

J&J Snack Foods(Q3 2025)

August 05, 2025

Corporate Speakers:

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

Participants:

- Scott Marks; Analyst; Jefferies
- Todd Brooks; Analyst; Benchmark Company

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the J&J Snack Foods Fiscal 2025 Third Quarter Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would like to now hand the conference over to the first speaker today, Norberto Aja.

Norberto Aja^ Thank you, Operator. And good morning, everyone. Thank you for joining the J&J Snack Foods Fiscal 2025 Third 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 nor 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 28, 2024, and our 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 the call today.

Any such forward-looking statements represent management's estimates as of the date of the call today, August 5, 2025. 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 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, our Chief Executive Officer; along with Shawn Munsell 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. And good morning, everyone. We delivered record financial results in our fiscal third quarter as we successfully navigated various market challenges during the quarter.

Our ability to achieve these results despite a cautious consumer backdrop, unfavorable summer weather and foreign exchange headwinds reflects the resilience of our diversified portfolio of brands and products as well as the commitment of our team. Net sales grew 3.3% to a record \$454.3 million, while adjusted EBITDA increased 1.6% to a record \$72 million, and adjusted EPS was \$2 per share as compared to \$1.98 last year.

We delivered gross margin of 33%, reflecting a seasonal mix shift towards our higher-margin products as well as we progressed on pricing initiatives and a sharpened focus on operating discipline.

I'm proud of our performance in the quarter and commend our team members for their hard work delivering exceptional financial results. Our peak summer season encountered slow traffic at outdoor venues across the country throughout the quarter due to poor weather.

However a meaningful rebound in theater traffic helped to compensate for sluggish performance in other channels. Box office sales, coinciding with our third quarter are estimated to have increased 37% versus the prior year, driven primarily by the strength of the Minecraft movie in April and May. And although our beverage sales were down modestly for the quarter, beverage sales would have increased compared to the prior year, if not for the impact of foreign exchange related headwinds.

We have been working with our customers this year to implement price increases to help offset persistent input cost inflation, namely related to chocolate, and we've made further progress in the quarter. These conversations are never easy, and we endeavor to minimize the impact to customers wherever we can.

While tariffs are threatening margins as we look ahead, we feel comfortable that the pricing progress we have made has offset much of the non-tariff-related ingredient cost

inflation that we incurred this year. I'll now discuss segment performance in more detail. Beginning with our Food Service segment.

Sales increased 4.8% from a combination of price increases and volume growth in pretzels. Pretzel sales increased an impressive 12.8% with a significant portion of the growth coming from our Bavarian varieties. Sales of Bavarian Pretzels were up 20% in the quarter.

Our overall food service pretzel dollar share increased 1.3%, while our Bavarian dollar share increased 2.7%, reflecting J&J's leadership of this popular variety. Churro sales declined approximately 13%, nearly all of which was attributed to the wind down of a limited time offer program. We expect this impact to further taper in the fourth quarter.

Looking ahead, we remain optimistic about churro growth prospects including the potential for a permanent menu placement with a major QSR customer in early calendar 2026. Dippin' Dots sales continued to grow, mostly attributed to expanded theater penetration.

We're completing the rollout of Dippin' Dots at Urban Air, and we are excited to welcome them as a flagship customer, representing the next leg of meaningful growth for this brand. Turning to our Retail segment.

Sales decreased by 7.1%, mainly due to the decline in frozen novelty and handheld sales. Frozen novelty sales were impacted by lower promotional activity in the quarter and a tougher comp last year given strong third quarter performance following a slower first half start.

And although frozen novelty sales were down in total, sales from Dogsters and Dippin' Dots Sundaes continue to deliver growth. Year-to-date retail frozen novelties are up 3%. Dippin' Dots retail sales accelerated to approximately \$2.5 million in the quarter with distribution expanding. This product has exceeded our expectations, and we're adding new flavors to the lineup for 2026.

In a moment, I'll share more about the upcoming innovation in frozen novelties. Retail handheld sales declined by 21% as continued capacity constraints from the fire last year limited sales. We are now implementing a solution to fully restore capacity by the end of the calendar year.

Soft pretzel sales increased 3.3% during the quarter, outperforming the overall frozen snack category at retail, which was up about 2% in dollars for the quarter. Overall, we're seeing positive results from the rollout of our updated SUPERPRETZEL recipe and packaging.

In our Frozen Beverage segment, sales increased by 6.1% as the modest decline in beverage volume was more than offset by higher machine revenue. Beverage sales were modestly lower for the quarter, primarily due to the headwind from unfavorable foreign

exchange rates, which negatively impacted beverage sales by approximately 400 basis points and total Frozen Beverage segment sales by approximately 270 basis points.

Beverage volumes in theaters rebounded sharply in the quarter due to the success of the Minecraft movie as well as other quality movies during the quarter, which helped to offset softness in other channels. The movie lineup for Q4 is promising, although it's unlikely to match the performance of last year's fourth quarter, given the success of Inside Out 2.

The Q4 lineup includes titles like Smurfs, Fantastic four and Jurassic World Rebirth. Machine sales increased primarily due to a major convenience customer upgrading its equipment across its store network.

We're excited about several initiatives executed in the third quarter and those we are preparing for launch in the future.

As I mentioned, the rollout of the updated retail SUPERPRETZEL recipe and packaging is underway, and we continue to see promising results to date. The packaging really stands out on the shelves, and we're confident that the formulation updates will prove popular with consumers.

The rollout to Food Service is also now underway. We have several pretzel innovations around the corner including extending our lineup of filled pretzels and filled bites for the retail channel.

Our Dippin' Dots business continues to grow in both Food Service and Retail with year-to-date revenue growth of 10%, led by our expanded theater presence and Sundaes at Retail.

Our Dippin' Dots Retail Sundaes have proven that the brand has strong appeal with consumers at Retail. We are rolling out two new flavors this year, and we have other Dippin' Dots innovation for retail planned for 2026 that we will share in the future.

A major QSR customer is actively testing churros for a potential permanent placement on their menu for early 2026. This test is now underway and could represent a meaningful addition to our churros business. We're also launching a retail packaging refresh for the Hola. Churros brand in the fall.

On the frozen beverage front, a major QSR customer is testing ICEE products for their locations, and this is going extremely well to date. As I mentioned last quarter, we continue to innovate around better-for-you products to appeal to consumers seeking such options for snacking occasions.

We're excited about the high protein and whole-grain pretzels that we're developing along with our clean label frozen novelties that will include ingredients that provide hydration, immunity and digestive benefits.

We're already eliminating red dye from ICEE products and are continuing to eliminate it from other snack products well ahead of the deadline. Additionally, we plan to remove certified food, drug and cosmetic colors from products served in schools by fall of 2026.

I'd also like to share with you that we are in the process of developing a transformation program through which we will drive enterprise-wide cost savings and efficiencies, while also modernizing our financial systems and analytics capabilities.

Some of the more significant initiatives will involve network optimization improvements. We will share more specifics once we finalize the details.

Looking ahead to the fourth quarter, we remain cautious given the consumer backdrop, tariff-related risks and projections for box office sales to be down in Q4. In summary, we are pleased with our third quarter performance.

As we look to close out the fiscal year, we remain focused on execution and maintaining our agility in a dynamic market environment. We are proactively addressing near-term challenges through targeted pricing actions, cost reduction initiatives and continued consumer-led innovation across our portfolio.

With a great collection of fun brands and products and our multichannel diversification, we remain confident in our ability to drive sustainable growth and to deliver long-term value for our customers, partners and shareholders.

With that, I would now like to turn the call over to Shawn to review the financial results in greater detail. Shawn?

Shawn Munsell^ Thank you, Dan. And good morning, everyone. Third quarter revenue increased 3.3% to \$454.3 million. As Dan mentioned, Food Service sales increased 4.8%, retail sales decreased 7.1% and Frozen Beverages sales increased 6.1%. Top line improvements largely reflect price increases as well as higher machine revenue in the Frozen Beverages segment, while a weaker peso had a 60 basis point unfavorable impact on revenue for the quarter.

The quarter included a nonrecurring gain of \$10.6 million from insurance proceeds associated with last year's plant fire as well as a nonrecurring \$1.5 million brand impairment charge associated with the write-off of a churro brand that has been replaced by the Hola Churros brand. These impacts have been excluded from the adjusted results that I will be discussing. Cost of goods sold increased 4.1% to \$304.2 million.

Ingredient costs increased in the aggregate as compared to the prior year quarter, with the largest increases related to chocolates. The quarter also included tariff charges paid to suppliers that increased total cost of goods sold by about 0.25 percentage point.

Gross profit increased 1.5% to \$150 million, equating to a gross margin of 33%, slightly less than 33.6% in the prior year. The slight decline in gross margin is mostly attributed to lower gross margin in the Frozen Beverage segments due to a higher mix of and lower margins on machine sales and a lower proportion of beverage sales, which includes the impact of unfavorable foreign exchange.

We have exposure to certain imported raw materials that are subject to tariffs. Under the 10% tariff environment, our exposure without mitigation could approach \$8 million annually and could rise as new higher tariff rates are implemented.

We will continue to monitor the situation and to pursue mitigation through pricing alternate sourcing or substitutes.

Operating expenses totaled \$89.5 million, which includes the gain from the fire-related insurance proceeds and the brand impairment charge. Excluding these two items, operating expenses increased by less than 1% against Q4 last year.

The modest increase reflects cost discipline across the enterprise and cost savings initiatives within transportation. Marketing expenses were \$33.8 million, increasing 3.8% versus the prior year quarter. The increase primarily is related to various summer promotions in our Frozen Beverages and Dippin' Dots businesses.

Distribution expenses of \$44.7 million fell to 9.8% as a percentage of sales from 10.2% last year, with costs declining by about 90 basis points. Distribution cost improvements were driven by our exit from third-party logistics facilities, lower outbound freight costs from freight optimization initiatives and lower fuel expenses.

We will continue to drive distribution costs lower over time as we implement cost-saving initiatives. Administrative expenses were \$20 million, materially flat to the prior year quarter, reflecting expense control discipline. Adjusted operating income increased to \$53.4 million from \$53.1 million in the prior year.

The effective tax rate for the quarter was 27.2% compared to 27.9% in the prior year quarter. Adjusted EBITDA for the third quarter was \$72 million versus \$70.9 million last year. Adjusted earnings per diluted share were \$2 versus \$1.98 last year.

Our balance sheet and liquidity position remains strong with approximately \$77 million in cash and no long-term debt as of quarter end. We had approximately \$213 million of borrowing capacity under our revolving credit agreement. Operator?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Scott Marks of Jefferies.

Scott Marks^ First thing I wanted to ask about just in the Retail segment, you noted a pullback in some promotional activity across the frozen novelties business. Wondering if you can just speak a little bit to what was informing that decision?

And then secondly, on the handheld side of that business, maybe if you could talk a little bit about some of the plans to kind of outsource some of the capacity later this year.

Daniel Fachner^ Sure. Scott, good to talk with you. On our retail front, we went into the quarter with a plan around marketing efforts and probably just didn't go deep enough to where we needed to do.

We realized that somewhere in the midst of the quarter and have course corrected that for the future, but probably just didn't promote advertising as well as we could have or as deep as we needed to.

As it relates to the fire and that plant, we have made the decision now to shut that plant down. Kind of the story of necessity is the mother of all invention.

As that plant shut down, we were able to lean on another plant of ours to build up the inventory that we needed. And as we've started to do that, have discovered that, that plant now can produce more than what it used to and enough for our needs in the future.

Scott Marks^ Understood. So you're able to shift all of that capacity essentially to an existing facility?

Daniel Fachner^ We really are. Teams have done a tremendous job looking at the line that we have today. In fact, I was even out there about a month ago and seeing what they're able to do and really proud of that operational group and the way that they have picked it up. And by the end of this year, we will be over the capacity that we need for those lines.

Scott Marks^ Understood. Second question I wanted to ask about just in terms of your cost structure, specifically around marketing and distribution. I think marketing obviously stepped up a little bit. You talked about some of the reasons behind that.

But I think overall, marketing as a percent of sales remains a little bit elevated relative to some other maybe center store food peers.

So maybe wondering if you can speak to that a little bit and maybe any optimization opportunities going forward? And then on the distribution side, as a percentage of sales, it obviously came down a touch, but the absolute number was pretty much in line with last year.

So wondering if you can just kind of speak to the fixed versus variable nature of those distribution expenses.

Shawn Munsell^ Yes. I'll start with the summer promotions. I'll start with marketing. And what you're seeing there is really the impact of summer promotions, and that's mostly for the Frozen Beverages and the Dippin' Dots business.

If you look at that marketing spend as a percentage of sales in the first half of the year, it was relatively well contained kind of versus the change in sales. So I think it's been really well managed. And what you're seeing is really a function of the summer events.

As it relates to the distribution costs, what we called out was improvements around freight optimization, and we called out some of the benefits of fuel expenses in the quarter. And so we are seeing the impacts.

We are seeing the benefits from the conversion to the RDCs, call it, somewhere in the neighborhood of \$1.2 million, \$1.3 million alone in savings from the RDCs last year. I will say there were some other, call it, onetime costs that we incurred in Q3 that inflated that number just a little. So I'd say, overall, it's going in the right direction.

Operator^ Our next question comes from Todd Brooks of the Benchmark Company.

Todd Brooks^ Two quick questions. One, if we think and we're kind of rolling our minds now to modeling for fiscal '26, one, what's the materiality? Or how do we think about what handhelds can be next year versus what the fire impacted volumes will be in '25?

And two, and probably more importantly, Dan, as you look at these new programs with a Mexican-focused QSR chain, potentially on the churros side and then the Frozen Beverage rollout that you were talking about, you talked about kind of a list of these opportunities and things that are in test now. How material do you see those being -- stacking up to be if you're able to convert on all those opportunities?

Daniel Fachner^ Yes. Great question, Todd. On the handheld front, probably we're expecting that we might be able to see a 10% lift or so this coming year from what we were able to produce this year.

We'll have capacity in this one plant that we will be able to rise at about 37% from what it was producing before which should get us back in exact format for what we need in the future. And I would say -- I don't just trying to ballpark that, I would say we're going to be somewhere in that 10% to 20% lift in 2026.

As it relates to a couple of the other things that I talked about, I love what the team has in the pipeline, doing a really, really good job, making sure that we're prepared as we get into '26. This one test we talked about with churros could be really meaningful.

We're not ready to jump out there and say exactly what that is to date. I might be able to give better clarity to that at the end of this next quarter. But it could be a meaningful impact to our sales for '26.

They're in the middle of a kind of a secondary test right now and all indications are that it's doing better than what was anticipated. So we're kind of keeping the fingers crossed that, that will come through and be as strong as what we think it will be.

On the FCB front, a really nice QSR, same thing in the midst of a test right now just getting word that we're going to be able to expand that test and again, is ahead of what anticipations are.

We've talked about this before, ICEE programs take a little while to roll out. And so it could have a meaningful position for us over the next several years. But again, if you think about ICEE, once you get the okay. It takes you four or five months to get it all rolled out.

So have more of a meaning as we get to the back half of the year, but love what the teams are doing, love the pipeline that we have really in each one of the segments of our business.

Operator^ (Operator Instructions) I'm showing no further questions at this time. I would now like to turn it back to Dan Fachner.

Daniel Fachner^ Thank you, Operator. In closing, we're executing with focus and discipline in a dynamic environment, and we remain confident in our ability to deliver on our fiscal 2025 goals and longer-term priorities.

We look forward to updating you on the progress when we report our fourth quarter results. In the meantime please don't hesitate to reach out to our Investor Relations team at JCIR at (212) 835-8500 with any questions. Thank you again for your time and interest. Have a good morning.

Operator^ Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.