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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the J&J Snack Foods Fiscal Year 2023 Second Quarter Earnings Conference Call. (Operator Instructions)

At this time, I would like to turn the conference over to Mr. Norberto Aja of Investor Relations. Sir, please begin.

Norberto Aja ***JCIR - MD***

Thank you, operator, and good morning, everyone. Thank you for joining the J&J Snack Foods' fiscal 2023 Second Quarter Conference Call. We'll start in just a minute with management's comments and your questions. But before doing so, let me take a minute to read the safe harbor language. This call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements made on this call that do not relate to matters of historical facts should be considered forward-looking statements, including statements regarding management's plans, strategies, goals and objectives and our anticipated financial performance as well as industry-wide supply constraints and the ongoing impact of COVID-19 on our business.

These statements are neither promises or guarantees that involve known and unknown risks, uncertainties and other important factors that may cause results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors discussed in our annual report on Form 10-K for the year ended September 24, 2022, and other filings with the Securities and Exchange Commission, could cause actual results to differ materially from those indicated by the forward-looking statements made on this call today.

Any such forward-looking statements represent management's estimates as to the date of this call, May 2, 2023. While we may elect to update forward-looking statements at some point in the future, we disclaim any obligation to do so, even if subsequent events cause earnings to change. In addition, we may also reference certain non-GAAP metrics on the call today, including adjusted EBITDA, operating income or earnings per share, all of which are reconciled to the nearest GAAP metric in the company's earnings press release, which can be found in the Investor Relations section of our website.

Joining me on the call today is Dan Fachner, our Chief Executive Officer; along with Mr. Ken Plunk, our Chief Financial Officer. Following management's prepared remarks, we will go ahead and open the call for a question-and-answer session. With that, I would now like to turn the call over to Mr. Dan Fachner, J&J Snack Foods' Chief Executive Officer. Please go ahead, Dan.

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***

Thank you, Norberto, and good morning, everyone. We appreciate you joining us to discuss our fiscal 2023 second quarter results. I'm pleased to report that our positive momentum continued in the fiscal second quarter, as sales this quarter was the highest second quarter sales in company history and was driven by strong demand across all 3 business segments.

While the year began with ongoing economic and inflationary challenges for our industry, it is clear that consumers continue to show strong demand for iconic brands and diverse offerings of fun and indulgent products. We saw marked improvements in unit volumes in fiscal Q2, including strong performances in soft pretzels, churros, frozen novelties and frozen beverages. Higher volumes, combined with the impact of price increases enacted in fiscal 2022, resulted in a 20% increase in net sales to $337.9 million.

J&J also generated healthy year-over-year improvements across several key performance metrics, including gross margins and distribution expenses, resulting in strong earnings growth for the quarter. Taking a closer look at our segment performance. Food Services increased 23.8% to $218.3 million, including approximately $16 million in Dippin' Dots sales and $3.3 million of sales related to new products and expanded customer placements. Overall, segment growth reflects a 28.3% rise in soft pretzels, a healthy 42.8% increase in churros and a more than 264% increase in frozen novelties, including incremental Dippin' Dots sales.

Retail sales increased 13.7% to $46.4 million, including $2.5 million of sales related to the recent launch of our SuperPretzel filled knots and the expansion of handhelds with a major retailer. Retail segment growth was also driven by strong sales in frozen novelties, soft pretzels and biscuit. Frozen beverage sales increased 13.7% to $73.2 million, reflecting an 18.2% rise in beverage sales, led by strong consumption trends across amusement, restaurant, retail and food service venues as well as a healthy rebounding theater channel.

Machine repair and maintenance revenues increased 7.5% versus the prior year while equipment sales increased 9.4% on the back of healthy customer installation volume. While overall inflation has stabilized, we continue to experience year-over-year pressures on key commodity inputs, such as flour, oils, eggs, mixes and sugar. We estimate inflationary impacts of approximately 9% compared to a year ago, as our industry continues to manage through these historically high cost pressures. Despite these continued challenges, we delivered 26.8% gross margin in fiscal Q2 '23, which compares favorably to the 23.2% gross margin in the prior year. Overall gross margin improvement reflects the benefits of our pricing action last year and the early impact of our initiatives to improve cost management and productivity.

We are aggressively investing and positioning J&J for its next phase of growth, and it is clear that our strategy is delivering results. So before turning the call over to Ken, I'll briefly touch on the excellent work our teams have done and continue to do to optimize our business for the future. Starting with sales, marketing and product innovation, very proud of this group. We remain focused on leveraging consumers' affinity for our brands to prioritize growth of our core products, while also capitalizing on opportunities for increased product innovation and extensions across all 3 business segments. We are gaining placements in key channels, including theaters, QSR, casual dining and retail, leading to market share gains in our core products with several notable achievements in Q2.

ICEE, America's #1 frozen beverage brand, continues to gain share in the QSR and fast casual channels. The team is currently working on several customers to test the placement of ICEE in the venues, representing incremental placement opportunities. The ICEE rollout across Moe's Southwest Grill is also progressing well, with 95 locations installed to date and a total of 200 locations by calendar year-end.

In terms of product innovation, we launched ICEE and SLUSH PUPPIE branded frozen pops across major retailers in late Q2, and the initial response has been very, very positive. Last quarter, we announced a new relationship with Checkers to install 800 new machines. To date, we've installed about 250 machines with the remainder targeted to be completed by the end of July. Our SUPERPRETZEL brand remains the soft pretzel category leader across channels. We continue to see significant growth opportunities in both foodservice and retail channels. We are expanding placement of our existing pretzel products and excited to be launching new SUPERPRETZEL branded filled knots, Bavarian sticks and mini dogs in retail later this summer.

Our expanded production capabilities enable us to aggressively grow our SUPERPRETZEL business. Our frozen novelty brand, including the Luigi's Italian Ice, WHOLE FRUIT and Dogsters also experienced healthy dollar and unit growth during the second quarter. We're also seeing solid sales momentum of these brands with key retail partners. We are also extremely pleased with the early success of our Hola! Churros brand, with sales growing 43% this quarter and a healthy 37% year-to-date. As America's #1 producer of Churros, we see significant near- and long-term growth opportunities of our branded products with major U.S. food distributors, as well as the QSR, fast casual and retail channels.

We expect to launch the Hola! Churros brand in our retail channel in 2023 with the first shipments to commence in September. Finally, while the second quarter was a seasonally slow period for Dippin' Dots, we've made significant progress expanding into new channels and positioning the business for a very strong summer. The Dippin' Dots team worked quickly to install freezers in over 290 Regal theaters and plans for additional locations in the third quarter. The team also secured a test with AMC theaters and another theater chain, which plans to be in 200-plus locations in the back half of the year. We have a strong pipeline of opportunities as we leverage the breadth of our customer base and execute our cross-selling strategy.

In terms of product innovation, we continue to find new ways to leverage the combined power of our brands by recently launching an ICEE branded Cherry and Blue Raspberry ICEE Dippin' Dots flavor in March. This new product is Dippin' Dots' best product launch ever, exceeding the best by over 40% unit growth. Also, we continue to evaluate Dippin' Dots branded frozen novelty products for retail channel.

Turning to our operating initiatives. We have taken a number of actions over the last couple of years to increase efficiency and expand our capabilities to grow this business. Operationally, we continue to expand our production capacity and now have 5 new automated lines supporting growth opportunities in churros, pretzels and frozen novelties. A sixth line will be added in Q3. This added capacity supports our aggressive plans to grow sales of our core products. In addition, we are completing the geographic optimization of our distribution and warehousing network by consolidating to a handful of locations, including 3 new state-of-the-art distribution centers. The first RDC will open in June in Terrell, Texas, while the other 2 are expected to come online later this year and early next year. The opening of these new RDCs will allow us to go from 30-plus shipping locations to somewhere between 6 and 8 strategically located facilities and will significantly reduce our reliance on third parties for storage and logistics management.

Two of these RDCs will also include freezer capacity for Dippin' Dots product to support expanding growth opportunities and more efficient distribution capabilities. This aligns with our strategic initiatives announced in fiscal 2022, including the implementation of a new ERP system and the outsourcing of our shipping logistics to NFI. This supply chain transformation will play a pivotal role in reducing distribution costs and providing better service to our customers. We are confident that these combined initiatives position us for strong sales growth and improved operational efficiencies and reduced distribution costs and provide the platform to deliver incremental profitability.

As it relates to M&A, the integration of Dippin' Dots into the J&J systems, processes, customer channels and operations is going just as planned. Also, we continue to evaluate potential M&A opportunities that complement our brand portfolio and our business model. In summary, we are confident that the foundation we are building is further strengthening the long-term competitiveness of our business and positioning J&J to deliver new levels of growth and shareholder returns. We have strong growth momentum heading into the back half of fiscal 2023, supported by our core brands and products.

Strategically, the team is focused on transforming the business, investing in our brands and capacity to grow, while implementing initiatives to help us operate more efficiently. Our leadership team is aligned around these strategic initiatives, and the organization is excited about the opportunities ahead of us to continue building on J&J Snack Foods, long-term record growth and success.

I would now like to turn the call over to Ken Plunk, CFO, to review our financial performance. Ken?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***

Thank you, Dan, and good morning, everyone. I am pleased with our financial results for the quarter. More importantly, I am pleased with the opportunities we have in front of us to grow and improve these results. Hopefully, it is evident that we are making progress across our various initiatives and well positioned for long-term success.

Taking a look at the fiscal second quarter, net sales for the quarter totaled $337.9 million, a 20% increase versus the prior year period and a 15% increase versus the first 6 months of fiscal 2022. The strong top line result was driven by growth across all 3 of our business segments, reflecting the health and resiliency of our business. Our largest segment, Food Service, experienced a 23.8% increase in sales to $218.3 million, representing 65% of total company sales.

The strong performance was a result of healthy growth across the segment, including 264.2% increase in frozen novelties, which also benefited from the Dippin' Dots acquisition, a 42.8% increase in churros, a 28.3% increase in soft pretzels and a relatively flat performance by both handheld and bakery, down 1% and up 1.6%, respectively. These results included approximately $16 million in Dippin' Dots sales, in line with our expectations, given the seasonality of this business.

Moving to our Retail segment. Sales increased 13.7% to $46.4 million compared to the same period in fiscal 2022. Growth in this segment was driven by contributions from all subcategories, including 283.4% increase in handhelds, 9.8% increase in frozen novelties and 3% and 1.7% increase in biscuit and soft pretzel sales, respectively, versus the prior year. As it relates to our third segment, Frozen Beverages, sales were $73.2 million or a 13.7% increase versus Q2 '22, led by growth across all 3 subcategories. Beverage sales increased 18.2%. Repair and maintenance revenue increased 7.5%, the machine revenue rose 9.4% compared to the previous year period.

Moving down to the income statement. Gross profit came in at $90.4 million or a 38.3% increase versus prior year, leading to a gross margin for fiscal 2023 second quarter of 26.8%, favorably comparing to 23.2% in Q2 of fiscal '22. In fact, this marks the highest Q2 gross margin since Q2 of fiscal 2019. While overall inflation has stabilized, we continue to experience year-over-year pressures on key commodity inputs, such as flour, oil, eggs, mixes and sugar. As Dan mentioned earlier, we estimate our inflation at approximately 9% compared to a year ago.

So we were pleased with our gross margin improvement in the face of these continued inflationary headwinds and see these results as further affirmation that our operational initiatives are beginning to have the expected results and positive impact on our business.

Taking a look at expenses. Total operating expenses increased $18.9 million or 30.9% and represented 23.7% of sales for the quarter compared to 21.8% in Q2 of 2022. The increase largely reflects the addition of Dippin' Dots to our business compared to a year ago and ongoing inflationary pressures across many of our expense lines, in particular distribution expenses. Distribution expenses increased from 34.7% versus the prior year, representing 11.3% of sales compared to 10.1% in fiscal '22. However, we saw a significant improvement on a sequential basis compared to fiscal 2023 Q1 and fiscal 2022 Q4 when distribution expenses represented 12% and 12.4% of sales, respectively.

These improvements were led by a stabilizing inflationary environment and improved logistics management across our business. Marketing and selling expenses represented 7.1% of sales versus 7.5% in the prior year period, as the marketing team continues to do a great job driving efficiencies and targeting how we allocate marketing dollars. Administrative expenses were 5.3% of sales in Q2 2022 compared to 4.1% in Q2 of last year, reflecting addition of Dippin' Dots in this year's expenses. As a reminder, Dippin' Dots is a highly seasonal business, with most of its profitability, taking place over the second half of the year. As such, and as expected, it had a negative impact on our results in the second quarter.

This led to an operating income of $10.2 million, favorably comparing to $4.1 million in Q2 2022 or a year-over-year increase of 149.3%. Adjusted operating income was $12.1 million, also comparing favorably to $4.7 million in Q2 2022. After considering income taxes of $2.4 million compared to $0.9 million in Q2 of fiscal '22, net earnings increased to $6.9 million, resulting in reported diluted earnings per share of $0.36. This compares to $0.17 in the prior year period. Adjusted diluted earnings per share was $0.43 compared to $0.19 in Q2 of 2022.

Adjusted EBITDA increased 52.5% to $27.5 million from $18 million in the prior year period, and our effective tax rate was 26% in the second quarter. Taking a look at our liquidity position, we continue to maintain a healthy balance sheet, including $47.7 million in cash and marketable securities and approximately $92 million in debt. In addition, we have ample availability under our revolver of approximately $123 million of additional borrowing capacity. This affords us the flexibility to strategically invest and support our business. We are currently investing close to $100 million in the year across various growth initiatives, including completing the execution of new product lines and the investments in RDCs.

In summary, these results reaffirm the health, resilience and potential of our business. As we enter the second half of the fiscal year, we continue to raise the bar in every aspect of how we do business and feel confident in our ability to effectively navigate this dynamic environment and deliver on our goals to create added value for our shareholders.

I would now like to open the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question or comment comes from the line of Connor Rattigan from Consumer Edge.

Connor Rattigan ***Consumer Edge Research, LLC - Research Analyst***

So I want to spend a little time talking about food service traffic. So it really seems like things rebounded nicely, especially in theaters. So I mean, QSRs really seem to be holding up nicely across the space. I mean -- I guess, maybe could you maybe parse out by venue sort of what you're seeing traffic-wise and maybe if anything is coming in ahead of your expectations?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***

That's a great question, Connor. Traffic is one of those things that we're keeping a really close eye on. As you know, when we ended the first quarter, we were a little concerned about it. And then as we came into the second quarter -- as we entered into the second quarter here, the traffic patterns seemed to rise throughout the quarter, and we're really pleased about that. But it's something that we're going to watch really, really closely. It may be started to slow in the quarter and ended strong. But now we're into that all-important next 6 months for this business. And so we're going to watch it really closely with threats of a recession out there and the things that we all read day-to-day that's one of those things that we have to be really mindful of. And so we're doing that.

I don't know if I feel like we're completely out of the woods, but I love where we're at right now.

Connor Rattigan ***Consumer Edge Research, LLC - Research Analyst***

That makes total sense. And then typically those next 6 critical months, right, it sounds like things are going really well with Dippin' Dots, so with about $13 million in sales last quarter and $16 million this quarter, and I know that business is very heavily backloaded. But I mean, I guess, as far as that distribution rollout goes, adding incremental theaters and whatnot, are we sort of right around where you expected? Or are you maybe ahead of -- maybe ahead of schedule on that distribution rollout?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***

Well, you know what, when we bought it, we were pretty aggressive about what we think we can do with that business, and I remain really aggressive about what we're doing with it. So I would say we're right about on par with where we think we need to be. I put a lot of pressure on that team. The group is a really solid group. They've integrated very well with the total J&J company. We're doing a great job in cross-selling activity across all of our channels. I like what we have coming in. And I would say they're right about on par with what we would have expected.

Connor Rattigan ***Consumer Edge Research, LLC - Research Analyst***

Okay. Great. Good stuff, guys. And then just one more for me here at the end. So I mean, in any other world, COGS inflation of 9% would be [shopping,] but at last here we are. So just a bit of a 2-parter here. So I'm not sure if you quantified COGS inflation last quarter, if so, can you remind us what that was? And also just sort of looking at your inputs and maybe where you're hedging these at right now, should we sort of expect that 9% to be more of an annual run rate, given the movement in ag and other commodities? Or just how should we think about that?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***

Yes. Connor, this is Ken, great question. And there's always going to be variations of what's happening with inflation. There's year-over-year comparison, which, again, you're comparing to kind of the prestorm of inflation a year ago, at least so far. And then we're going to get to overlapping that later in Q3 and Q4. But that's what's creating the really pronounced continued inflation year-over-year because of what last year was. Flour has come down since last quarter. Cheese and dairy has come down since last quarter. Diesel has come down, but only $0.10 since last quarter. So there are things moving. They're just not moving as fast, and they're lapping kind of the pre-inflation time of the same quarter a year ago.

We came out of Q1 with our internally measured inflation still in the mid-teens, and now we're at 9%. And we kind of calibrate that also with external metrics. If you look at recent data on CPI, food, whether it's at-home or in a restaurant, that's still at 8.5% to 9%, Production Price Index still in the upper 8s. So that kind of compares to our internal measurements of that 9% in the current quarter.

As we go forward, again, we're still expecting gradual improvement but not as much as what I would have thought 2 quarters ago. And that could change. Eggs is a wildcard. I think sugar is kind of the new problem. It's up near double digits and projected to go higher. But it will be a marginal improvement, I think. And then you will get the benefit later in Q3 and 4 of lapping double-digit inflation of a year ago. I think that's where the year-over-year comparison will change a little bit.

Operator

(Operator Instructions) Our next question or comment comes from the line of Jonathan Andersen from William Blair.

Jon Robert Andersen ***William Blair & Company L.L.C., Research Division - Partner & Research Analyst***

And just following up on that last question about inflation. I guess one of the things I'm curious about is where you are today with respect to pricing to offset that inflation? And I know it's kind of a year-over-year comparison that you provided 9% in the quarter, how does your pricing and the pricing contribution in the quarter kind of marry up with the inflation that you're experiencing now? And would you expect to make any adjustments to pricing one way or the other in the near to medium term?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***

Jon, let me start, and then I'll let Ken talk a little bit about it. We've had the conversation around pricing. And over the last year, we took an awful lot of pricing, right, as so did many other people. To date this year, as a reminder, we took pricing in January in the ICEE Group and have not done anything on the Snack Foods side to date. We are looking at it very closely. We're going to watch it closely. And we might do some spot increases where needed in different areas, but there's a real balance to making sure that you have the right pricing and watching the elasticity of your products. And so we're going to be careful as we do that, but we're going to watch it really closely. Ken, maybe you want to touch on the numbers there.

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***

Yes. Well, I think if you remember, kind of the last few quarters, we had a price increase late in 2021. We had second one in the March, April time frame, '22, and then we had the third one around the September, October. So we've lapped one of those, and we've lapped pieces of the second one. So just kind of remind everybody of that. But in terms of your question on pricing, I think Dan and I always sit here and kind of say, well, if we had known kind of what's happening in the next 30 days in the next quarter, we might have, in some cases, been more aggressive even late last year because in Q1 -- from Q4 to Q1, there was still slight increases in inflation. I think the number was around 40 to 50 basis points.

So we're always kind of saying when is the right time. And I think as we said here, there was probably a little bit more opportunity to take in some spots, particularly in retail. But I think we're pretty well calibrated with price in the ICEE business and the Dippin' Dots business and really the Food Service business. And I think the retail side is just something we continue to watch, and it's tricky with how we're competing in retail for volume and space and a lot of the retailers are pushing back right now. But you watch it day by day, and I think there may be pockets where we may need to do something at some point if things don't stabilize.

Jon Robert Andersen ***William Blair & Company L.L.C., Research Division - Partner & Research Analyst***

That's really helpful. So would it be -- I'm trying to kind of hone in on a number here. I'm not sure if it's going to be possible. But the organic growth in the quarter was strong at I think around 14%, 15%, excluding the Dippin' Dots contribution. Is price -- would it be fair to say that the price right now is maybe -- the majority of that around 2/3 of that in volume positive as well, but maybe not contributed at the same level of price?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***

Yes. I mean price, that's probably a fair number, I would say. Again, it depends on category and situation. I mean, I'll just tell you for the ICEE Frozen business on the beverage side, they had volume growth of just over 10%, total growth of 18.2%, I think. So that is a really good sign. And a lot of that is the theater industry, as we mentioned, that's really starting to rebound and the outlook of the theater folks is really positive as well.

But I do want to be clear, there is a really nice influx of volume growth in our quarter this year -- I mean, this quarter, led by ICEE and even Food Service. Retail had volume growth, but it was a little bit lower. And candidly, we're very proud of that because if you look at recent data, all of retail, most of them are reporting still declines in volumes and we had a slight increase in volume in retail.

Jon Robert Andersen ***William Blair & Company L.L.C., Research Division - Partner & Research Analyst***

Sure. Yes. That's really helpful. The last one that I'll ask is related to gross margin. You made good -- as you pointed out, made good progress, both year-over-year and progress sequentially. I think you've talked a bit in the past various times about restoring the gross margin rate to 30% or better kind of pre-pandemic levels maybe. Is that -- what's the, as you sit here today, kind of the time line that you're thinking about? Is that still kind of a target? Or what's the target? And what's a reasonable way to think about the time line for perhaps getting there?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***

Great question, Jon. Yes, we're still bullish on getting ourselves to that 30% gross profit margin. We believe that we have a really good chance of getting there still, as we've been saying in the back half of the year probably as soon as the third quarter. And we think that's still a reality. So we're going to continue to fight for that and think we have a good chance to have it.

Operator

Our next question or comment comes from the line of Todd Brooks from The Benchmark Company.

Todd Morrison Brooks ***The Benchmark Company, LLC, Research Division - Senior Equity Analyst***

A few quick questions for you. One, the organic growth that we saw in the second quarter, which was very impressive, can we talk to how much of that has been unlocked by the new lines coming on so far this year, Dan? Or is most of the incremental growth from what those new lines will unlock from a capacity standpoint to benefit the company more in the second half of the year?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***

I think that we'll continue to build those new lines with the exception of a couple of the frozen novelty lines just came on over this past quarter. And so we'll continue to see a nice build from those. The frozen novelty lines came on more in that first quarter-ish time frame or slightly one before that. And that will help us keep up with the level of business that we do during the summer months in the frozen novelty side, but I love what we're doing with the new lines around churros and you see that growth happening there by the numbers and also on the pretzel side and being able to release some new innovative products. And so I think most of the growth is still yet to come from those lines.

Todd Morrison Brooks ***The Benchmark Company, LLC, Research Division - Senior Equity Analyst***

Is there a way, Dan or Ken to think about what these new lines can contribute to organic growth as we're looking over the next, let's say, 2 to 4 quarters just from the capacity to either launch new products or meet demand that maybe you weren't meeting last year?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***

Yes, I mean, I don't have an exact number, Todd, it gets pretty hairy, when you kind of try to look at all the impacts, whether it's new products, innovation. I mean what I could tell you is if those lines -- when those lines get up to the capacity we expect, everything else being equal, we think those probably present $150 million to $200 million opportunity, once all those lines are at capacity.

And that capacity for us is really in the 80% to 85% range. It's going to take us a bit of time to get there, some faster than others. When we did the business cases on these investments, I mean, the returns are typically 2 to 4 years depending on the situation. But that's kind of what the outlook could be, once we're able to leverage these lines completely.

Todd Morrison Brooks ***The Benchmark Company, LLC, Research Division - Senior Equity Analyst***

That's great. Second question, it sounds like now you found your West Coast RDC, you're giving us some timing for when the 3 facility should roll out. Can we just talk about the consolidation into the 3 facilities and the consolidation of shipping points? And if you're looking at a longer-term view on where distribution expenses can get back to, can we get back to the high single digits that we saw historically with this new facility structure?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***

Todd, that is the absolute goal for the leadership team, and we talk about that a lot. We do expect to get back to those high single digits and in hopes that as we have this all in place, that we'll be able to get maybe even something better than what used to be. You're right, we did identify a West Coast RDC, and that one is on schedule to open up early in 2024, somewhere around February 1. And we're really excited about the way that that's coming together. We think we've spaced them out appropriately to be able to handle it, as we move to them, and we think that can have a really big impact on our business.

Todd Morrison Brooks ***The Benchmark Company, LLC, Research Division - Senior Equity Analyst***

That's great. And then final one for me. If we look at the product newness and successes at retail, can you just talk about slotting fees maybe, would slotting fees run in the quarter? And what does the year-over-year comparison look like in slotting fees with all the new product activity that you have?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***

Yes. Well, we're definitely investing in placement, Todd. And we think long term, that will benefit us. I don't have an exact comparison in terms of what we spent in slotting fees a year ago versus now here with me. But I can tell you that we're spending more. And I think we're spending in the right places, but it's something that as we get into this quarter and back half of the year, we'll look to figure out the right way to balance all that to ensure that we're getting ultimate value for the space we're in.

There's a lot of retailers doing a lot of LTO-type promotions, and I don't know if you've been in any of the retail stores recently, you may have seen us on some of the end caps. But it's an investment in that space and in marketing those brands that we think will ultimately pay off for us. But I do not have here in front of me kind of what it was a year ago.

Operator

Our next question or comment comes from the line of Andrew Wolf from CL King.

Andrew Paul Wolf ***CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst***

The sales pipeline and answering (inaudible) sounds like it's pretty robust plus you put it in your release, and it remains pretty good. So my experience has been that an organization when there's not enough capacity, the whole sales process kind of -- it doesn't grind to a halt, but the sales guys are -- and women aren't -- they're not going full tilt if they know it can't get fulfilled. Does that kind of happen there and now you're -- there's more of an aggressive sales overall, just campaign because the stuff can get filled, the salespeople can get their commissions, et cetera?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***

Well, no, that's absolutely correct, Andrew. We've talked about this. And we've gotten to a pretty high level of capacity in our plants on our core products. And any good salesperson wants to absolutely deliver excellent service to their customers. And we've struggled a little bit with that to keep up with the kind of volume that we've had. It is really the core reason for investing in ourselves and investing in these new lines. And we are now being able to aggressively go out and sell those things that we want to sell and continue to grow the business.

And we have just a really great pipeline coming on all fronts, really, not just the Snack Foods side, but the churros, now that being able to make those at the rate and pretzels in different shapes and sizes, and we're really excited about what the future holds with that. And the team is out there aggressively selling and it's nice to see.

Andrew Paul Wolf ***CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst***

Okay. And just specifically on the -- you mentioned a retail launch of Hola! Churros, is that going to be a national or regional or -- I mean, is this a sort of a big launch or sort of a crawl-walk-run? I mean what should -- how should we think about expectations for that specific line?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***

Well, we're out there selling it very heavily. And we've had a lot of good feedback on it already. I think it's too soon to tell whether it will be a national launch or not and how big that will be but I will say that when you just think about the product line and churros coming of age, that we're really excited about it. And as we sell it to our retailers out there, we're getting a lot of good feedback from it. And so we think that's going to go very well.

Andrew Paul Wolf ***CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst***

All right. And I'd like to follow up on the 30% goal on the gross margin. It's great to hear you say it could happen as soon as this quarter. Maybe Ken or whichever you guys or both of you, there's a lot of different puts and takes that are -- caused a lot of variability and pressure on gross margin, but to me, it looks like -- and I think people have been kind of poking at this, it looks like a lot of these headwinds are either abating or turning into tailwinds, particularly input cost inflation and your pricing.

But as we look at the back half, it's also -- I mean, if you've hit 30% plus in the back half, is that reasonable that, that can be into 2024? Because there's also a lot of seasonality in there. And I think you alluded to in the release and in some of the commentary, there's some increased promotionality, it sounds like maybe the retailers who, with their volumes not being good are asking for that. So there's a lot of puts and takes. If you could just walk us through some of those major ones as you guys think about your -- how you're planning your gross margin?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***

Yes. I mean, first of all, I think Dan spoke about it, Andrew, as we look to Q3 and Q4, we like the trajectory we're on. We're getting better at managing some of the costs, some cases, inflation, deflation is helping a little bit. And also I think we're doing some things to manage that and improve margins that way. We're also going to be mixing out the business really strongly in Q3 and Q4 with the growth that we're having in IC and then adding really the peak seasons for Dippin' Dots. So the combination of all that makes us feel pretty confident that we're going to get to that 30% range here in Q3 and Q4.

As we go further on and get into Q1, Q2 of next year, I think we're going to be much better, much closer at that. There may be a quarter or 2, and it's in the winter and sales of high-margin items, like ICEE and Dippin' Dots fall a bit, where those margins might not quite reach 30%, but I think our goal is that we're a business that year in and year out is in totality doing 30% or more gross margin, and I feel like we're heading in that direction.

Andrew Paul Wolf ***CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst***

I'm sorry, I was on mute. Can I ask another question around your distribution commentary?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***

Sure.

Andrew Paul Wolf ***CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst***

If you're going to realize an ultimate taking it back down to where you were, so that's hundreds of basis points of lower margin, single digit [not] hundreds, but it's a big number. How much of that is rationalizing the sprawling distribution network that the company currently operates out of? How much of that is sort of NFI doing what they're doing? And lastly, how much of that is just the market kind of normalizing diesel prices coming down, maybe perhaps labor getting a little less tight? Can you just help us apportion how you guys think about this really big bucket of cost savings that you anticipate?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***

This has been one of our top-5 strategies for a while. And the company potentially outgrew the distribution network that it had at one time. And so it was pretty clear to see that we needed to do something early on, but it's a big undertaking. And so getting ourselves from 30-plus distribution points down to, call it, 6% to 8% somewhere in that neighborhood is going to have a significant impact on the business. And you kind of touched on all the 3 things that will make it better and allow us to get down to our goal of that single high-digit number again.

I don't know if we have it broken down, Andrew, about how much each one of those 3 areas will impact it. But I know that we're confident that all 3 of those areas will allow us to make some significant gains in that area. And we're excited about the opportunity of opening these 3 new DCs, and we get a chance to kind of touch and fill the first one here in July, and teams are working really hard at making sure that we open that with excellence.

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***

Yes. Andrew, there are various pieces to -- I think I've said this before, so I'll add this. We talked about our business case on the RDC strategy kind of going from this 30-ish to 6 to 8 and having these 3 dedicated RDCs at the time, we estimated that as at least a $10 million savings opportunity. And then we talked about the word with our partner and basically moving logistics management to them and thought that was around a $4 million opportunity.

Again, those were projections based on the business cases. And we still feel very good about what we're going to get out of all of that. You add that in where there will be some deflation that helps with some other things we're doing around things like inventory management, metrics we're putting in place, all of that combined gives us a lot of confidence that we're going to get this back down to that 9%, hopefully, below that range. I think that is certainly within our targets here, and we believe we will eventually get there once all this starts working in tandem.

Operator

Our next question or comment comes from the line of Robert Dickerson from Jefferies LLC.

Robert Frederick Dickerson ***Jefferies LLC, Research Division - MD & Senior Research Analyst***

Just 2 quick questions for me. I guess, we're sitting here now early May. I think, Ken, you had a couple of comments on mix impact as we think about kind of the latter part of the fiscal year into next year, and I would assume conversations have been had with some of your -- or let's just say, kind of across channels as we get into these kind of heavier demand months. So any color you have either Dan or Ken or just kind of how those conversations have been going, let's say, with like -- with amusement parks, right?

Like it's a -- last year, there's some pent-up demand. It seemed like it was kind of a banner year, this year, I don't know, maybe the economic backdrop little bit more pressured, but maybe going on amusement park is more cost effective than taking a trip to Europe, so I'm just trying to kind of gauge kind of how you've kind of feel demand as you start to enter kind of this core season. And then I have a quick profitability question.

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***

Yes. I'll kind of touch on this. So amusement park industry has been very good for us for quite some time. And as you talk to them today, they still feel pretty bullish about what's coming this year. So much of it is dependent on weather and the weather conditions throughout the next few months. But our big customers feel like they've got a really strong year coming. It was impacted in a negative way over this past quarter with all the rain and hard weather we had on the West Coast, our amusement park industry was impacted. But overall, we think that we'll continue to have a strong year.

I just got back from CinemaCon, the theater industry, and they're feeling really, really strong about what's to come. They feel like they have a great lineup of some tremendous movies that are going to be released over the year and really even released over the next 3, 4 months. And so it was good to build that momentum with that group and the hopes of it coming back really strong this year. So we're encouraged by that.

So I guess what I would say, Rob, is we feel good about what's coming over the next 6 months. We feel like we're positioned well. I like each segment of our business. I like what Dippin' Dots is doing. I like what ICEE is doing. And I like what the snack foods side of the business is doing. We feel good about what's to come.

Robert Frederick Dickerson ***Jefferies LLC, Research Division - MD & Senior Research Analyst***

Lovely. Cool. And then just, I guess, on the margin side, as it kind of pertains to each of the segments, right? I mean we're seeing a little bit of differentiation in kind of how your operating margin has been coming in, in food service and retail supermarket, while Q2 frozen beverages, I don't know, maybe that's the best you -- margin you've put up in any Q2, so I'm just curious, as we think on the go forward, is kind of the expectation here that the frozen beverage margin actually can continue to surpass what we've seen historically? Back to kind of a comment, I think, Ken made, that in itself can provide some of the margin mix positive while maybe kind of the ramp and reversion back to the margins we used to see in food service and retail supermarket could be a little slower? Because it's like -- basically, as we look at the back half of the year, frozen beverages always perform better on the margin side. But for the full year, food service and retail supermarket actually were pretty good, too. So I'm just trying to gauge really just the next couple of quarters, there's probably more acceleration of frozen beverages, maybe a little less acceleration of food service and retail.

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***

Yes. I think you're spot on with your observation, Rob. On frozen ICEE, we feel really good about where we're at in terms of sales opportunities and where our margins are at and do expect them to continue to be where they're at, I don't know if they're at historical levels off the top of my head, Rob, but I can tell you they're meeting our expectations right now in terms of where we're at with rate on ICEE.

On food service and retail, we're progressing but slower. I feel better about the ground we're making up on food service. That business segment operates a little bit differently in terms of how you kind of manage cost and price increases. And I think we probably have come closer on that one in. Retail, I do expect us to get better, and we're looking at some things right now on areas of improved margin. I mentioned earlier, what some of that impact was, which is us being a bit more promotional. We think that there are good long-term advantages to that. But there's also some cases where the pricing environment is a little bit tougher to navigate on Retail side and we're probably not yet covering all the cost increases from a year ago. But as those come down, we should continue to see that margin get better.

Operator

Our next question or comment is a follow-up from Mr. Todd Brooks from The Benchmark Company.

Todd Morrison Brooks ***The Benchmark Company, LLC, Research Division - Senior Equity Analyst***

So let me squeeze one more in here. We've talked about over the last couple of quarters, the negative impact that Dippin' Dots has had on operating expense because it just those incremental expenses against relatively seasonally soft revenues, we get into these next 2 quarters where there are strong quarters for Dippin' Dots. What do we see for sequential improvement in kind of the operating expense lines between marketing distribution and administration as Dippin' Dots instead of a drag turns into either a neutral or a contributor to maybe some leverage on those lines as we get to Q3 and Q4?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***

Yes, Todd, this is Ken. You characterized that really well. Just to add a couple of things to that. Just over 70% of the sales of Dippin' Dots will be in Q3 and Q4. So that gives you kind of a magnitude of the seasonality of that. And then obviously, as you have higher sales that really nice margins that's going to mix out well across the business. And it's also going to cover on a rate basis the incremental SG&A cost of Dippin' Dots. And that's the point we're making in this quarter is you really add just a little over $10 million in SG&A costs this year for Dippin' Dots versus a year ago, we didn't have Dippin' Dots.

If you take that out, we came in roughly where we were last year, about 4.1% of sales for SG&A expenses. So we will -- that will get better in terms of a leverage standpoint, when you put more sales in that business. The way I would kind of answer the other part of your question, distribution expenses, yes, we talked about, came in 11.3% overall for the company. It was at 12%, 12.4%, I think we'll continue to see that improve, particularly if diesel prices get a bit more aggressive on declining, they only down around $0.10. But we expect that to continue to move down. And I'm not going to throw out the exact number, but it should be below 11.3%. And then the other part, the P&L will certainly leverage a bit closer, I think what we do historically when we get into strong sales periods for Dippin' Dots.

Operator

Thank you. I'm showing no additional questions in the queue at this time. I'd like to turn the conference back over to Mr. Fachner and management for any closing remarks.

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***

Great. Thank you, and thank you for your time today. I hope our results and our comments clearly reflect why we are optimistic about the future of J&J Snack Foods and our ability to create value for employees, partners and shareholders. I'm so proud of the teams and all the hard work that they're doing out there. I mentioned earlier about being out of CinemaCon last week, where we were awarded Supplier of the Year by one of the largest theater chains and that just feels good to have that happen.

We look forward to sharing our fiscal 2023 third quarter results with you later this year. And in the interim, should you have any questions or wish to speak to us, please contact our Investor Relations firm, JCIR, at (212) 835-8500. Thank you very much, and thanks for being on the call today.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.
