

J&J Snack Foods(Q4 2024)
November 15, 2024

Corporate Speakers

- Norberto Aja; J&J Snack Foods; Investor Relations
- Daniel Fachner; J&J Snack Foods; Chief Executive Officer
- Ken Plunk; J&J Snack Foods; Chief Financial Officer

Participants

- Connor Rattigan; Consumer Edge; Analyst
- Andrew Wolf; CL King; Analyst
- Todd Brooks; Benchmark Company; Analyst
- Jon Andersen; William Blair; Analyst
- Robert Dickerson; Jefferies; Analyst

PRESENTATION

Operator^ Good day. Welcome to the J&J Snack Foods Fiscal 2024 Fourth Quarter Conference Call.

(Operator Instructions) As a reminder, this call may be recorded.

I would now like to turn the call over to Norberto Aja, Investor Relations.

Please go ahead.

Norberto Aja^ Thank you, Operator. And good morning, everyone. Thank you for joining the J&J Snack Foods fiscal 2020 Fourth Quarter Conference call.

Before getting started, 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, expectations and objectives as well as our anticipated financial performance.

These statements are neither promises or guarantees and 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.

Risk factors and other items discussed in our annual report on Form 10-K for the year ended September 30, 2023, and our other filings with the Securities and Exchange Commission, could cause actual results to differ materially from those indicated by forward-looking statements made on the call today.

Any such forward-looking statements represent management's estimates as of the date of the call today November 14, 2024.

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 expectations to change.

In addition, we may also reference certain non-GAAP measures on the call today including adjusted normalized sales, EBITDA, adjusted operating income or adjusted earnings per share all of which are reconciled to the nearest GAAP measure in the company's earnings press release, which can be found in our Investor Relations section of our website.

Joining me on the call today is Dan Fachner, Chief Executive Officer; along with Ken Plunk, our Chief Financial Officer.

Following management's prepared remarks, we will open the call for a question and answer session. With that, I would now like to turn the call over to Mr. Fachner.

Please go ahead, Dan.

Daniel Fachner^ Thank you, Norberto. Good morning, everyone.

Thank you for joining us today. J&J Snack Foods achieved another year of top and bottom line growth in fiscal 2024.

We not only achieved record annual sales and gross profit but also set new highs for adjusted EBITDA.

We achieved our financial goals of improving gross margin rates, delivering improved supply chain metrics and growing profits faster than sales.

Adjusted EBITDA increased 10.2% in fiscal 2024. More importantly, these results were achieved during a dynamic consumer and economic environment that impacted traffic and spending in key channels including amusement, convenience, theaters, restaurant and retail.

Despite pressures on consumer spending, we continue to grow sales on a year-over-year basis, led by incremental placements of core products, brands, product innovation and new customer wins.

I'm so proud of our employees who continue to execute a well-aligned long-term strategy that positions J&J for continued profitable growth.

As we discussed our performance, it is important to remember that we had one less week of selling days in fiscal 2024 and compared to fiscal 2023. This impacted fourth quarter sales by an estimated \$33 million.

We will refer to it as normalized sales in our discussions today to better explain what we feel is a more accurate apples-to-apples comparison.

For the year, we grew sales 1% on a reported basis, and 2.8% comparing results on a normalized basis.

I'm especially proud of our double-digit growth in adjusted EBITDA, led by an 80 basis points improvement in gross margins to 30.9%, along with a 110 basis point improvement in adjusted EBITDA margins for the full year.

Looking at our fourth quarter results, Reported sales decreased 3.9%.

However on a normalized basis, sales increased 3.9%.

Softer consumer trends, along with fewer selling days impacted sales of our higher-margin products during the quarter including soft pretzels, churros, frozen beverages, frozen novelties and Dippin' Dots. This resulted in a less favorable gross margin mix and created production inefficiencies and as we adjusted inventory levels across our plants and distribution centers.

As a result, our gross margin decreased 110 basis points for the quarter to 31.8% and compared to our record fourth quarter of fiscal 2023, while operating income and adjusted EBITDA decreased 4.5% and 4%, respectively. Despite these challenges in the fourth quarter, we managed operating expenses well improving by 110 basis points and achieving net earnings as a percentage of sales of 6.9% and consistent with the previous year. Ken will review financial performance for the fourth quarter and fiscal year in more detail in just a few minutes.

I'd like to emphasize the importance of our strategy and how it aligns with our results over the last year.

Our J&J team remains relentlessly focused on executing our strategy of growing core brands and creating cross-selling opportunities that drive incremental sales. Each quarter, we expanded new products and incremental placement even as consumer softness challenged sales in many of our key channels. This is a critical element of our strategy as it layers on growth during short-term periods of decline in traffic and attendance. As consumer trends improve, we are well positioned across our segments to continue driving growth and profitability.

Let's review our three segments with a focus on the year's results and why we are confident in our ability to continue driving growth.

In Foodservice, reported sales grew 0.3% for the fiscal year and 2.4% on a normalized basis. This included growth of frozen novelties, churros, handhelds and bakery on both a reported and normalized basis.

We did experience consumer softness in key channels in the fourth quarter but consider these challenges to be short term in nature and do not expect that they will continue into fiscal 2025.

Let me start with our frozen novelty business.

Frozen novelty sales grew on both a reported and normalized basis for the year despite channel performance in amusement and convenience, which are key sales venues for Dippin' Dots. Dippin' Dots sales grew low single digits on a normalized basis for the year as new theater locations were offset by declines in traffic and attendance in our core convenience and amusement channels. This was more pronounced in the fourth quarter after delivering stronger sales in the prior third quarter.

As it relates to Dippin' Dots, we remain optimistic with our growth opportunities, driven by added placements in theaters and indoor amusement together with expectations that the business will improve in our core channels.

Dippin' Dots is currently in just under 900 theaters as of the end of fiscal 2024, and we expect to add another 120 locations in the first quarter and 180 locations in our fiscal second quarter.

We will then have Dippin' Dots available in the four largest theater chains, AMC, Cinemark, Regal and Marcus and early feedback from some of our theater partners is that Dippin' Dots is exceeding the sales of other frozen novelties.

We are rolling out Dippin' Dots in all Dave-&-Buster's and made event locations.

We expect this rollout to be completed within our fiscal first quarter across roughly 220 locations.

We have significant opportunities in the Dippin' Dots business and we'll continue to expand placement and leverage innovation to add new flavors and packaging to drive growth.

Taking a look at Churos, we continue to be confident in our long-term performance and growth opportunities.

Sales growth for the full year was led by the addition of a major QSR customer launched earlier in the year. This business provides other opportunities for growth with this customer.

Looking forward, we are excited about a new opportunity to launch Churo Fries with a leading national hamburger chain. This product was successfully introduced in a recent LTO, and it exceeded expectations.

We are working with the customer on next steps and new opportunities.

We're also working on LTOs with two additional major QSR customers. There's a lot going on with our Churo business that provides us with added confidence in our ability to continue to grow this business.

Moving to bakery.

We had a strong year in the bakery business, led by expanded growth of cookies with both current and new customers.

Our bakery team has a well-thought-out plan to continue driving growth in 2025 that includes expanded production capacity, new products and incremental contract manufacturing opportunities.

Shifting to soft pretzels.

Sales declined for the year, driven by softness in the convenience, theaters, restaurant and amusement channels.

This was pronounced throughout the entire market. However, we continue to grow our market share within the industry.

We remain well positioned for growth as consumer trends improve in these key channels.

Recently, we gained incremental placements of Bavarian pretzel bites across all sectors of the food service industry.

We will continue to drive incremental opportunities through new innovations like Browhouse pretzels, and Bavarian Pretzel sticks and Bites along with the expectations for improving channel performance of our core Soft Pretzel business. Moving to our retail segment.

We grew reported sales 2.7% and normalized sales 4.4% for the fiscal year. This growth was driven primarily by continued expansion of our SUPERPRETZEL Bavarian and mini pretzel dogs, as a major customer continues to expand placements across their portfolio.

We have talked about this business before as being a great example of where cross-selling and leveraging our great brands across customer channels creates incremental opportunities.

We have invested marketing dollars and trade funds to drive this growth and we'll continue building this brand across retail in 2025.

Soft pretzel ACV grew over three points, driven by expansion of super pretzel mini pretzel dogs and Bavarian sticks.

Our soft pretzel products are well positioned in the retail sector, despite recent short-term softness in the fourth quarter.

Looking forward, we expect distribution expansion across our Super pretzel and Amiens brands and will enter the premium pretzel segment as we launch our Browhouse brand into retail.

Let's talk about Frozen novelty sales in retail.

For both the year and the quarter, sales declined on both the reported and normalized basis. This decline was primarily driven by softer sales in Luigi in an overall declining Italianized category.

Our marketing and sales teams are focused on improving Louise's performance in 2025 through improved marketing programs, enhanced consumer and product positioning and incremental customer opportunities.

Our Dogsters brand continues to perform well growing almost 20% in the quarter and adding over four points of ACV expansion.

We continue to see opportunities to build this brand, leveraging the growing demand for pet products.

We remain confident in this category and we're really excited about bringing a new Dippin' Dots retail product to the market in fiscal 2025.

Also we continue to grow our handheld business in retail.

Sales for the year grew over 58% on both a reported and normalized basis. This is a strong business for us, led by growth and incremental placements with a major mass merchant.

Finally, let's discuss our Frozen Beverage segment.

Sales increased 1.9% on a reported basis and 3% on a normalized basis for the year. The IT team grew this business despite volume declines in our theater and convenience channels throughout most of the year.

On a reported basis, Frozen beverage sales increased 2.4% for the year, even lapping an extra week in fiscal 2023. Theaters, a significant part of the ICEE business was down 5% compared to the prior year as the active strike impacted the volume and quality of movie releases.

We did, however see improvements in the theater channel in Q4, especially in July and September as strong releases hit the market.

In talking with our largest theater customers, the industry expects significant improvement starting in our first quarter with a slate of franchise films and titles such as Wicked, Gladiator two and Sonic The Hedgehog 3.

We see solid trends in the movie theater channel throughout fiscal 2025 with an improving movie slate and continuing strong concession consumption.

Repair and maintenance and equipment sales increased on both the reported and normalized basis for the year.

We continue to grow both of these categories, led by expanded placements of ICEE machines, and incremental service business across our customer portfolio.

We are excited about the prospects for ICEE. And as the theater business comes back, we are confident ICEE sales will as well.

In short, our strategies to leverage innovation and cross-selling opportunities to expand placements of our core products and brands continue to deliver positive results.

I'd like to take a moment to emphasize the impact of our operational investments over the past few years.

Enhancements to our manufacturing and distribution capabilities are leading to notable improvements in key efficiency metrics.

Our supply chain initiatives, anchored by the three new RDCs are working as planned, adding new capacity and creating efficiencies and how we move products to our customers.

We now operate out of the nine cold storage facilities simplifying logistics management across our network.

Today our sales orders are shipped from the new distribution network versus under 30% a year ago, with the average length of haul decreasing by over 30% and on-time performance improving to over 80% versus 63% a year ago. Linehaul cost per pound decreased 14% compared to the same quarter last year in our snack food business.

Shifting to operations. The combination of new lines and increased capacity in collaboration with new distribution centers has streamlined operations, leading to reduction in waste and overtime. This optimization has allowed us to enhance our service to customers more effectively than ever before. Notably, fill rates have improved to 98.7%.

I also wanted to mention that we are far along on our CFO search, and we'll be in a position to confirm a new hire shortly.

As you know our current CFO, Ken Plunk, will be retiring at the end of this calendar year.

In summary, we are pleased with the progress we are making to optimize sales across all customer channels and improve our operational efficiencies.

Our diverse portfolio of products and brands and our continued focus on innovation provides considerable growth opportunities across our customer base.

Additionally, our strong balance sheet and liquidity, along with our experienced leadership team, reinforce our confidence in generating long-term value for our employees, partners, and shareholders.

I'm incredibly proud of our senior team and employees who consistently carry out their jobs with dedication and skill. Their commitment to our goals has led to strong results that reflect their hard work and collaboration.

It's truly inspiring to see how each team member contributes to our success, driving innovation and operational excellence. Together, we are building a strong foundation for future growth and success.

As we enter fiscal 2025, we are optimistic about the growth potential of our core products and the success of our new product launches and client partnerships.

We expect performance trends to improve in our core channels like convenience, theaters, amusements and restaurants as consumer confidence and spending improves in fiscal 2025.

With a stronger film lineup ahead, we believe there will be significant growth opportunities for Dippin' Dots and ICEE and we anticipate improved sales across our other products as well. With that, I would now like to pass the call over to Ken to review our financial performance in more detail. Ken?

Ken Plunk^ Thank you, Dan. And good morning, everyone.

I am pleased with our ability to deliver yet another record full year performance, even as many of our core customer channels faced a softer consumer environment.

As Dan just stated, we are executing a strategy that is working and confident our team is running the right place.

I would like to take a few minutes to walk you through our fourth quarter and fiscal year results.

Before reviewing our results, it is important to note that J&J's fiscal 2023 4th quarter and full year included an additional week, with reported results comparing 14 weeks in the fourth quarter of fiscal 2023 and to 13 weeks in the fourth quarter of fiscal 2024.

Likewise, reported results include 53 weeks for the full year 2023 results compared to 52 weeks for fiscal 2024.

For purposes of comparability, we'll refer to normal SLs more accurately explain [Informix] trends.

Looking at our fiscal fourth quarter results. Net sales decreased 3.9% as reported and increased 3.9% on a normalized basis. The loss of one week of sales had an even more pronounced impact

on the quarter compared to the prior year due to losing selling days in the first week of our July fiscal month.

These are peak seasonal sales days for our core business.

We estimate this impact to be approximately \$33 million when comparing fourth quarter results for fiscal '24 to 2023. Reported net sales for the quarter totaled \$426.8 million.

For the fiscal year, we grew sales 1% on a reported basis and added \$15.9 million in incremental sales despite having one less week. Net sales grew an estimated 2.8% comparing results on a normalized basis.

I'll spend a few minutes reviewing fourth quarter results for each of our segments.

Foodservice, our largest segment, saw reported sales decreased 3% to \$262.2 million during the fourth quarter compared to the prior year period.

Churo and soft pretzel sales declined 9.5% and 9.4%, respectively, while Frozen novelty sales declined 4.3%. This was partially offset by a 3.5% increase in bakery sales to just shy of \$100 million and an 8.4% increase in handheld sales. The sales decline across most categories was attributed to the one less week this quarter and softer consumer spending in key channels like convenience amusement and restaurants.

Sales on a normalized basis increased an estimated 4.6%.

Sales of new products and added placement with new customers totaled approximately \$8 million driven primarily by the addition of Churos to the menu of two major QSR customers.

This led to fourth quarter operating income in the food service sector of \$15.3 million a decrease of 12.7% versus the prior year period, reflecting lower overall foodservice sales, a less favorable sales mix and production and supply chain efficiencies as we manage through softer consumer demand.

Moving to retail. Q4 reported net sales totaled \$55.9 million or a decrease of 13.7% driven by 19.3% and 16.8% decline in Soft Pretzels and frozen novelties, respectively. This was partially offset by relatively flat biscuit sales and a 14.9% increase in handheld sales as we expanded product placement with a major mass merchant. Normalized sales decreased an estimated 5.7% as consumers tightened spending in key grocery and mass merchant retailers.

We continue to see pressure on discretionary spending from long-term food inflation impacts, higher interest rates, rising credit card balances and overall economic concerns.

This led to an operating income of \$3.3 million or a decrease of \$400,000 versus the prior year period, reflecting the drop in sales.

As it relates to our third segment, Frozen Beverages reported sales were \$108.7 million, a 0.1% decrease compared to a record Q4 '23.

Overall segment sales increased an estimated 7.7% on a normalized basis. Beverage sales were flat at \$71.3 million, but did increase on a normalized comparison, led by improvements in theaters so, especially in July and September as the volume and quality releases started to recover from last year's active strike.

Overall gallons sold increased an estimated 7% when adjusted for the extra week.

As Dan mentioned, we expect volumes to experience a significant improvement in calendar year 2025 and given the stronger schedule of film releases.

Repair and maintenance revenues declined 1.3% versus the prior year period electing the impact of one less week while machine sales were up 1.7% in the quarter. This led to a Q4 2024 operating income increase of 3.4% and to \$21.3 million for the quarter compared to Q4 '23 operating income of \$20.6 million.

This was driven by improved product mix and effective management of operating expenses.

Before moving on, I would like to point out that on a full year basis, all three segments experienced growth including 0.3% increase in food service, 2.7% in retail and a 1.9% increase in food beverage sales. Adjusting for the additional week in fiscal 2023, we estimate that normalized sales increased 2.4% and 4% and 3%, respectively, for the foodservice, retail and Frozen Beverages segments.

Our investments and initiatives over the last two years to enhance profit margins and drive efficiency across our business are proving to be successful.

For the year, we continue to deliver on our goal of improving gross profit.

In fiscal 2024, our gross profit increased 3.5% to \$486.1 million, leading to a gross margin rate improvement of 80 basis points. to 30.9%. Due to the previously mentioned impacts, our fourth quarter gross profit did decline 7% to \$135.5 million, leading to a gross margin rate of 31.8% and compared to 32.8% in Q4 2023.

We remain confident in our ability to deliver strong and consistent profit growth and expect to further improve our gross margin rate in 2025.

And as it relates to inflation across our portfolio of raw materials, we experienced net mid-single-digit inflation with the increase primarily driven by higher cost of cocoa, chocolate, and, to a lesser extent, increases in the cost of sugar, eggs and needs.

These increases were somewhat offset by deflationary trends seen in flower, cheese and dairy and mixes. Pricing adjustments at contractual cost true-ups help minimize the majority of the

impact, but continued inflation in chocolates and sugar is driving consideration of further price increases in cost of goods initiatives to manage gross margins.

Our procurement team continues to effectively manage supply and costs, and we are well positioned to respond to any impacts.

Looking at expenses. Total operating expenses decreased \$8.4 million or 8%, representing 22.4% of sales for the quarter compared to 23.4% of sales in the prior year period.

Distribution costs were 10.8% of sales in the quarter, flat compared to the prior year period as the investments we made to increase efficiency across our distribution network and supply chain continue to drive expense savings.

Marketing and selling expenses for the quarter were 7.3% of sales versus 7% in the prior year period. As we continue to invest in our product innovation, brand promotions and new selling opportunities. Administrative expenses were 4.3% of sales in Q4 '24 compared to 5% and in 2023. This led to an operating income of \$39.8 million for the quarter or a 4.5% decrease compared to \$41.7 million in Q4 of '23. Adjusted operating income was \$42 million in the fourth quarter or an 8.3% decrease compared to Q4 '23.

We estimate the additional week negatively impacted operating profit for the quarter by approximately \$4 million.

On a full year basis, operating income increased 7.3% and to \$117.5 million, while adjusted operating income grew 8.5% to \$130.4 million. After the impact of income taxes of \$10.9 million compared to \$11.3 million in the comparable prior year Net earnings for the fourth quarter decreased 2.6% to \$29.6 million, resulting in earnings per diluted share of \$1.52 compared to \$1.57 in the prior year period. Adjusted earnings per diluted share were \$1.60 for the quarter compared to \$1.73 in the prior year period.

On a full year basis, net earnings increased 9.7%, leading to diluted earnings per share of \$4.45 versus \$4.08 in fiscal 2023.

This resulted in full year fiscal 2024 adjusted earnings per diluted share of \$4.93 versus \$4.50 in fiscal 2023. Adjusted EBITDA for the fourth quarter decreased 4% to \$59.7 million from \$62.2 million in the prior year period. Our effective tax rate was 26.8% in the quarter.

On a full year basis, adjusted EBITDA increased 10.2% to a record \$20.1 million.

Looking at our liquidity position, we continue to maintain a healthy balance sheet and overall strong liquidity position with \$73.4 million in cash and no debt.

Our ability to improve cash flow through working capital initiatives and stronger profitability is generating more cash to pay down debt, pay dividends and continue investing in our business.

Our focus will continue to be on maintaining a healthy balance sheet and prudent leverage position, which enables us to continue investing in the growth of our business and returning value to our shareholders.

In addition, we have ample availability under our revolver of over \$210 million in additional borrowing capacity. To summarize, we continue to see momentum in our business supported by the breadth of our portfolio of brands, the strength of our balance sheet and the improvements we continue to make across our operations.

Before I turn the call over to the operator, I wanted to thank Dan, our Board of Directors and every member of the J&J team for their unwavering support during my time as CFO. J&J is truly an exceptional company, and I very much enjoyed my time here.

As Dan mentioned, we are close to announcing my replacement, and I look forward to helping ensure a smooth and seamless transition.

I would now like to turn the call over to the operator for questions and answers.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions)

Our first question comes from Connor Rattigan with Consumer Edge.

Connor Rattigan^ So Dan, you called out challenged traffic and software consumption across your channels, be it QSR, retail, C-store.

So I understand traffic is broadly under pressure, but I guess could you maybe kind of comment maybe where you're seeing the greatest pressure and kind of help us understand the magnitude of that traffic pressure?

And Also you also kind of noted that you don't really expect this to continue into 2025.

I mean I guess just kind of given the backdrop across the sector, what really gives you the confidence that pressure won't persist into 2025.

Daniel Fachner^ Yes. Great question, Connor. A couple of the areas that we saw declines in really all year long, both the theater and the convenience sector, are ones that I believe, especially the theater have a chance to really bounce back strong for this coming year.

That's part of what gives me a confidence that there's a period of time that we've gone through that maybe has a reason to be hopeful for the future, right?

There's some great new movie releases coming out even as we close the end of this year.

Then if you look at their lineup into 2025 and really even into 2026.

It gives you the great hope that those sales will return pretty rapidly.

A couple of the other areas that we talk about, the restaurants and the QSRs being down throughout this period of time, we know that the consumer has been stretched and spending has been down.

You heard me back throughout the year, even I think you specifically asked me what some of my concerns were throughout 2025 or 2024.

I said as we get closer into the election period, I was worried about how the consumer might react during that time. There's a lot of publicity going out there and people fill one way or the other, and there's just uneasiness as you go through it. I felt it myself.

And regardless of who wins and what party wins, once you come through that, there's the American people who are just so resilient that I believe will have a stronger feel for our economy as we go forward.

I think we're starting to even fill some of that today right?

And so, I'm hopeful as we move into 2025 that we'll see a lot of those pressures subside.

It doesn't happen overnight, but it does happen over a period of time. And as we get through our first quarter and into the rest of the year, we feel pretty hopeful with all the things that we have going on both in operational efficiencies and some of the great new pieces of business and the pipeline that I see from each business unit that we can see a really nice 2025.

Connor Rattigan^ All right. Great. That was really helpful. Then just one more, too. So on the margin component.

So you called out about some margin pressure given the 14-week compare with, I believe it was a \$4 million operating income headwind.

So correct me if I'm wrong, but it seems like the entirety of that \$4 million operating income headwind should consist of gross margin pressure.

Could you guys maybe elaborate a little bit on the mix headwind you called out?

And just maybe why that was so significant?

Or was there may be some incremental inflation or promotional pressure that pop up in the quarter?

Ken Plunk^ Yes. Connor, this is Ken. Thanks for your question. Yes. It's kind of a combination of a lot of things.

One, the loss of that key week, and again we wanted to call out that, that was the first week the July fiscal month that we lost.

That is a period of time where our core products, pretzels, churros, ICEEs, Dippin' Dots, really selling high volume, and those are some of our strongest margin products.

So because it was that week, that drove especially pronounced impact on margin and on the operating income impact that we estimated of \$4 million.

The other thing, as we looked into the quarter, Connor, and you see the degree of sales spine in some of those core areas, combined with increases in areas like bakery, handhelds and a few others. The combination of some of those lower-margin areas growing and the higher margins declining, we estimate probably had around 80 basis point impact on margin rate in the quarter just from that change in mix.

Those core items I'm speaking of, remember, they are predominantly sold in amusement in restaurants and caters in those channels that we spoke about that are soft and you can read on many of those customers that we serve have recently come out in all of those industries and channels talking about softer traffic, particularly in Q4.

Operator^ Our next question comes from Andrew Wolf with CL King.

Andrew Wolf^ Ken, congratulations on everything and have a great post-J&J, I don't know retirement and whatever else you do.

I want to kind of follow up on the last question.

So just from the outside, it looks to me like in terms of deleveraging and kind of missing your earnings targets. Clearly, the foodservice part seems to be where the problems were and you just spelled out a big mix change.

Can you unpack the rest of that because the press release referencing you guys, I think a little more than you have been talking about inefficiencies and production and even supply chain.

So I know when there's unexpected demand shifts either way but particularly down, your labor rates are going to go the wrong way and so on.

But was there anything unusual?

Or is it mainly just that plus the lack of absorption of the overhead.

Ken Plunk^ You summed it up well actually, Andrew.

It was a combination of all those things.

So distribution expenses, rough numbers here, but around 20% of those expenses are fixed, particularly as we've gotten into these three RDCs that are driving all the efficiencies that we talked about the cost of those on a fixed basis is more.

So when sales are down, then that's going to -- that's not going to leverage as well. That was part of the impact.

That's why I'm actually quite proud that we came in flat with a year ago given the sales difference.

On a dollar basis, we came in, I want to say \$2 million or \$3 million less than a year ago in distribution expenses.

So we still manage it well. And Dan spoke to a lot of those metrics.

But when we have the sales come down in those core areas and start to deleverage fixed expenses, it creates that margin challenge that was really a byproduct.

And it was both in distribution and then it was also in planned absorption because we -- we have built up inventory.

We started to see consumption declines.

We ended up having a pullback on production, kind of manage and position that. And because of that, there was less absorption, and that contributed to this mix challenge that I mentioned and the 100 basis points lower margin than a year ago.

Andrew Wolf^ Okay. And just kind of related to that, is there anything in demand planning that AI or machine learning any way to like get that so you can actually predict these previously unpredictable shifts in demand better?

Or is it just a change. It's a great question. I hope it will change, right?

It is a great question.

Whenever you go through a quarter, we've asked those questions as well. And Ken and I have sat down with the teams to really understand exactly how we go about demand planning and how that circulates within our organization.

We always think there's opportunities for improvement.

We think the team is doing really, really well.

But I'm asking those same questions, and our goal would absolutely to be better at that in the future, like a lot of areas that we've improved on or had transformation in I think that's one of those areas that we can continue to look at and become better at.

Ken Plunk^ Yes. I would add, Andrew, the quarter started out well we had a good July. And really, it was in August and September. And Dan and I attribute that a lot to the things that he summarized a few minutes ago in that the combination of probably uncertainty around the election was some trends already negative in many of these channels as discretionary spending was tightening up.

Then the other thing we did mention in the script, we don't have a measure of it.

It would be hard for us to measure is -- the timing of the two hurricanes that came to Florida and the Southeast.

Florida is, obviously, a big, big state in terms of outdoor amusement, that sort of thing.

But that played (inaudible), I suspect, in some of the declines that we weren't necessarily anticipating coming out of July and then all of a sudden started to play out in August and September.

Andrew Wolf^ Yes. Yes. Yes. There was -- one of the big food service distributors tried to quantify it.

It was a pretty big impact, but I'm at least right.

Lastly, I don't want to -- I'll see it.

I just wanted to ask a specific thing because you covered a lot of your innovation.

But did you mention or could you update us if you didn't mention it or if you did, just repeat it. Are you still doing a frozen beverage test at a QSR, QSR chain?

Daniel Fachner^ We are continuing to grow.

I did not mention it, but it's continuing to grow, and we've now rolled out an additional market down in Florida with it.

So we remain hopeful that this is something that we can bring in during the 2025 year.

Operator^ (Operator Instructions) And our next question comes from Todd Brooks^ with the Benchmark Company.

Todd Brooks^ Thank you, gentlemen. Ken try not to play too much golf, okay?

Ken Plunk^ Thank you, John.

Todd Brooks^ First question I have for you. And it gets to just the timing of this call and looking forward to fiscal '25. You've had a nice track record here of gross margin improvement.

We've talked about more of a medium-term target of getting to the mid-30s with gross margin, and you pointed to in the call expecting improvement fiscal '25 over '24 distribution, you talked about kind of a 10% goal, maybe leveraging a little bit beyond that as time goes on. Just can we talk about margin framework looking forward into '25, knowing that you're hopeful on the consumer bouncing back, but within the controllable elements of the business, maybe try to level set expectations from our standpoint for margin improvement that you're expecting to unlock in the upcoming year?

Ken Plunk^ Yes, absolutely. And great question. There's a reason why we spent a lot of time in Dan's comments about really talking about the strategies and the financial strategies of improving gross margin.

We did it last year, we did it this year. That's very important to us, growing profits faster than sales.

Our plan for next year is to continue to do the same, Todd. We would expect gross margin to improve.

I think it's safe to say we expect it to be over 31%, which would show improvement over the 3.8% for the year this year.

I think Dan mentioned this in our call last quarter, the next mile gets harder, right?

There's a lot more work we got to do to continue figuring out our way to 32 and beyond, but that is the goal, and we think we will get there.

I don't think we'll get there next year.

I would probably be thinking in the kind of low 31% range kind of area for '25.

But the focus is there. The initiatives are there.

We went through in our planning recently, and there are very specific initiatives whether it's procurement, whether it's operational efficiency, whether it's distribution, how do we get that number starting to hit its way towards that below 10% range. All of those things are very specific initiatives and continue to be the focus.

Daniel Fachner^ Yes, Todd, I'll just echo on that.

We're as bullish as ever before.

We're going to continue to drive that as much as we possibly can. And just like Ken said, I'd say it all the time, the last mile is the hardest, but we're going to continue to work hard in that last mile.

The teams continue to be focused around it. And so I think we can continue to move it.

I think Ken gave you a number that's probably fairly accurate for next year, and then we'll continue to get it better the year after as well.

Todd Brooks^ And just a follow-up on that, if I can. The distribution with all three of the RDCs now set up and really running 90% of the product, like you said, through there. is that 10% goal deliverable in fiscal '25 to meet or beat that number?

Ken Plunk^ Probably not for the year, Todd. You'll see us getting in that range, I think in Q3 and Q4 when the sales are up there, enable us to get there. given the seasonality of many products and the level of fixed cost in that we won't hit that mark in Q1 or even in Q2.

So that will average out probably something closer in the mid-teens, somewhere, I would probably say time.

Todd Brooks^ Okay. Perfect.

Then --

Ken Plunk^ I mean to be clear, mid-10s.

Sorry. The mid-10% range is what I was trying to say.

Todd Brooks^ Got you.

Then final question for me. Product newness, not as much focus on that on the call because we had to explain just kind of the lapse with the 53rd week year.

I know you just did announce the upcoming dividend not launch in grocery at retail with Kroger. You talked about expanded placement, all for theater channels, Dave & Busters, which was incremental news.

Dan, you talked about the ability to double this business relative to that \$80 million run rate when you bought it. Are you more bullish on the outlook now as you're seeing this expansion through additional channels with the core product but also opening up the retail channel here early in calendar

Daniel Fachner^ We're really excited about that retail thing.

We believe Dippin' Dots and retail can be really, really big for us. And early indications from talking to our customer, not the consumer, but talking to our customers, they're equally as excited.

So we feel really good about that.

We think we have a potential product to back it up with coming out of Dippin' Dots as well.

And so I love the momentum that our teams are working on. and how they see being able to expand that.

I still am bullish that we can double those sales.

Now they may show up in our P&L, some in retail and some on the food service because of the way we report it.

But I still believe that we can do that, and I love that acquisition.

And if we were calling out some of the new items coming out, that would be top the list.

I really like what we're doing with that.

I also like -- I mentioned our brow house in the retail.

I think that's going to do really, really well for us. The team has kind of positioned this good, better, best kind of profile around our J&J Snack Foods pretzel and our Aunty Anne's pretzel and this Browhouse Pretzel.

I think we're entering into a really nice market there as well.

Then continued expansion with Dogsters.

Today we have a new flavor that we introduced last year, and we're looking at how to introduce that in single serve to enter into the pet industry as well. Just see some really good things across all of our business units with great opportunities. Even mentioned in the call just to call this out to the -- an opportunity that we have with contract manufacturing because it's something that we don't always talk about.

We have a really nice opportunity there.

So a lot of really good tailwinds going into the year.

Operator^ Our next question comes from Jon Andersen with William Blair.

Jon Andersen^ Dan and Ken, thanks for the questions. Maybe just kind of try and close the loop a little bit on one of the questions from the last participant. You addressed kind of how you're thinking about gross margin in 2025 and the distribution ratio.

I wanted to hit a different line, the marketing line. There were a couple of years when the marketing ratio came down.

I think that's quite understandable given what was happening at that time.

It's crept up a little bit in '23 and '24 and ended the year this year at about 7.4% of sales, but still below where it was several years ago, closer to 8.5 to 9. Dan, you mentioned some investments there, promo marketing behind the retail part of the business. How do you see that line evolving over the next year as you expand, particularly some of the new products, different dots, et cetera, into retail.

Daniel Fachner^ Yes. Good question, Jon.

I'm really proud of that marketing team of ours led by [Lynnwood Mallard] and some really, really good people within their being cost conscious at all the times.

So I would first answer the question as I see that marketing line being basically flat to that 7.4% range somewhere in there during this next year. The teams are evaluating how they spend that all the time and maybe diverting it into some more digital and more focused marketing in different ways, and I like how we have that lined up for next year.

But I would see it in that same flattish range to that 7.4%.

Jon Andersen^ Okay. So I wanted to shift to the top line for a minute. You did talk quite a bit about some of the pressure on the consumer or softer traffic of late, and I guess some of that throughout the year in certain channels.

But when I step back and I think about, hey, on a normalized basis, you grew sales about 3% this year. And even in this quarter, normalized, you grew sales at 4% or nearly 4%, which is pretty good.

And so, I'm trying to kind of taking that kind of view and then some of the commentary around your thinking that cross-selling efforts are taking hold.

The consumer is likely to come back stronger the theater channel is improving. What should we kind of be thinking about for fiscal '25 in terms of normalized growth at this point?

How would you kind of at least give us some guardrails to work with as we think about modeling the top line going forward.

Daniel Fachner^ Yes. Thanks for calling some of those things out. That's exactly what I was trying to get across on the call too.

We're really proud of the year that we've had. Especially if you back out some of the money there of an extra week in last year compared to this year, I love what the teams are doing to grow that.

It kind of falls in line with some of the things that I -- you've heard me say before and I really believe this, the J&J company has this broad, diverse portfolio which allows us to be what I'd call kind of recession resilient, not recession proof.

It doesn't mean that we don't own periods of time, we don't get affected some, but we have such a broad portfolio that we have some recession proof to that or downtime proof.

Our goals continue to be that mid-single-digit growth year in and year out, right?

And as I look into probably 2025, I would see in that low mid-single digits growth, somewhere in that range, probably is how we're looking at it going forward.

We think we have some really nice opportunities, and we believe that the industry and channels will improve.

Those combinations, I think should get us somewhere in that mid- to low single digits.

Jon Andersen^ And I think that there was at least a comment in the prepared remarks around some inflation, maybe it was cocoa, sugar, perhaps prompting you to look at some additional price, I think you usually take price late in the year to effective in the new calendar year.

Is that part -- is pricing part of the algorithm in 2025 or not at this point?

Daniel Fachner^ It is, and we will be taking pricing on what I call the three business units, ICEE snack foods and Dippin' Dots in the January timeframe.

ICEE has that cadence that they always are on and they'll do that January one and Dippin' Dots is kind of now on that cadence as well.

Then somewhere mid-January, we'll have an increase in the snack food side.

Jon Andersen^ That's helpful. Last one for me. Your CapEx was down 30% or so this year.

I think that's because there was some larger investments, obviously you're making in operational efficiencies, infrastructure, I think in '23 that didn't have to repeat in '24.

But how should we think about capital expenditure in 2025 maintenance and growth.

Yes. That would be helpful.

Ken Plunk^ Yes, Jon, this is Ken. You summarized that well '22, '23 were big investment years as we talked about the six lines and the three RDCs, et cetera. And now I think we're back to a bit more normal state.

I mean we'll continue to invest in our business. There's still, I want to say two or 3, four lines that we may add or improve next year on the capital.

But I think the way to think about it in '25 and going forward is it's going to be kind of a run rate of around 4.5% to 5% of sales.

So that would put you come in a range of \$75 million to \$85 million, probably in the near future, somewhere in there.

Operator^ Our next question comes from Rob Dickerson with Jefferies.

Robert Dickerson^ Great. Sorry.

I guess just two questions for me.

First question is just kind of going back to like the channel dynamics, the consumer discretionary spend, all that fun stuff so far. You clearly have a kind of better view of what's been occurring in the convenience store channel where you do have some exposure, and clearly, the channel has been under a bit of pressure recently, kind of if I walk into a number of convenience stores actually see some promotions in C-stores, which (inaudible) they don't see -- and I've been talking to a few people who say oh, yes, I mean really have expectations and hope that the C-store channel kind of comes back as we get through next year.

Feel like, while I understand your comments on the movie channel with new film releases, like kind of whatever you have, like how you think about like what like what could actually entice kind of the average person who would normally have gone to a C-store to kind of go back to that C-store because I do think that is kind of like a decent kind of benchmark as to where maybe some of the discretionary spend moves and kind of how consumers overall kind of think about shopping that channel or those more discretionary channels and your products. And kind of preface it all with like I realize there's an election and things are choppy and consumer, but just kind of taking a guess like what could get people back there.

That's kind of a very broad first question.

Daniel Fachner^ Yes. The convenience channel is interesting because I watched it really closely, too.

It infects a lot of pieces of our business on the snack food side, on the ICEE side.

On the Dippin' Dots side, all three of those are impacted by what happens there.

So I think you brought up some promotional activity, and we're looking at that really strong.

We're looking at marketing efforts that pull consumers in as they're out in the car and entices them to products that we have inside the store, which are highly impulse items often there.

I don't know if there's a silver bullet that pulls that industry back in overnight, but I think a greater consumer confidence will allow some additional spending for people to get out of their car and out of the gas pump area and into the convenience store to buy one of our core products.

And so sometimes and you've heard me say this before, and we've really been doing it in the theaters as well with Dippin' Dots.

Sometimes the best way -- our best time to invest in a particular channel as you have a lot of base and that will come back is when it's a little soft, right?

And so -- we're working really hard at that and continuing to grow in several of our areas in that channel.

We were just out at the National Association of Convenience Stores Show and had some good opportunities come out of that.

We're going to continue to grow in it and are confident that it will come back.

As it comes back, in Q1 or Q2, I'm not sure, but we're going to do that, and then we're going to drive some promotional and marketing activity to try to pull the consumer in as they are, too. They're smart operators and they're working hard at it as well.

Robert Dickerson^ Yes. I mean I'm just kind of thinking like you introduced churro into Subway right, and drive some way there's like signage everywhere, and a little Johnny in the cars like, hey, mommy, can we stop by (inaudible), we get Churro, like why not put up Dippin' Dots signage or say oh, it's special ICEE day for \$3 for a large size. Like I'm assuming there are ideas out there to kind of pull them in a little bit versus just like a, hopefully, consumer gets better. You know what I mean?

Daniel Fachner^ I agree, Rob. That's exactly what I'm saying.

We call it curve in marketing where when you're driving up to that convenience store, you start to recognize some of those products that are out there right now.

I see over the years has done that curve in marketing really well and we're going to leverage some of those learnings into our other pieces of business.

Robert Dickerson^ Fair enough. Fair enough. Okay cool.

Then just kind of quickly, there've been a lot of great kind of supply chain network optimization moves over the past couple of years along with the CapEx that you spent to do it.

I mean I realize it's a little softer now and lapping the extra week.

But kind of like -- and then also the comments around gross margin expansion.

Some next year, right?

It's not a ton but getting kind of far in the mileage of that gross margin.

But like there was still kind of like a longer-term expectation, right, that you can get that operating profit margin up over time because of the initiatives because (inaudible) and then obviously some consumer tailwinds would help, too.

So like if we're thinking three years forward, is there anything that's like necessarily changed.

Or no, like, well the environment has changed a little bit, but environment comes back and we're back on track, and we'll be able to leverage through our SG&A, distribution costs and what have you.

So again kind of a broad question, but just curious.

Daniel Fachner^ Yes. No, Rob, nothing has really changed in our initiatives to continue to drive those to the levels that we've talked about.

Other than what I've said before and for a period of time of my life, I ran a bunch of half marathons.

If you rather ran a half or a full when you hear me say that last mile is the hardest.

It really is the hardest. It seems like it takes you the whole marathon to get to that last mile, right?

And so, those are the things that we're up against.

We will continue to grow margins, 30-plus with the goal of someday hoping to be in the mid-30s with that.

We'll continue to drive that through the things that we do each and every day.

The same thing with supply chain, met with that team and I love the work that they've met with that team just a couple of weeks ago to talk about, okay.

So now how do we take the next really big step?

And the team has some great plans in it.

I'm sure that they will execute on it, but those plans as we get to this stage are harder, right?

When you get to the last mile, it's just harder.

Our goals haven't changed. My initiatives haven't changed.

I believe that we'll get there.

It just gets tougher as you get deeper into it.

Ken Plunk^ Rob, just to add some emphasis to what Dan said because I mean we talk about this every day every meeting, every quarter. These are real parts of the strategy.

But the proof is in what we've done.

So we improved EBITDA margin, adjusted EBITDA margin year-over-year by 110 basis points.

I mean, that was driven by the 80 basis points improvement in gross profit and then the other part, primarily probably distribution expenses.

Even in the fourth quarter, if you take out the impact of the extra week, we would have come in around 15% EBITDA as a rate of sale.

So we're hitting the mark there. It's going to be harder to get the next 100 and the next 100.

But I think as long as those are core strategies and how we do things and how we drive performance the business is again to continue to move those numbers up.

Operator^ Thank you. There are no further questions at this time.

I'd like to turn the call back over to Dan Fachner for any closing remarks.

Daniel Fachner^ Thank you very much.

In closing, we are successfully executing our strategy in an ever-evolving operating environment, and we are confident in our ability to deliver our objectives in 2025 and over the long term.

I also want to take this opportunity to thank Ken for being such a great partner and leader in his valuable work in transforming the business over these past four years.

Everyone at J&J wishes him and his family the very best in this new chapter of his life.

We look forward to updating you on our fiscal 2025 1st quarter results.

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. And have a great day.

Operator^ Thank you for your participation. This does conclude the program.

You may now disconnect.

