more sales that improvement continue to notch up month after month to where we think we'll get back to somewhere in – kind of call it our base level. If you call FY19 base, I think the question is will we get there all the way by the end of the year? Not sure, but I expect us to get much closer to that. And then, you know, mix of new products plays a role in that as well.

Rob Dickerson: Yep.

Ken Plunk: So we just have to just kind of see how that plays out. On the COVID side of expenses, we're still spending \$720,000 a quarter on COVID, and probably expect to spend

that number – maybe a little bit less in Q3. That will be compared against when we started to spend against COVID-related costs last year. I don't have that number off the top of my head, but the balance of those two I don't expect to have a material impact either way, because we're going to continue to do what we need to do to keep our folks in the plant safe.

Rob Dickerson: Got it. So, I mean, unless there's some material change on the COVID front, whatever that means, that'd probably hold steady for a bit. And then like, hopefully over time – whenever – it probably gets lower. Is that kind of a broad fair assumption?

Dan Fachner: Yeah, I think that's a – this is Dan. I think that's a safe statement, Rob. We're continuing to evaluate it really closely. We get together as a group monthly and talk about what we need to do to keep people safe. We're looking at some new ways to do that, where you know, in the past year or so we've had stations that employees have to come through, and we're looking at some scanning machines now and testing that, which might take some of the costs down. But the key for us is keeping our employees safe and making them feel comfortable about coming to work each and every day.

Rob Dickerson: Yeah, fair. Okay, cool. And then just last question, just on the cash side – look, you got through the pandemic, just say it, very well on the cash side, so congrats doing that. Cash positioning now is strong. Two quick questions. I think you had said before there might be some, you know, CAPEX needs in some of the plants. I don't think there's like a CAPEX guidance for the year or long-term. Last few years, you're spending about \$60 million in CAPEX. Is that about right? Maybe a little bit higher? And then just the second quick follow-up is just in terms of acquisitions. I know you say you keep looking at it – maybe any color as to kind of, like, in an ideal world, hypothetically, what kind of acquisition would you like to make? So CAPEX and ideal acquisition.

Dan Fachner: Yeah. I think what we've said around CAPEX is that we'll be spending about the same thing we have in previous years. That mix in CAPEX might be a little bit different. We're probably spending a little heavier on the J&J side and a little lighter on the ICEE side, although that might change in the next few months as we're rolling out a couple of new programs on the ICEE side. We continue to watch that really, really closely. We put together a

good CAPEX team, with cross-functional people on it, and looking at our plants and making sure that we are doing the right things to be the leaders not just today, but in the future. And so if I were guessing, the CAPEX might stretch a little bit higher than even what we've stated, but what we have stated is we'll be around the same amount.

On the M&A front, Ken and I are reviewing things weekly for sure. We're continuing to look, but we want to be careful and find the right thing. We want something that fits in with what we do today and that adds value to the company in the future. If I had my perfect world that would be something probably in that \$50 million, \$60 million range, but I'm not limiting us to what we're looking at in that range either. So we're being active, but we're also being cautious and careful to make sure that we make the right choices there.

Rob Dickerson: Fair enough. Thank you so much. Go ahead.

Ken Plunk: I'll just – yeah, I would just add to that. The majority of that CAPEX spend is on, call it more strategic CAPEX, driving efficiencies in the plants, innovation, that sort of thing. So think about – of the CAPEX we're spending, the majority of that is being focused on strategic areas that drive return.

Rob Dickerson: Yeah. Fair enough. The question wasn't asked because I think it's a bad thing. I just want to make sure my model is right[?]. That's all. Thanks, Ken, I appreciate it.

Dan Fachner: Yeah, we – thank you.

Operator: Our next questions for Ryan Hamilton[?].

Ryan Hamilton: Good morning, everyone. Congrats.

Dan Fachner: Morning, Ryan.

Ryan Hamilton: Congrats on the rebound. Being last in line, I think most of my questions have already been answered. You talked about labor and cost inflation. Anything on the logistical side that can slow down this momentum potentially?

Dan Fachner: Well, certainly freight has gone up, right? And we're continuing to hit those headwinds. But you know, as we talked about, we are evaluating increases on the Food

Service side and the retail side right now. And we'll be taking that into consideration. We're doing some things, I think I mentioned earlier, around transportation that we think has the potential to save us some money there too, even though the cost of transportation has gone up. And so we're working really hard to make sure that we maintain and grow the kind of margins that we have.

Ryan Hamilton: Sounds good. I don't think anyone can argue that J&J didn't survive the last 12 months in really good shape. Any early indications that you guys are taking market share from companies that were less fortunate?

Dan Fachner: Yes. Well, we always think we are, right? And that might just be because we're bold like that, but we always think we are and would like to think that. I don't know if we have exact facts on that, but I will tell you our competitive nature would want us to think that we are and would want us to go out there and make sure that we are in the future.

Ryan Hamilton: Sounds good. Are there any indicators that you guys are seeing that displays that or no? Not that you can share?

Dan Fachner: Yeah, nothing that we have, Ryan, that we could share with you.

Ryan Hamilton: Okay. Sounds good. Thanks again and congrats.

Dan Fachner: Thank you very much. Thank you.

Operator: And once again, if you have a question, please press star one. And a question from Robert Costello[?].

Robert Costello: Hi. Just one question on the Food Service. Historically, that's been an area for growth, and with the recovery in the restaurant industry, is there anything new that you're going to do differently with regards to the products or technology or selling to the customer than, say, the last three years with the recovery in the industry right now?

Dan Fachner: Honestly, Robert, I don't know that there's anything new or different except a greater focus on doing what we do today really, really well. We've had a lot of conversations, just had a leadership call last week – a lot of conversations about being better at what we do

well today. And so I don't know that we have anything new in the way that we're doing it, but maybe just a greater focus. Bob?

Robert Pape: Yeah. I think we have a strategic you know, idea of where we want to go with our products, who our customer partners are, and that our base products are going to continue to help us grow the company.

Robert Costello: So the end market customer on the Food Service was – you used to do restaurants, and you had the waffle fries with Burger King. Is that an area that you're going to continue to innovate with new product, or are you trying to expand beyond that?

Dan Fachner: Yeah. We will continue to do that. And just as a side note, I said this earlier, the QSR channel is doing really, really well for us. We continue to grow really strong there right now, and have some tests in place that we're hopeful in the future as well. So we will continue to do exactly that, to come up with some specialty items for those kinds of places.

Robert Costello: All right. Thanks.

Dan Fachner: Thank you.

Operator: And one more time, if you have a question, press star one. And it looks like we have all our questions answered.

Dan Fachner: Great. Well, thank you very much for being on the call today. We really appreciate it. We're really excited about the things that we're doing inside the business and the momentum that we see as we close out this second quarter, and are excited to have the opportunity to get back together with you three months from now and hopeful about the momentum that we're seeing. So thank you very much for spending the time with us today, and we look forward to talking with you soon. Have a great day. Bye-bye.

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

[END OF TRANSCRIPT]