50194143- J&J Snack Foods- Third Quarter Earnings Call - 07-27-2021

Operator: Welcome to the J&J Snack Foods Third Quarter Earnings Call. My name is Danielle[?]. 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 will now turn the call over to Dan Fachner. You may begin.

Dan Fachner: Good morning. I'm Dan Fachner, and welcome to our third quarter earnings call. We are delighted to have you listening in with us. Let me start with some obligatory comments. 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 the events or circumstances that arise after the date hereof.

Again, I'd like to welcome you and thank you for your interest in J&J Snack Foods. We are thrilled to take you to talk today about our Q3 performance. We'd like to begin by thanking our employees across the business for helping deliver a strong, strong quarter. Our business performance is really starting to benefit from an economy that is moving much closer to pre covered activities. The strength of our product and brand portfolio enables us to quickly leverage consumer traffic across multiple food service and retail customers. Consumers are embracing the opportunities they missed over this past year, whether that is enjoying a SuperPretzel at the game, or sipping an Icee at the beach with their family. Financially, we continue to strengthen our balance sheet and invest in our growing business. I remain extremely confident in our business and future growth opportunities. So joining me today are Ken Plunk, senior vice president and CFO; Marjorie Roshkoff, vice president and general counsel; Bob Pape, senior vice president of sales; Bob Kramer, vice president of operations; and James Hamill, vice president, corporate controller.

Let me take a few minutes to review our exciting results. Results of operations. Net sales were $324.3 million for the quarter, an increase of 51%. Our business improved across all three segments, led by our core soft pretzels, churros, Icee and frozen novelty product categories. Both our food service and retail segments returned to pre-COVID sales volume, beating fiscal 2019 sales by 1% and 30%, respectively. Frozen beverage sales improved significantly, beating prior year, same quarter by 83%. Operating income was $38.1 million for the quarter, an increase of $57.6 million when compared to last year. Improved sales volume, favorable product mix and a strong focus on cost efficiencies helped drive improved gross margins and profitability when compared to last quarter.

Now I'd like to review the results of each of our business segments. Food service – just an outstanding quarter for them. Sales to food service customers increased 68% for the quarter and exceeded the pre-COVID 2019 Q3 sales by 1%. Traffic in our key customer venues return to pre-COVID levels as anxious consumers embraced activities they had missed over this past year. Sales accelerated through our key channels, led by schools, amusement and recreation, restaurants, C-stores and theaters. Consumers are also spending more in many of these venues, driving improved average ticket sales. Soft pretzel sales increased 138%, and frozen juices and ices increased 60%. Churro sales and bakery products increased 174% and 24%, respectively. Our handheld business had a strong sales quarter, exceeding last year by $11.5 million, or 155%, and was driven by a new product developed for one of our wholesale club customers. Operating income in our food service segment increased $35.9 million in the quarter, driven by higher sales volume, product mix and cost of goods efficiencies. Gross margin rate improved 380 basis points over the last quarter.

Retail supermarkets continue the strong showing. Our retail supermarket business remains strong, even as consumers enter back out into the food service venues. While our sales for the quarter were 6% below last year, this was against a 38% growth in last year's third quarter. Also, sales for the quarter were 30% better than the same quarter of 2019, which is probably a better comparison of true performance.

Our frozen novelty business continues to perform well, growing 11% over last year. Soft pretzels decreased 12%, biscuits 44% and handhelds 63% in the quarter as retail traffic decline compared to 2020. Operating income, however, increased $1.2 million, or 15% in the quarter, driven by improved gross margins and operating expense management. Operating income margins were 16.9%, over 300 basis points better than last year.

Frozen beverages – we're seeing some great momentum here. Sales for the frozen beverage business segment increased 83% this quarter compared to last year. Beverage-related sales increased 157%, driven primarily by increase in traffic and gallons[?]. This was led by our amusement channel that experienced sales above pre-COVID 2019 levels, and it continued traffic increase in our mass merchandisers, QSRs and theater channels. The theater channel continued to improve this quarter, but still lags 2019 sales by over 50%. This is a big improvement from our prior Q2, with expectations that this will continue as consumers return to the movies. Service revenue increased 32% as customers accelerated equipment maintenance in the quarter to support the post-COVID recovery. Machine revenue also increased 32% as customers started to invest more heavily in growth and replacement opportunities. Our frozen beverage segment realized an operating profit for the quarter of $11.4 million, led by strong sales increases, gross margin improvement and operating efficiencies. Operating margins improved to 15.4% in the quarter.

Consolidated. Gross profit as a percentage of sales was 29.7% this quarter, almost a 600 basis points improvement compared to our second quarter. Gross profit performance was driven by improved sales volume in our higher margin product categories, the overall efficiency benefit of higher sales and continued focus on managing cost. Total operating expense as a percentage of sales was 17.9% in the quarter, leveraging 850 basis points when compared to last year's 26.4%. AS Sales volume accelerates, the business is doing a great job managing marketing and SG&A expenses, even below pre-COVID spending. Net earnings for the quarter were $28.9 million. That's up $41.5 million when compared to last year.

Capital spending and cash flow. Our cash and investment securities balance was $305 million as of 26th June 2021, an increase of $27 million from September's year-end, led by our strong earnings growth. Our balance sheet remains strong and we are well positioned to drive growth for our shareholders. We continue to look for acquisition opportunities and remain focused on the long-term growth opportunity for our business. We spent $34.5 million in capital expenditures through the nine months ended 26th June 2021, as we continue to invest in plant efficiencies and growing our business. We estimate our spending for the year to be about consistent with prior years. A cash dividend of $0.63 a share was declared by our board of directors and paid on 12th July 2021. That cash dividend represents an increase of 10% from the previous quarterly dividend rate of $0.575 per share. We did not buy back any shares for our stock during this quarter. Our investment income this year was $0.5 million, $0.8 million less than prior year's second quarter, as market stabilized and more money was held in cash reserves.

I want to thank you for your continued interest in J&J Snack Foods, and I'm excited to deliver these great numbers to you today. I will now open up the meeting for any questions. Thank you.

Operator: Thank you. We will not begin the question-and-answer session. If you have a question, 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. 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, then one on your touchtone phone. And we have a question from Ryan Bell. Please go ahead.

Ryan Bell: Hey, everyone.

Dan Fachner: Hey, Ryan.

Ryan Bell: Hey, congrats on a good quarter. Just had a question around the frozen beverage business. Would you guys provide a bit of color about how much the base has reopened? We appreciate the business is seeing some more consistent structural pressures on some of your other business units. Amusement channels seem to be doing well. The commentary was that traffic was up in mass merchandise, QSR and theater. At this point is the primary detractor to getting back to normal levels just the theater channel?

Dan Fachner: You know, Ryan, it really is. Most of all the other channels have come back to normal levels for us. The biggest piece that we are waiting on is the theater business. Remember, the theater business for FCB or for the Icee business is about 25%. And so we are waiting on that coming back. But we feel really strong about all the rest of the business. And we've had some great new business that we've added. If you remember a couple quarters ago, we talked about some diversification, and we've been able to see some of that diversification into accounts come through. I think we mentioned that we're rolling out a program within Krystal hamburgers in the South, and we're rolling out a program at Golden Corral restaurants and seeing some really great potential new businesses in the pipeline. So we feel really good about it as the theater business is starting to return.

Ryan Bell: Thanks that's helpful. And then for food service, it actually grew relative to 2019 levels. What's the primary driver of that? Is that amusement as well, restaurants? If you can provide a little bit more context.

Dan Fachner: Yeah, again, the amusement park channel is really strong. In addition to that, and maybe you picked up to this in my comments earlier, you know, the per-ticket price is up in a lot of these locations, too. So where we're selling in the theaters, the per-ticket price is up, where we're selling in amusement parks, the per-ticket price is up, and even in the ballparks, as they come back, we're seeing that average per-ticket price up. And a lot of new good growth as well in that food service channel.

Ryan Bell: Great, thank you. And then do you have a comment on what you're seeing in terms of input cost inflation and how you can balance that over the coming months against the huge increases in efficiencies that you're seeing as more of the volumes come back online for the food service and frozen beverage business?

Dan Fachner: Well, we're working really hard at that. Certainly, like everybody, we've taken on some increases from commodities and things like that, but we've also been busy out there passing on some price increases that we're hoping will offset much of that in the fourth quarter. So we're working really hard at that. At the same time, we have some great continuous improvement initiatives going on within the plants that we're also hoping will help offset most of that.

Ryan Bell: Great, thanks. That's it for me.

Dan Fachner: Thank you, Ryan.

Operator: As a reminder, if you have a question, please press star, then one on your touchtone phone. Our next question comes from Robert Costello. Please go ahead.

Robert Costello: Hello. I have a question on the production. You closed a plant, I guess, about a year ago, and you have a pick-up in demand. So how are you balancing the two? And in lieu[?] of that you – in the quarter I saw that the inventories went down by $6 million. So are you – you know, with this pick-up in business, are you having to increase production beyond your expected sales growth just to make up for pick-up?

Dan Fachner: Yeah, there was a lot into that question, Robert – and good morning. Good talking with you. We did close down that plant in Chicago and are making most of those products internally now in a different plant. And you're right, like a lot of manufacturers out there today, we're challenged with the labor industry and the way that it is and being able to keep up with the heavy demand. But to date, we've been able to do that. And so we're continuing to shuffle the different products to different plants to be able to best produce the way that we can and keep up with the heavy demand out there.

Robert Costello: Now, is it help – a lot of manufacturers have been – how do you think you've been able to stand out from the problems that the other manufacturers have been mentioning repeatedly? Is it because of your flexible workforce that you're not all full time, is...? Can you give us some idea of what's helped you here?

Dan Fachner: Well, you know, I don't know if I have the magic bullet there to give you, except that we have a great management team in place who has watched that really closely. We've done a pretty good job with forecasting and working with our plant managers to do the best that we can to keep up with the heavy demand. Like a lot of other manufacturers, that labor shortage, as I mentioned earlier, has been one of those things that we've had to deal with, and so we've had to pass on some salary increases out there to keep up with the labor force. But we meet on that weekly and try to stay ahead of it as best we can. And I guess if I was going to give it a magic bullet, I think there's some just really good managers in place who are watching that closely for us.

Robert Costello: All right. One last question on the – you're big in the, you know, doughnut manufacturing here in the mid-Atlantic. Your big customers down in – their larger store base now in Florida than they do in Pennsylvania when I was down there. Is there any possibility in the near term of building a plant down there or is it still a couple of years away?

Dan Fachner: Well, it's something that we talk about often and we talk about it with that important customer. And it's something that we've considered. But I wouldn't – I wouldn't expect it to happen in the in a real short term.

Robert Costello: All right. Thanks.

Dan Fachner: Thank you.

Operator: And once again, if you have a question, please press star, then one on your touchtone phone. And we have no further questions at this time.

Dan Fachner: Well, I want to thank everybody for listening in. We appreciate your interest in J&J Snack Foods and we look forward to getting back together with you at our next earnings call. You have a wonderful day. Thank you very much. Bye-bye.

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

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