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Corporation** NasdaqGS:LANC

Earnings Call

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Call Participants

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Presentation

Operator

Good morning. My name is Shannon, and I will be your conference call facilitator today. At this time, I would like to welcome everyone to the Lancaster Colony Corporation Fiscal Year 2024 Fourth Quarter Conference Call. Conducting today's call will be Dave Ciesinski, President and CEO; and Tom Pigott, CFO. [Operator Instructions]. And now to begin the conference call, here is Dale Ganobsik, Vice President of Corporate Finance and Investor Relations for Lancaster Colony Corporation.

Dale N. Ganobsik

Vice President of Corporate Finance, Investor Relations & Treasurer

Good morning, everyone, and thank you for joining us today for Lancaster Colony's Fiscal Year 2024 Fourth Quarter Conference Call. Our discussion this morning may include forward-looking statements, which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially, and the company undertakes no obligation to update these statements based upon subsequent events. A detailed discussion of these risks and uncertainties is contained in the company's filings with the SEC.

Also note that the audio replay of this call will be archived and available on our company's website, lancastercolony.com, later this afternoon. For today's call, Dave Ciesinski, our President and CEO, will begin with the business update and highlights for the quarter. Tom Pigott, our CFO, will then provide an overview of the financial results. Dave will then share some comments regarding our current strategy and outlook.

At the conclusion of our prepared remarks, we'll be happy to respond to any of your questions. Once again, we appreciate your participation this morning. I'll now turn the call over to Lancaster Colony's President and CEO, Dave Ciesinski. Dave?

David A. Ciesinski

President, CEO & Director

Thanks, Dale, and good morning, everyone. It's a pleasure to be here with you today as we review our fourth quarter results for fiscal year 2024. Before I provide my comments on our quarter, I am pleased to share that we completed fiscal year 2024, which ended June 30, with record net sales and gross profit.

Net sales for the fiscal year grew 2.7% to \$1.9 billion. Gross profit increased 11.3% to \$432.3 million and the resulting gross profit margin improved 180 basis points to 23.1%. Turning to our fiscal fourth quarter results. Consolidated net sales declined 40 basis points to \$452.8 million, while gross profit grew 4.8% to \$97.6 million.

Operating income increased to \$41.7 million, which includes the impact of restructuring and impairment charges that totaled \$2.7 million in the current year quarter versus \$25 million in last year's fourth quarter.

All the restructuring and impairment charges are attributed to the perimeter of the store bakery product lines that we exited this past March. In our retail segment, net sales declined 80 basis points to \$234.2 million. Excluding all sales associated with the Perimeter bakery lines that we exited, Retail segment sales increased 1.4%, while the segment's volume measured in pounds shipped increased 1.2%.

Our successful licensing program remained a catalyst for growth in the retail segment. This was led by the newly introduced Subway sandwich sauces and Texas Roadhouse steak sauces, in addition to higher sales for Olive Garden dressings and Chick-fil-A refrigerated dressings.

Our New York Bakery frozen garlic bread products also performed well in the quarter, led by the growth of our own Texas Toast and supported by the growth of our garlic breadsticks. These items continue to offer

families a great tasting weight to stretch their food budget. Circana scanner data for the 13-week period ending June 30 shows sales for our licensed items grew 8% with the newly introduced Subway and Texas Roadhouse sauces leading the way, while Chick-fil-A refrigerated dressings and Buffalo Wild Wings sauces also contributed to sales growth.

The combined sales of Chick-fil-A refrigerated dressings and our Marzetti brand refrigerated dressings grew 11.3% to \$39 million in the quarter, which increased our category leading share of 330 basis points to 27.4%.

I'm also pleased to share that during the quarter, Chick-fil-A avocado lime dressing became the second best-selling SKU in the entire category. Sales of our New York Frozen Bakery garlic bread product lines were up 2.8% to \$94.7 million for a category-leading share of 40.6%.

In the Foodservice segment, strong volume growth of 4.2%, driven by National Chain restaurant was offset by the unfavorable impact of deflationary pricing. During Q4, we delivered strong gross profit growth of \$4.4 million or 4.8% and a gross margin increase of 110 basis points versus last year. This increase was driven by the beneficial impacts of a range of cost savings initiatives, our focus on supply chain productivity, value engine and revenue management. All remain core elements to further improve our financial performance. I'll now turn the call over to Tom Pigott, our CFO, for his commentary on our fourth quarter results. Tom?

Thomas K. Pigott

VP, Assistant Secretary & CFO

Thanks, Dave. This quarter, the company delivered both volume and gross profit growth despite the impacts of the product line discontinuations, we announced last quarter. Fourth quarter consolidated net sales decreased by 40 basis points to \$452.8 million. Decomposing the revenue performance deflationary pricing in our Foodservice segment drove an approximate 210 basis point decline.

The exit of the flat-out Angelic businesses accounted for an additional 110 basis point decline. These two drivers were offset by favorable volume mix of 280 basis points. Consolidated gross profit increased by \$4.4 million or 4.8% versus the prior year quarter to \$97.6 million. Gross margins expanded by 110 basis points to 21.6%. The gross profit growth was primarily driven by the company's cost-saving initiatives and increased volumes.

Commodity costs were deflationary versus the prior year, but remained elevated versus historical levels. Selling, general and administrative expenses decreased 6.2% or \$3.5 million to \$53.2 million. The decrease reflects reduced expenditures for Project Ascent our ERP initiative.

Costs related to the project continued to wind down totaling \$500,000 in the current year quarter versus \$5.6 million in the prior year quarter. Consumer spending was also lower in the quarter. These decreases were offset by higher personnel and IT investments. As we previously shared, the company chose to exit the flat-out and Angelic product lines in our fiscal third quarter ended March 31.

In our fiscal fourth quarter, we recorded restructuring impairment charges of \$2.7 million related to these exits as we sold or disposed of the property and equipment associated with these product lines. We do not anticipate any additional related charges going forward. In the prior year quarter, we've recorded \$25 million of impairment charges related to the now discontinued flat-out product line.

Consolidated operating income increased \$30.2 million as restructuring and impairment charges declined \$22.2 million. The remaining \$8 million increase was driven by the higher gross profit and lower SG&A costs I mentioned. Our tax rate for the quarter was 20.5%. We estimate our fiscal '25 tax rate to be 23%.

Fourth quarter diluted earnings per share increased \$0.93 to \$1.26. The reduced restructuring impairment charges drove a \$0.62 benefit. The reduction in Project Ascent costs drove a \$0.15 increase in EPS. The remaining \$0.16 of EPS growth was driven by the underlying performance of the business.

With regard to capital expenditures, our full year payments for property additions totaled \$67.6 million. For fiscal '25, our forecasted total capital expenditures are estimated to be between \$70 million and \$80

million. This forecast reflects a continued investment in our facilities to strengthen our infrastructure and support cost savings and growth initiatives.

In addition, investing in our business, we also returned funds to shareholders. Our quarterly cash dividend of \$0.90 per share paid on June 28, represented a 6% increase from the prior year's amount. Our enduring streak of annual dividend increases stands at 61 years.

Turning now to a recap of the full year results. Overall, the company was able to deliver on its commitments. Reported net sales grew 2.7% with both segments contributing. Gross profit increased by 11.3%, driven by the net sales growth and 180 basis points of margin expansion from favorable pricing net of commodities and cost savings programs.

SG&A declined by 1.8% as spending for the successful ERP initiative, Project Ascent wound down as the year progressed. Operating income grew by 40.9% and 7.1 percentage points was driven by reduced restructuring and impairment costs, and the remaining 33.8 percentage points was driven by the underlying performance of the business.

Full year operating cash flow increased \$25.6 million. We finished the year with a debt-free balance sheet and \$163.4 million in cash. To wrap up my commentary, the company's fourth quarter and full year results reflected continued execution against our key strategies, resulting in strong financial returns.

I'll now turn it back over to Dave for his closing remarks. Thank you.

David A. Ciesinski

President, CEO & Director

Thanks, Tom. As we look ahead, Lancaster Colony will continue to leverage the combined strength of our team, our operating strategy and our balance sheet in support of the 3 simple pillars of our growth plan. To: one, accelerate core business growth; two, to simplify our supply chain to reduce cost and grow our margins; and three, to expand our core with focused M&A and strategic licensing.

In fiscal year 2025, we anticipate retail segment sales will continue to benefit from volume growth led by our licensing program. including increased sales from the 14 new products, flavors and sizes that we introduced in fiscal year 2024.

In addition, we anticipate continued sales momentum for New York Bakery frozen garlic bread products, along with volume growth for our Marzetti refrigerated dressings. Future growth potential for the New York Bakery frozen garlic bread lineup includes new and delicious gluten-free garlic bread products that will begin shipping to retailers early next month.

Finally, we are excited to share that our partnership with Texas Roadhouse has expanded beyond steak sauces to include their popular roles, which we introduced in a 3-state regional pilot test in June. So far, the results are very encouraging.

In the Foodservice segment, we expect sales volume to be led by growth from select QSR customers and our mix of National Chain Restaurant accounts as our culinary team continues to support our Foodservice partners with a wide range of innovation initiatives and craveable flavors to help them drive menu excitement and ultimately, traffic growth.

Like most of you, we continue to carefully monitor external factors, including U.S. economic performance and consumers' financial health. Suffice it to say, there are a wide range of factors which could influence demand in both our Retail and Foodservice segments during fiscal year 2025.

Our team has contingency plans in place to respond to a range of these scenarios. With respect to input cost, in the aggregate, we do not foresee significant impact from commodity cost inflation or deflation. We expect our cost savings program to be the primary driver behind margin improvement opportunities in the coming year with cost savings momentum building throughout the year.

Before I close, I would like to extend a special shout out to Steve Hill, our Chief Research Development and Quality Officer, and our entire R&D team for their recent recognition by Food Processing Magazine

as the R&D team of the year. This award is a testament to their ability to create craveable products and superior value through a unique blend of culinary inspiration and product innovation. They are a very big part of what makes us a better food company. This concludes our prepared remarks for today, and we'd be happy to take any questions that you might have. Operator?

Question and Answer

Operator

[Operator Instructions] Your first question comes from Jim Salera of Stephens.

Unknown Analyst

This is Tyler [Prausse] on for Jim. Thinking about the Foodservice segment, most companies in the recent calendar 2Q period called out a cautious outlook for demand in the back half of the year. That said, there's been some bright spots in the industry at concepts like Chick-fil-A, Cane's and Wingstop ,who continue to benefit from this chicken megatrend.

As we look to our fiscal '25, can you give us some color how much you expect from QSR. And then additionally, in your prepared remarks, you made a comment around Foodservice volume being led by select QSRs. Any detail around who the select view might be?

David A. Ciesinski

President, CEO & Director

Yes. Sure, Tyler. This is Dave. Happy to answer your question. Maybe starting first with where we finished in the quarter, we were pleased to continue to deliver volumetric growth in the quarter, but it was actually slightly below our expectations. We expected it to be stronger. Like many of our peers, we saw a slowdown in traffic that's sort of evolved throughout the first half of the calendar year. And in the quarter, in particular, offsetting that, we have a whole range of activity that's in play right now where we are developing and launching limited time offerings for customers. Many of those who are out in the marketplace now.

You're probably watching the advertising on TV without understanding or appreciating that it's us. So you put all that together sort of where we've been and our outlook for the go-forward period, we continue to believe that we can deliver low single-digit volume-led growth that will turn into sales growth in the -- in fiscal year '25. And if the overall outlook improves, there's opportunity for that low single-digit volume growth to become low to mid-single-digit volume growth.

Your second point was on this megatrend of chicken. I couldn't agree more with you. That continues to be a big part of what's underlying the activity that we're being called on for innovation.

So we believe that, that's going to continue to hold through. If you look at the cost of chicken as a protein source, it continues to be cheaper than beef in the alternative. So I think it's a great way in this environment for restaurant operators to provide great tasting food and relevant value.

And then finally, on the select QSRs. Some of our customers like Chic-fil-A were at liberty to disclose the activities that we have in flight. For some of them were not. And in those cases, that would be the select and the select QSRs that we're talking about. To the degree to which we get clearance from them to talk more openly about the work we do for them, we'll be happy to share with -- that with you guys in the course.

Unknown Analyst

Very helpful. And just one follow-up. Can you offer any details on the cadence of growth for both retail and Foodservice in '25. And should we expect those segments to be positive in each quarter? And then any color on the kind of front half, back half weighting would be very helpful.

Thomas K. Pigott

VP, Assistant Secretary & CFO

Sure. So as we look at the -- our projections of volume growth, I would say we're overall projecting low single-digit volume growth for both segments throughout the year. I think -- we do expect a little bit stronger front half growth in our Foodservice business, but much of that is dependent on some of these

LTOs that Dave mentioned and how successful they are. From an overall profitability standpoint, we -- as Dave mentioned, we've got -- we're really focused more on productivity this year, where last year, we benefited from both PNOC favorability, pricing net of commodities as well as productivity.

This year, it's more focused on productivity in terms of driving margin expansion on top of the volume growth. And we expect that to be more back-end loaded, as Dave mentioned. We're making some investments earlier in the year in terms of factory automation and different programs to improve our productivity performance. So we expect the margin expansion to be more back-end loaded.

David A. Ciesinski

President, CEO & Director

Maybe I'll offer on the retail side of the business. We have a strong pipeline of new items. But given the seasonal resets for sauces on the shelf, many of those items tend to be a little bit more back half loaded. But overall, consistent with what Tom is saying, when you look at the business as a whole, we expect low volume growth through the whole period.

Operator

Your next question comes from Andrew Wolf of CL King.

Andrew Paul Wolf

CL King & Associates, Inc., Research Division

Thank you. Wanted to ask pricing in the channel, a couple of questions for each of your segments. Sort of like a check-in question on Foodservice. With LTOs or promotions driving traffic and sort of the, obviously, more promotions across the market. Are any of these partners asking for any kind of price help with that? Or is your typical kind of markup pricing still the standard fare. And also, is there any kind of within how you negotiate with them is their volume concessions, which is a little -- probably more typical.

David A. Ciesinski

President, CEO & Director

Yes. So great question, Andrew. When you look at our LTOs, they're usually at or better than our line average, because of all of the proprietary R&D work that goes upfront and ordinarily for those sorts of items, we wouldn't be bidding against other people. So as you think about that stream of work versus our base business, they're typically going to be margin accretive to what we're doing.

I'm glad you asked the question about the dialogue with our operators, as you might imagine. They're focused on really two things. They're looking at their bottom line and cost, but I think they're really looking at what needs to be true for them to accelerate their traffic trends.

And fortunately, we tend to get calls that are more focused on exciting menu items that they can feature in their advertising to drive traffic. And to that end, I would tell you that our phone is ringing as hard as it's been in any time in the recent past because the number of people that we work with or ones that we have and are looking for things that they can talk about in their advertising.

Most don't want to be discounting on their menu because their margins are already under pressure because of labor and other things. And I think they're trying to figure out how they drive traffic through menu excitement and it really plays into our wheelhouse.

Swinging around to looking at the retail business, I think what you can expect is that we're going to continue to carefully monitor value and look at absolute price points and look at promoted price points. As we look at where -- maybe I'll save comments on the consumer overall for a little bit later. But what I would tell you is what we're focusing on is really two things in this environment.

The first, making sure that we remain sharp on value and surgically addressing price points where we feel like we need to. And we've talked about the Olive Garden example in the past, and that's a good one. But the second thing that we're looking at is how do we, in this environment, provide consumers with affordable luxury. Great tasting product that just makes that meal a little bit better.

I think you're feeling a lot of pressure from a lot of different places. And to the degree to which we can offer good sauces that are affordable luxuries that make that meal occasion go a little bit better, it keeps us relevant to them. And that really is the one to where we're focusing.

Andrew Paul Wolf

CL King & Associates, Inc., Research Division

Okay. That's -- so when you talk -- there are interesting behaviors like trading down from chicken to let's say, pasta, you might want a better sauce, like that. But on the converse, what are you seeing with trading down from brands, either any category in your brands specifically, with private label. Is that when you talk about some surgical price point stuff like you did at Walmart, you did with the Olive Garden product? Or is that...

David A. Ciesinski

President, CEO & Director

Yes, It's a great line of questions, and maybe I'll hit it from the top. To the degree to which consumers traded pasta occasion, we feel like we're well positioned with our New York Texas Toast. You probably heard in the script and if you're following IRI or Nielsen data, that remains really a strong point for us. Where we're -- the category is growing for both toast and sticks and we're outperforming the category and continuing to grow our share.

So when consumers are looking for the pasta meal occasion, our strategy is to make sure that we get a buffet conversion and get that toast added to the basket. More broadly, as we're looking at our price points, I think you're precisely right. We're watching private label, so we'd watch our gap versus private label.

And then in key seasons like think Sister Schubert, we're looking at those promoted price points. As we scan across all of our categories, what I would tell you is if you look at refrigerated dressings, private label really isn't much of a threat. If you go to pourable salad dressing, we've continued to hang in there. We're performing -- we're continuing to outperform the category. And we're growing share in the period. Private label is growing. But what we're probably seeing in that case is a trade down from some of the other more value-oriented brands to private label, which doesn't seem to be impacting us.

You were all around, you look at Toast, we feel like we're well positioned. Sister Schubert is a brand that will watch. We'll watch croutons as well. Refrigerated dips, we feel like we're insulated there. So generally, I continue to feel like our exposure in private label is more modest than our peers. But we still need to keep just an extremely sharp eye on value to make sure that we're relevant.

There's a big trend in this trade down that I think that we're watching that inures to our benefit. And it's not just trading down within a category from a brand to private label, but you're seeing people trade to different channels of trade. You're seeing, in some cases, a trade down from food to Walmart and things like that. And there, again, we feel like we've continued to perform well given the relationships and the assortment of brands that we have and the innovation.

Andrew Paul Wolf

CL King & Associates, Inc., Research Division

Okay. Got you. Just one quick sort of past question, if you will, a small question. You guys are expecting Marzetti volume to be up, which is a nice, I think, overall turn for that business line. Is that innovation-driven or promotion? Or -- put a little color on that expectation.

David A. Ciesinski

President, CEO & Director

Yes. Well, it's a little bit innovation. We brought out some new items. We've strengthened our portfolio of simply items. And honestly, and transparently, we have a little bit of a soft comp we're going up against there as well.

Operator

Your next question comes from Brian Holland with D.A. Davidson.

Brian Patrick Holland

D.A. Davidson & Co., Research Division

Maybe just a follow-up on the line of questioning around the outlook for fiscal '25. I guess to clarify the comments on volume growth, specifically in the retail segment, would that be inclusive or exclusive of the perimeter store bakery exit, which figures to remain a drag, I would think, through the third quarter of fiscal '25.

Thomas K. Pigott

VP, Assistant Secretary & CFO

Includes...

David A. Ciesinski

President, CEO & Director

Yes. It includes. Yes. So we feel like there's enough to help us offset that dilution.

Brian Patrick Holland

D.A. Davidson & Co., Research Division

Okay. Understood. And then on the Foodservice side, should we assume that pass-through pricing would -- obviously in 4Q, it essentially fully offset the Foodservice volume does that dissipate as we move through fiscal '25 such that volume grows in excess of that pass-through pricing?

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. Q4, the way the timing worked out with our pricing and commodities, we were slightly unfavorable in PNOG and had a big gross to net sweat down in Foodservice. That's just a function of how things lined up this particular quarter going forward based on our commodity forecast, we expect things to be neutral.

Brian Patrick Holland

D.A. Davidson & Co., Research Division

And then one other one, just on a point you made in an earlier question about Foodservice volume where it sounds like it was a bit below your expectation, at least in the fourth quarter. Then you obviously talked about some of the R&D pipeline flowing through. So I'm just curious because -- and so you can correct me on this. I didn't -- I just assumed that was a regular course of business that you have this R&D pipeline that you're always sort of turning out for customers.

So maybe if you could just dig into that a little bit deeper and understand whether the cadence of that changes in fiscal '25 vis-a-vis '24 are you getting asked to do more of that, as more of that pipeline conveyed and therefore, maybe that would be the reason for sequential improvement as we move through the year.

David A. Ciesinski

President, CEO & Director

Sure. So maybe I'll start, if you'll allow me. A big picture and then drill in specifically on the timing of the new items. So again, I think there were two drivers. One was as you look at sort of what happened as we went through the quarter, really through the spring to the end of our quarter, there was a deceleration in traffic across really all of QSR. You guys are seeing it in the data and you've heard our peers talk about it.

At the very end of the quarter, we saw a slowdown in some of our orders as they were probably balancing their inventory with their traffic trends.

The other piece that I referred to specifically was the timing of the new items, and we had a range of new items that were trying to ship at the end of the period. Some of that volume slipped from the end of this

period into the beginning of the next period, and it was purely timing. And correspondingly, it could have been related to available space for inventory.

So Brian, what I would tell you is when we look at this, it looks like just a wrinkle for this particular period in the way that things lined up. You're right. We have a very steady cadence of LTO activity or limited time offering activity that's in place in this particular period, it just hit us a little bit harder than we had expected. So we delivered 4 points of volume in Foodservice, and we were expecting north of that.

Brian Patrick Holland

D.A. Davidson & Co., Research Division

Appreciate the color. And then maybe just flipping back over to the retail segment. I guess you said Foodservice, so maybe just quickly, you said Foodservice was a little bit below expectation. How does retail come in relative to internal expectations? Mindful, you don't provide formal guidance because obviously, you already presented, but there's no guidance, so.

David A. Ciesinski

President, CEO & Director

Yes. Retail is pretty much right on it. I mean, if you look at the consumption data through the period was very consistent with what we expected. I mean, and the things that shifted really didn't add up to a point where they materially impacted things. We did have one promotion with the retailer slip from the end of Q4 into Q1, but I don't think it made a material difference in the grand scheme of things.

So that business, the data, as you know, is very rich that we get on the consumer side, we get it weekly, and we're able to use that forecast and model what we think our retailers have in terms of their inventory. On the Foodservice side, the data isn't quite as rich and it's not quite as timely, so it's harder for us to model out some of that.

So that's probably the difference. But in both cases, if you look at retail, there was a range -- I said 14 new items that we went out with and they're all performing generally in line with our expectations.

Brian Patrick Holland

D.A. Davidson & Co., Research Division

Okay. Great. And then -- so maybe just to close big picture. Just maybe an update on the Foodservice -- or excuse me, the licensing pipeline. How that has evolved? Obviously, you're picking up incremental business from existing customers, i.e., Texas Roadhouse. Just curious how the pipeline is shaping up underneath that given the pressures. Are we seeing an increase in inbounds with Foodservice trends performing as they are.

And then maybe also the M&A landscape as it feels like we're getting closer to kind of being in the position that you aspire to get to, to go out and make acquisitions, just maybe what that pipeline looks like. And I'll leave it there.

David A. Ciesinski

President, CEO & Director

Yes. Sure, of course. Maybe starting with the licensing pipeline. We'll talk about the items that we went out with most recently that -- we're thrilled with the performance of Chick-fil-A dressings. I think I mentioned that the avocado lime dressing in particular, that single SKU has become the second best-performing SKU in the entire set inside of one year. If you look at the run rate on that business, it's also become quite substantial.

Swinging around Subway. Subway I would say, has outperformed our expectations. And we've even been surprised with the strength of the brand in Canada, where it's been a little bit of an upside on it. So we're excited about that proposition and they're a great partner to work with.

If you look at what's happening on Buffalo Wild Wings and Olive Garden, there continues to be a lot of activity and discussions with those partners with Buffalo Wild Wings, you'll recall, not only have we been

driving sauces, but we did a test. It was a single rotation at Costco last year with dips that performed well, and we're looking forward to working with them to expand that. We'll have more news on that. later in the year.

With respect to Chick-fil-A, the big news was coming out was dressings. We're working with them on a spring launch of new items that we're going to be excited to share with you once we're in a position to do that. I think the news that we were particularly excited to see was expanding this partnership with Texas Roadhouse, which is just a really strong restaurant concept in a perennial grower.

We've been pleased with the performance of the sauces. They play in a small category, and we love our entry there. But their roles are really a special item that consumers really like. We've come up with an item that's inspired by their original role. It's in a 3-state test in Indiana, Kentucky and Ohio that's outperforming our expectations and our inner partner at Texas Roadhouse.

So we look forward to sitting down with them and then planning a launch thereafter. But that item, in particular, really opens up a whole new category for us to play in. And we're excited for that -- where that can go.

More broadly, we do continue to have conversations with other people. And we'll be in a position to update you guys once we have more, but maybe what I'm more excited to talk about is you're precisely right. If you go back over the last two years, we've gone live on ERP. We finished all of our waves. We lapped the last -- we're going to lap the last wave, our fifth wave in September. So ERP is, as Tom mentioned, completely drawn down.

Horse Cave is up and running. You look at our cash balances for the end of the quarter, they continue to build. This business generates -- has the ability to generate a lot of cash. And I think we're in a position now to lift and shift our focus and start to look at that source of inorganic growth.

And you can expect to hear more from us on that as we progress through this year, because we feel like we have the team. We have that strong balance sheet. We have assets that will allow us to produce with focused scale that will allow us to compete against even the mega caps within narrow categories like sauces and dressings. And we're looking forward to that next chapter of our growth.

Operator

Thank you. Your next question comes from Connor Rattigan with Consumer Edge.

Connor J. Rattigan

Consumer Edge Research, LLC

Yes. So in the data that we see, it looks like Chick-fil-A are really started to soften as I guess, from some tough comps for last. So as we look ahead to fiscal 2025, do you guys still expect Chick-fil-A will be the primary retail sales driver? Or is the expectation sort of that a lot of that license growth comes from other licenses with Chick-fil-A somewhat taking a back seat for the time being despite the new products coming.

David A. Ciesinski

President, CEO & Director

No, you're right. When you look at it, particularly towards the end of the fourth quarter, we had a lot of promotional activity last year that didn't necessarily repeat this year. And we also had the launch of dressings, which has provided an overall source of growth for the proposition. If you look at the business, we expect it to continue to grow as we press forward behind support as we look to drive households. But I think what we're more excited to share is we do have a range of new product activities that we're going to come out with probably in November and talk to you guys about there that will continue to fuel growth on the brand more in the back half.

Connor J. Rattigan

Consumer Edge Research, LLC

Got it. Makes sense. And so also -- so I guess, we'll say adjusted retail volumes, so ex the business mixes were pretty solid this quarter. So I mean I guess I was just kind of wondering. Could you guys maybe give us a sense of just sort of how incremental Subway and Texas Roadhouse were this quarter? And -- sort of how they performed versus your expectations. So because in the data that we see, right, the lift has been pretty modest, but it sounds like that should be, I guess, much stronger in fiscal 2025, if I'm not mistaken.

David A. Ciesinski
President, CEO & Director

Well, when we look at it on scanner data for you see I have Subway in Circana data, it was about \$5 million within the quarter. And it's built throughout the quarter as we continue to build distribution. If you look at Texas Roadhouse, it was a little bit more than \$1 million. And again, just building as we went through the period. Hopefully, that helps you. You put the two together, the percentage of net sales on those two items is roughly 3%.

Operator

Your next question comes from the line of Robert Dickerson with Jefferies.

Robert Frederick Dickerson
Jefferies LLC, Research Division

Great. Just had a couple of questions on the price investment. I know there was deflationary dynamics in place I guess, in Q4, the price investment did seem a little bit more than, I think, kind of the market expected. So maybe if you could just, one, just provide some color. I know we're like -- I heard a lot about LTOs and partnerships and kind of ancillary plans in place in case certain dynamics play out through the year. But I'm kind of curious, I guess, one is just as we think through just like the first 2 quarters of the year, like does that year-over-year pricing investment kind of go away? Or are we -- it seems like we're kind of still in that pocket. That's the first question.

And then the second piece was just on the Foodservice margin in Q4. Clearly, that's lower than it normally is. So I'm just trying to gauge, I guess, we think through, let's say, the first half of the year, is that dynamic there? Or did I hear you kind of say there was -- it was Q4 specific kind of given the pricing and the commodities, but somehow that changes as we get through the early part of the year.

Thomas K. Pigott
VP, Assistant Secretary & CFO

Yes. It's -- it really, as I mentioned, was kind of a timing issue in Q4, as commodities come down, our prices are coming down. And as such, it hit more significantly in Q4 than in the earlier quarters, as you mentioned, going forward, we do expect it to be more neutral. Now turning to the Foodservice profitability. This particular quarter, PNOC was negative, as I mentioned. In addition, we had some incremental outsourcing that impacted the margins, and we were making some supply chain investments to improve performance. So going forward, in terms of the plans to improve, we definitely expect to improve efficiencies on this business.

We're going to get more benefits from SAP, understanding our cost and driving for better margin performance. We expect to reduce outsourcing. And we're also looking at some ways to optimize the network to improve the profitability. We expect, as I mentioned, kind of overall, a lot of those programs to be more back-end loaded than front-end loaded, but we still feel like we've got a lot of opportunity, a lot of runway to improve the margins.

Robert Frederick Dickerson
Jefferies LLC, Research Division

Okay. Fair enough. And then I guess, just secondly, in the retail segment, volumes, I believe were flat. I'm hearing definitely a lot of positive comments around certain brands and certain products. And then I'm also hearing there should be some incremental products as it sounds like as we kind of get through fiscal

'25. Were there areas though that maybe didn't do so well that you're kind of letting, let's say, not do so well, right?

So if we're thinking about kind of where the targeted investment is, what are the real drivers of growth as we think through even the first half of '25. Are there areas where there's a little bit of an offset or maybe you're okay, you're actually okay with that because you're running it for profitability, et cetera. That's all.

David A. Ciesinski

President, CEO & Director

Yes. So it's a great question, Rob. And when you look at the business, I don't think that there are any areas necessarily where we're over distorting our investments because we think there's outsized leverage. Having said that, there are areas of the portfolio where we think that we continue to watch.

We've made a series of changes in Sister Schubert. As you recall, we downsized the role. They used to be 1.5 ounces, we took them down to 1.25 that moved them in line with the peer group. And so when you look at volume growth in pounds, you're going to see that diminution that's in there.

We've seen that come out, but we're also watching units in that particular category, and our units are probably a little softer than we would like them to be. So we're keeping a careful eye on that category. There are categories like Croutons, which we have a greater level of exposure to with private label that were that to become soft.

We would probably be pretty careful about overinvesting and things like that. The areas where I think you can expect us to watch most carefully because of the margin and the size of the business would be Olive Garden, for example. It's a very big brand. And we watch our price points there with shopper activity carefully.

Another one would be Texas Toast. It's our single biggest brand in our portfolio, own brand. And it's one where we know that the category has a pretty well-developed private label entrant, so that's one where we watch. And we're continuing to do well in the category, but that's one that should we see softness, we would be prepared to invest against it.

If you look at our license businesses, generally, they held up better than a lot of other brands because they're so unique in the space, and we haven't felt the need necessarily to go in and discount really the -- the one exception there has been Olive Garden that I mentioned, where we focused on that 16-ounce SKU.

But your instincts are right. I mean look at what underlies this whole thing, I think broadly is that consumers are in the midst of really a sustained unrelenting squeeze. That affects 60% of households, including households making over \$100,000, where after years of inflation that exceeded wage growth, they found themselves upside down and they bridged it initially with COVID savings.

And once those were extended, they turned to credit cards. But we know credit card debt has grown now on average to about \$6,000. And the interest payment on that per month is about \$200, and you put that all together, and I think consumers now are really trimming their sales and trying to balance their sources and uses. And they're looking for value.

But again, they're also looking for affordable luxury and small things to make their days go better. So we -- our own view internally here, Rob, is that we think that we're going to be in this environment for some time and nothing magically is going to fix it. So it's kind of a combination of watch value, but we're not going to win on value.

And then let's leverage our innovation as a means by which to continue to bring good items into the marketplace at the right price point that allow us to outperform the peers over the long haul. And it just feels like an appropriate strategy in this environment.

Operator

[Operator Instructions]. Your next question is from Todd Brooks of the Benchmark Company.

Todd Morrison Brooks*The Benchmark Company, LLC, Research Division*

I wanted to start on gross margin side? And the way that I'm kind of reading the discussion as far as what we're thinking for fiscal '25, is kind of hold the hill on the product margin components of the business. And then task cost saves to generate an improvement in margin rate, but I wanted to see if we could talk through if that's the right read or is it more cost saves offset a chunk of potentially pressure on product margins and the incremental cost saves or what could allow for some modest gross margin improvement in '25.

David A. Ciesinski*President, CEO & Director*

Yes. If you'll allow me, maybe I'll start and then turn it to Tom, and I'll start with the big picture. If you look at the drivers of margins, maybe I'd start with commodities. And what we've seen is a strong growing season in the commodities that matter to us, which has brought down prices on things like wheat and corn and soybean oil. On the flip side, though, we're watching commodities rise, particularly in eggs and dairy. Where eggs on Urner Barry recently have gone up to above \$3.50.

But to put all of that together in packaging right now, that puts us in a position where we're pretty much neutral in terms of the commodity outlook. That means that we -- it really doesn't give us a reason to have a conversation on pricing. So then you flip around and you say, okay, now if that's true, what needs to be true for us to drive margin improvement.

It's probably not going to come from revenue management. It's going to come through execution on our plans. And given the commodity outlook, it's not deflation, it's really going to come through productivity improvements in the manufacturing environment and to a lesser degree, in our logistics environment. But we're singularly focused really on the manufacturing side.

And I've shared with some of you on the call that we feel like there continue to be opportunities to drive automation projects in our dough plants. We have a number of those that are in flight that are going to be coming online with benefits as the year builds, which are great projects. But again, we think this is the sustained environment. Labor costs are moderating.

We're not seeing the run-up we're seeing. Labor availability tends to be good. So now I think for us and everybody else in the space, it's just figuring out. How do we hold our price points? How do we maintain value? And then how do we figure out how we excise the trapped cost in our manufacturing environment?

Todd Morrison Brooks*The Benchmark Company, LLC, Research Division*

That's helpful. And then I know that you've talked about having the ERP project behind us here and being able to lever benefits of the data that you're now getting on both businesses. I guess, if you look at -- and historically, this has been part of the DNA for Lancaster, that cost extraction goal each year. With these additional tools on top and maybe the fact that it's been a hard environment to extract costs, is there an annual goal that you'd share with us that you're tasking the team with given the new tools going forward?

David A. Ciesinski*President, CEO & Director*

Maybe what I'm prepared to share and what we're prepared to share with you, Todd, is if you go back to the early days of our continuous improvement program before COVID, and before ERP, we used to talk about saving \$20 million a year. And then we suspended that as we focused on construction projects in ERP. And now we brought that back. And what I am prepared to tell you is that we've taken the target up that our team is pursuing north of what we used to pursue, and we feel like it's achievable.

Todd Morrison Brooks*The Benchmark Company, LLC, Research Division*

Okay. Great. And then just kind of working our way down the income statement here. Thoughts on SG&A efficiency and just the ability to keep leveraging that line item. As you look to '25 or do you expect more spend around what's needed to consumers and your thinking about that kind of holding flattish in that high 11% range that you're able to achieve in fiscal '24.

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. From a percent of revenue, I think we're going to be in that similar range. We do expect it in the absolutes to go up. We do need to make some critical investments in our IT infrastructure that we're going to fund in part through the savings of Project Ascent ending. But overall, we don't expect it to go up any more than inflation and as a percent of revenue to be inline.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Okay. Great. And then a final one for me, and I'll jump back in. Exciting news about the gluten free Texas toast and obviously, Texas Roadhouse Rolls coming in the future. When we look at the gluten-free Texas Toast, how big of a category opportunity is that product and how protected is that offering as far as not having private label competition. So is that a margin-enhancing opportunity on whatever additional sales dollars you expect it to deliver.

David A. Ciesinski

President, CEO & Director

Yes. Well, maybe starting first with the product. It's amazing. We -- it's a product that we developed. We actually got a patent on the technology because if you've tried gluten-free bread products, a lot of times, they're very spongy or they have an off note in the flavor. And these tastes nearly identical to our current item, and that's part of the reason why we're so excited about it.

We versus private label, this is one where I think we're probably a little bit isolated. For us, these are consumers that were either -- that were the gluten intolerant or they had Celiac where they weren't really able to even buy our products. So for us, it's incremental -- and the items that are out there today, both the brands and the private label just honestly don't taste very good.

I've spent a lot of time in the last quarter, Eaton Texas Toast gluten-free and non-gluten-free as we've got the products ready for launch, and these are really great products. So I'm thrilled to have IP. I'm thrilled to have the flavor and the pricing and this thing is very much in line with the other products that are out there, similar products that are gluten free.

So I think we can win on taste and on value. So I think what we're also looking for is just a platform, is there an opportunity for us to use this technology or similar technologies that we're patenting to look for other gluten-free items because, to your point, it is -- it's a very, very big addressable opportunity that we just haven't played in, in the past.

Operator

If there are no further questions, we will now turn the call back to Mr. Ciesinski for his closing comments.

David A. Ciesinski

President, CEO & Director

Well, thank you, everyone. It's been nice to be with you, and we look forward to being with you again in November when we review our Q1 results. Have a great rest of the day.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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