# Lancaster Colony Corporation NasdaqGS:LANC

*Earnings Call*

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# Call Participants

## EXECUTIVES

**Dale N. Ganobsik**
*Vice President of Corporate Finance, Investor Relations & Treasurer*

**David A. Ciesinski**
*President, CEO & Director*

**Thomas K. Pigott**
*VP, Assistant Secretary & CFO*

## ANALYSTS

**Alton Kemp Stump**
*Loop Capital Markets LLC, Research Division*

**Andrew Paul Wolf**
*CL King & Associates, Inc., Research Division*

**Brian Patrick Holland**
*D.A. Davidson & Co., Research Division*

**James Ronald Salera**
*Stephens Inc., Research Division*

**Robert Frederick Dickerson**
*Jefferies LLC, Research Division*

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

# Presentation

**Operator**

Good morning. My name is Gerald, 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 2025 First 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. The floor is yours.

**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 2025 First 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 first quarter results for fiscal year 2025. In our fiscal first quarter, which ended September 30, consolidated net sales increased 1.1% to a first quarter record $467 million, while gross profit increased 1.9% to a record $111 million.

In our Retail segment, net sales declined 1.1%, excluding the perimeter-of-the-store bakery lines we exited this past March, segment net sales increased 1.4% and volume measured in pounds shipped grew 1.9%. Our licensing program continued to remain an important source of growth for the segment, led by Subway sauces, which we launched this past spring. During our fiscal first quarter, we were pleased to also begin the national launch for Texas Roadhouse dinner rolls. While it's early days for this proposition, we are highly encouraged by both the consumer excitement and the sales velocity for these great tasting rolls.

Given the magnitude of the demand for this item, we will be executing a phased expansion for this launch, similar to the one we executed for Chick-fil-A sauce a few years ago. During the quarter, Circana scanner data showed that most of our brands continue to perform well. In the produce dressing category, our Marzetti brand grew sales 2.4% and increased market share about 25 basis points. When combined with Chick-fil-A dressings, our sales in the category increased 2.6% with market share up about 40 basis points.

Sales of our Marzetti brand produce dips advanced 1.7% with a market share gain of about 150 basis points. In the frozen dinner roll category, sales of our category-leading Sister Schubert's brand advanced 5.3%. When combined with the new Texas Roadhouse dinner rolls, sales were up 17.9% and our market share grew an impressive 420 basis points to 60%. In the shelf-stable dressings category, sales of Olive Garden dressings were up 3.3%, adding 10 basis points of market share.

In the shelf-stable sauces and condiments category sales for Chick-fil-A sauces grew 3.4%, while Buffalo Wild Wings sauces were up 5%. In the Foodservice segment, net sales grew 3.5% on increased demand from several national chain restaurant accounts, in addition to strong sales growth for our branded foodservice products. Foodservice segment volume measured in pounds shipped advanced 3.1% despite industry-wide slowing traffic trends.

Despite the challenging external environment, we are pleased to report record first quarter gross profit of $111 million and a sequential improvement of gross margin of 220 basis points compared to the fourth quarter. Gross profit margin increased 20 basis points when compared to last year's first quarter as we benefited from higher sales volume and our ongoing cost savings initiatives. Our focus on supply chain productivity, value engineering and revenue management 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 first quarter results. Tom?

**Thomas K. Pigott**
*VP, Assistant Secretary & CFO*

Thanks, Dave. The results for the quarter reflect continued top line growth and improved gross margin performance. First quarter consolidated net sales increased by 1.1% to $466.6 million. Breaking down the revenue performance higher volume and product mix contributed 380 basis points of core growth. This growth was offset by a lower net pricing impact of 140 basis points and by the exit of our perimeter-of-the-store bakery product lines, which reduced revenue by 130 basis points.

The lower level of net pricing was consistent across our 2 segments. In our retail segment, the lower net pricing reflected a higher level of promotional activity versus the prior year first quarter. This spending level is consistent with the second half of the last fiscal year when we activated additional programs to address consumer trends. In our Foodservice segment, the lower net pricing reflects the pass-through of lower commodity costs to our customers.

Consolidated gross profit increased by $2.1 million or 1.9% versus the prior year quarter to $110.8 million, and gross margins expanded by 20 basis points. The gross profit growth was driven by higher volumes and our cost savings initiatives. Pricing net of commodities was not a significant driver of performance as commodities were slightly deflationary and our pricing was as well. Selling, general and administrative expenses increased 5.8% or $3 million. The increase reflects investments in personnel and IT to support the growth of our business as well as higher legal expenses. These increases were partially offset by the reduction in Project Ascent costs, our successful SAP implementation project.

Consolidated operating income decreased $911,000 or 1.6% as the gross profit improvement was offset by higher SG&A expenses. Our tax rate for the quarter was 22.8% versus 23.7% in the prior year quarter. We estimate our tax rate for the remainder of fiscal '24 to be 23%. First quarter diluted earnings per share increased $0.03 or 1.9% to $1.62 as the decline in operating income was more than offset by a return on invested cash and a lower tax rate. With regard to capital expenditures, our payments for property additions totaled $17.6 million.

For fiscal '25, we're forecasting total capital expenditures of between $70 million and $80 million. We continue to invest in both cost savings projects and other manufacturing improvements. In addition to investing in our business, we also returned funds to shareholders. Our quarterly cash dividend of $0.90 per share paid on September 30 represented a 6% increase from the prior year's amount. Our enduring streak of annual dividend increases now stands at 61 years. Our financial position remains strong with a debt-free balance sheet and $135.1 million in cash.

So to wrap up my commentary, our first quarter results reflected continued top line increases, improved gross profit performance and investments to support further growth.

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, simplify our supply chain to reduce our cost and grow our margins; and three, expand our core with focused M&A and strategic licensing.

Looking ahead to our fiscal second quarter and the remainder of our fiscal year, we anticipate retail segment sales will continue to benefit from our growing licensing program driven by new product introductions such as Subway sauces and Texas Roadhouse dinner rolls. Our newly launched New York Bakery brand gluten-free garlic bread will also add to the retail segment sales. In the Foodservice segment, we anticipate continued volume gains from select customers in our mix of national chain accounts. We also believe external factors, including U.S. economic performance and consumer behavior will likely continue to moderate foodservice industry demand overall.

With respect to our input costs, we expect both commodities and inflation overall to be neutral for the remainder of the year. In closing, I'd like to thank the entire Lancaster Colony team for all their hard work this past quarter and their ongoing commitment to our business.
This concludes our prepared remarks for today, and we'd be happy to answer any questions you might have. Operator?

# Question and Answer

**Operator**

[Operator Instructions] Our first question comes from Jim Salera.

**James Ronald Salera**
*Stephens Inc., Research Division*

I wanted to maybe start by drilling down on Foodservice just given the outperformance there relative to expectations. And I think really relative to what we would consider a softer backdrop across QSR in general. Is that just because it's football season and chicken is popular around football season, and that's kind of a lift? Or is it the national accounts that you guys are working with? I know there's some that have really prominent chicken and sauce related products promo in the channel right now. Just any color on what's driving that outperformance and kind of thoughts as we progress through the year?

**David A. Ciesinski**
*President, CEO & Director*

We'd be happy to, Jim. So if you look -- maybe we'll start externally and then we'll drill in on our company. During the period, if you look at it, full restaurant traffic was running in July off to 2 points, in August off 2 points. And by September, it had improved modestly to being off 1 point. QSR traffic finished the quarter off 1 point. And then correspondingly, sales were modestly positive, low single-digit positive because of prior pricing.

But then if you come in and you look at us, I would ascribe really our outperformance, modest outperformance relative to the external factors to a couple of things. One is, as you pointed out, our mix of national chain customers, the fact that we play heavily in chicken and sauces to an important part of that. And then the other contributor is we do have a piece of our business we call branded where we work with operators up and down the street and in colleges and secondary education and stuff like that, and that business performed well in the period also.

As we look forward, our view is we're going to continue to see some consumer headwinds that are going to put modest downward pressure on traffic until we finally lap this. But we continue to believe that we're in a position based on our book of business and the innovation work we do to deliver low single-digit growth, volumetric growth.

**James Ronald Salera**
*Stephens Inc., Research Division*

Great. And maybe if I could ask like a higher-level question on the consumer. As we progress through or enter, I guess, calendar 2025. Can you just give us some ideas around what you would see in the consumer that would have you be kind of incrementally positive about some of those consumption trends in the new year? Is it just getting past the election? Is it interest rate cuts? Is it -- just anything that you think would yield kind of modestly positive improvements in the consumer.

**David A. Ciesinski**
*President, CEO & Director*

So -- and I wouldn't -- I mean, maybe to clarify, I don't know if I see a lot of things out there in the consumer environment that give me reason to be positive. As we've talked about on some of these calls before, I think a lot of this ties all the way back to an error-free money and the fact that consumers were spending and then when rates started to climb and inflation started to bite these consumers had to start to make some pretty tough trade-offs.

I think we're in a point now where maybe over the last 16, 18 months, we've seen wage growth exceed inflation. But I think that part of it is going to take time. So I don't think there's necessarily a quick fix. I think what I was pointing to is the fact that we're going to start to lap these declines. And what I don't necessarily believe is that the declines are going to compound and continued to spiral inward. My own personal belief is that consumers and households around the country are balancing sources and uses of cash. And eventually, they're going to hit a point of equilibrium. I would distinguish that necessarily from being more optimistic and plenty to grow.

**Operator**

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

**Andrew Paul Wolf**
*CL King & Associates, Inc., Research Division*

Great. On the kind of the profitability divergence in the second quarter in a row, where Foodservice is down and retail is up, where the volumes are better at Foodservice. And obviously, there's some pricing. I think sequentially, the Foodservice profitability improved. So is there just some kind of stickiness in your input costs that you have to -- is there some contractual just sort of lag going on versus something structural? Just can you help us sort of understand that? And maybe if you're willing to give us a sense of when you think the Foodservice profitability, if it's just contractual or market-related when that could improve or continue to improve and match the volume?

**Thomas K. Pigott**
*VP, Assistant Secretary & CFO*

Yes. So fair question. Foodservice operating income declined slightly this quarter. Really, despite the volume performance driven by some higher labor and benefits, some supply chain investments we're making to improve performance, some incremental outsourcing. We've invested in a new Foodservice trade system. We had some higher customer programming costs. And overall, the cost savings initiatives that we benefited from favored the retail segment a little bit more than the Foodservice segment this quarter.

Overall, we have some nice plans to improve performance there. We do expect to get improved efficiencies going forward. Certainly, the outsourcing, we expect that will be reduced in the coming quarters, and we have some network optimization play. So in total, we feel fine about foodservice operating income prospects. I think this quarter reflected some investments we're making as well as really the cost savings that we experienced this particular quarter favored retail a little bit more.

I don't know, David, if you want to add anything?

**David A. Ciesinski**
*President, CEO & Director*

No. Tommy, you talked about the system that we put into the business as well that's going to help -- it sits on top of SAP. It's going to help us manage trade, which I think is going to be important both to facilitate our growth and manage our spend on trade in that part of the business as well.

**Andrew Paul Wolf**
*CL King & Associates, Inc., Research Division*

Got it. That's helpful. So it's not a PNOC thing. It's more some investments, the IT investment that I guess you had to allocate to that or into this segment and the other one. Good. When does that begin to reflect and is that going to reflect more in sales productivity and margin improvement?

**Thomas K. Pigott**
*VP, Assistant Secretary & CFO*

I think we'll start to see the benefits in the back half of the fiscal for sure. We feel very -- so a lot of the initiatives are going in now. And both on the manufacturing and the system side and will progress throughout the year, we'll continue to see that play through.

**Andrew Paul Wolf**
*CL King & Associates, Inc., Research Division*

And just one other question, if I might, on the Texas Roadhouse, the rolls. It sounds like -- I don't know your budget, but it just sounds like pretty really -- I know you guys were bullish, but it sounds quite like you've hit some pretty good numbers. So first of all, can you just talk about it versus what you had hoped you would get in terms of distribution, follow through, consumer trial and then whether there's repeat at this point. And I think you also put out the idea that there's going to be a line expansion. So just a sense of near-term numbers, how they're trending? And what is -- what the launch could mean down the road?

**David A. Ciesinski**
*President, CEO & Director*

Yes. So great question, and it's one that we're really excited to be monitoring. I think as you guys know, this is an item in their restaurants that has a near cult following. And so we had it in a test in 3 markets, Ohio, Indiana and Kentucky and it had performed there -- well there. But it's hard to project on how that's going to work across all retailers.

So during the quarter, we expanded full distribution into all of Walmart. And really, we had 1 month, September, where we had all Walmart stores, and that's where we saw the performance of this thing really start to take off. Now you asked a great question about repeat. We only have about 4 weeks of data, so it's hard to see. But the early indications are that we are seeing 2-time buyers coming back. But it's really -- it's hard to say. What I would tell you, Andrew, just dimensionalizing this thing, we really didn't have a good sense of how big it can be.

But if -- put it this way, if we translate the trial we're seeing today into repeat, I think this is something that obviously won't probably get to the size of a Chick-fil-A, but it could rival something like a Buffalo Wild Wings. So it remains to be seen. It's a really powerful item. It's a great brand. It's a great platform. We're able to run it in our own factories. And we're excited. During the call, you heard us mention the fact that given the strength of the demand we've had to go back and look at a regional rollout plan or sort of a customer-by-customer rollout plan here.

We've also added to add incremental labor to our factories, we've added another shift to keep up with this demand. So I mean, all of this just give me a couple of proof points that it's exceeded our expectations in terms of its strength we're adding the labor, we're adding the incremental capacity. And then the harder rollout through the rest of retail will begin in Q3 and Q4. So it will be a contributor to this fiscal year, but we believe it will even be a bigger contributor in fiscal year '26. But just a great example of how this licensing strategy is extensible beyond sauces to really anywhere we have an iconic product away from home that consumers want to be able to enjoy every day.

**Operator**

Our next question comes from Brian Holland of D.A. Davidson.

**Brian Patrick Holland**
*D.A. Davidson & Co., Research Division*

First question, I guess just trying to triangulate the downward pricing pressure in retail, which has gone on for a few quarters now. You talked about one of the sources of that being some of the new product launches in support of that. Presuming that obviously continues as some of these launches build over the coming months, can you knock kind of net neutral and -- but you do have some cost saves. Just bringing that all together, how do we think about the shape of gross margin from here over the balance of fiscal '25.

**Thomas K. Pigott**
*VP, Assistant Secretary & CFO*

Yes. So overall, we grew our gross margin 20 basis points in the quarter. And I think from an overall standpoint, we feel in the balance of the year, we can grow beyond that number. From a tailwind standpoint, you're right, we don't have a big PNOC tailwind that we had last year. But at the same time, we have a nice productivity pipeline, value engineering, factory automation, SAP benefits that we think will help the retail and the overall company gross margin improvement. From a headwind standpoint, the things we're watching -- now on the trade, I want to be clear, we activated additional trade spending in the second half of last year, and we continued when we saw consumer trends start to slow.

In the first quarter, we continued that. So over the -- year-over-year, that was a bit of a headwind. We expect that to kind of neutralize in the back half. So that won't be a headwind for margins as we get in the second half. But the things we're watching really is if we do see further consumer pullback, we might have to activate some additional spending, but that's not currently in our plans.

And then the other thing we're monitoring from a headwind standpoint is the Foodservice traffic that Dave talked about. And if we do see further slowdowns there, that could be a headwind in terms of factory absorption and the volume impact. But overall, we were -- the increase in gross margin that we experienced in the quarter was in line with our expectations, and we expect to do better as the year progresses.

**Brian Patrick Holland**
*D.A. Davidson & Co., Research Division*

Appreciate the color, Tom. And then coming out of the quarter, looking at the scanner data, pretty nice acceleration in the business does not appear to be storm-related, seems to be focused on the breads and rolls products, which I don't think are necessarily just Texas Roadhouse, just given how recent that launches. So Dave, maybe if you could just remind us some of the moving parts because I know that there are a few within that category and what might be helping sort of catalyze the acceleration in performance in breads and rolls that we're seeing maybe in the last 2 months or so? And maybe how sustainable that is?

**David A. Ciesinski**
*President, CEO & Director*

Yes. So Brian, I think I would point to -- we felt like there was relative strength across the whole portfolio, both licensing and some of our own brands as far as our consumption goes. And as you pointed out, we felt like when you looked at the 5 week versus the third week -- 13 week, it in fact, got a little bit stronger. And we think that based on the strength of the ideas we have that we should continue to perform relatively well. Now moving in closer to what we have going on in the bakery part of the business, we have one relative headwind and its New York Texas Toast where we saw the volume there and pounds dropped down a little bit in the 13 week, and I want to clarify maybe why.

Last year at this time, a very big private label supplier that supplies both Kroger and Walmart was having supply issues. So we were able to see our share jump from, I don't know, it was maybe 40 points up to 44 as we captured a lot of incremental pounds. Now that private label supplier is back online, and we're seeing that we're giving back a little bit of that business. But overall, our New York Texas Toast proposition continues to be healthy. And we're excited about that gluten-free item that we're going to be building distribution on throughout the remainder of the year.

On Sister Schubert, here's another business where we're seeing sales growth. And in the more recent period, we're seeing pound growth. One of the noted features last year on this business was, as you recall, we downsized the weight of the roll. So if you're tracking our volume in terms of pounds, you saw it was different than our volume in terms of units. We've cycled all that now. And the underlying proposition continues to be strong. We're expecting a good performance during the upcoming holidays, Thanksgiving and Christmas. And we're also some distribution builds on things like our cinnamon rolls. So that part of the business is strong.

And now finally, on Texas Toast, that really only impacted in any notable way the 5 weeks. As I said, we expanded from being in just a couple of states to all Walmart's, let's call it, roughly 4,000 stores. And if you look at scanner data there, you can really see that item moving pretty rapidly. So I think its strength end to end. What's interesting on Texas Toast is and you guys are smart enough, you were going to be asking this at some point, probably sooner rather than later, how cannibalistic is this going to be towards Sister Schubert, and we're pleased to report at least so far it seems to be incremental. We are seeing some very modest cannibalism. But generally, this is bringing new consumers to the category. We also believe this brand platform is going to allow us to expand more readily into areas out west where the Sister Schubert brand just hasn't traveled quite as well. So we're optimistic about that.

**Brian Patrick Holland**
*D.A. Davidson & Co., Research Division*

Appreciate the color. Maybe last one. Just thinking about kind of the dual levers that at least theoretically exist between continuing to build the licensing pipeline and potentially acquisitions. Just wondering from a buy versus build standpoint, maybe there you're mutually exclusive. Maybe you could do both simultaneously. But obviously, just getting back to the foodservice backdrop and the softening at a high level, what we're seeing across the industry, I think I would at least theorize that, that should maybe -- or that could help drive conversations with you all as they would need to -- the foodservice players diversify their sources of revenue, so maybe just kind of an update on what the licensing pipeline looks like, if there's any impact from softening foodservice traffic and whether that impacts how you think about your willingness to acquire an asset versus continue to kind of lean in on building the pipeline or if you could do both simultaneously?

**David A. Ciesinski**
*President, CEO & Director*

Yes. Well, maybe I'll start first with the latter, Brian, and say we believe that we're in a position where we could do both at the same time, right? With SAP behind us and the capacity expansion projects behind us, we feel -- and a clean balance sheet we are in a position to make an acquisition if the value is right. We have an active M&A process, where we're constantly screening. But for us, it's going to come down to discounted cash flows and IRRs, NPVs and just looking at is this going to be accretive to our business and create value for our shareholders.

Now to the second question on licensing, you've been following us long enough to know that -- it almost feels like this has built. With every passing period, we have more proof points in the marketplace that licensing can coexist in a complementary way with a restaurant's own business. If you go back to the earliest days, some of the restauranteurs were concerned that it would cannibalize. But I think we've all learned now that, that's not the case and that it's an incremental source of revenue. And it's an incremental way for consumers to engage with their brand.

So with that backdrop, I would say our discussions with prospective license partners and with existing license partners are as exciting as I've seen in the last 5 years, gives us a lot of optimism to move into new areas where we haven't played. So we're bullish about that also. The good news is we don't have to worry about overpaying to pursue that business. It's a way to create value and keep our eye on the ball in terms of how we're spending shareholder money.

**Operator**

Our next question comes from the line of Alton Stump with Loop Capital.

**Alton Kemp Stump**
*Loop Capital Markets LLC, Research Division*

I just want to ask first on the QSR side of things, there's obviously been a lot of talk about how the pricing that had driven your comparable sales the last couple of years is certainly drying up. But because of that, we're hearing a lot of news that there's going to be an increased focus on driving volume, especially through new products as we move into calendar year 2025. And one, are you hearing that as well from your customers? And two, could that be a potential driver from your major accounts if we do see more of a focus on traffic versus pricing over the course of next year?

**David A. Ciesinski**
*President, CEO & Director*

Yes. Alton, that's a terrific question. And the answer is yes. For a lot of customers as they look to drive traffic in the stores, lever 1 is they focus on value and lever 2, they focus on hero items that they can advertise. And we're finding that the inbound calls to develop hero items has increased for us. So we have a lot of work that's in flight right now to develop sauces in particular, that we can place on nuggets and strips and all sorts of wings and all sorts of different chicken items.

So I do think that even in the midst of challenging industry headwinds we have in our business a bit of an offset because of our culinary abilities and the ability to scale those to some of the biggest restaurant chains in the country. So we won't defy gravity. We're going to still be held to some of the same macro trends as everybody else, but I think it allows us to demonstrate a level of, let's call it, relative outperformance usually.

**Alton Kemp Stump**
*Loop Capital Markets LLC, Research Division*

It makes sense, Dave. And then I guess just on the licensing side, I think probably the most impressive number that you gave with all of these new things going on, which are certainly very interesting and exciting. But what's the fact that Olive Garden, which I think has been, I think, in place since 2012 was up over 3% for the quarter. How much of the role as you're talking to, whether it is existing and/or potential licensing saying, look, not only are we driving great growth short term for some of these new brands we have signed on. But we have anything Olive Garden that has been in place for well over a decade with our license business, but it is still growing. How much does that play into the attractiveness you think of potential partners to sign up with you?

**David A. Ciesinski**
*President, CEO & Director*

I think very much so. And it's a great observation on your part. It's I think there was a fear that we first that we would launch the item and it cannibalized the restaurant. We got to the other side of that, and then we'd launched the item and then where do you go from there? But in this case, I want to give a lot of credit to the team at Olive Garden. We regularly meet with their marketing team, their head of supply chain that oversees this initiative, their head of menu development, and we're constantly looking at new items.

In the early days, it was items that were on the menu and now I would tell you one of the most exciting features of this is they recognize that their brand has really big shoulders. So we're bringing to the market now dressings that are outside of what they serve in their restaurants like Caesar and some of the others that we've launched. So I continue to believe that there's a lot more we can do to mutually grow with our partners at Olive Garden. They're just -- they are the case study that I think a lot of other people point to.

**Operator**

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

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

Wanted to look back on the foodservice side, Dave, if we could. Obviously, strong trends in the quarter relative to what we're seeing in the industry. You talked last quarter about some deferred limited time offers that slid out of your fiscal fourth quarter and into the fiscal first quarter. So is there any element of actually an overabundance of LTOs in this quarter? Or as you look at the forward calendar with your restaurant partners, do you see a maintenance of this level of LTO activity so that we shouldn't expect a little bit of a dip off of the volumes that we saw in this quarter?

**David A. Ciesinski**
*President, CEO & Director*

I mean maybe going right to the question, we expect to continue to deliver low single-digit growth even in this challenging environment on the business. Some of that's going to come by way of base where we have customers like Domino's, which I think are focused on value and they're continuing to outperform. We have customers like Chick-fil-A, which albeit are seeing a little bit more challenging traffic. They're continuing to invest through this environment with new store openings. And then a fair amount of new item activity with customers. So we don't see anything at least right now, Todd, that leads us to believe we need to revise our view on low single-digit growth. I think if the economy was a little more optimistic, we might be talking about mid-single digit, but we feel like it's prudent to advise low single-digit growth today.

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

Okay. Fair enough. If I look at the retail operating margin, we're inflecting higher here. I think we're seeing kind of some of the best margins that we've seen since prepandemic for this segment. What's driving that? Is it mix within the business? And can you remind us or maybe discuss what the license branded products as that kind of revenue mix on those products mix is higher. Is that what's dragging the retail segment margins up?

**David A. Ciesinski**
*President, CEO & Director*

Maybe I'll start first and just say our strategy on licensing is that the items need to be at or better than our line average. So when we enter into these agreements and we look at them, we sort of lay a target out there that we need to get to that. And so really, it's not necessarily that. Tom, I'll let you some of the activity.

**Thomas K. Pigott**
*VP, Assistant Secretary & CFO*

Within the Retail segment, I think there's a couple of things that are helping. One, the broader cost savings initiatives programs, the value engineering, factory automation, SAP benefits have been skewing more to retail. We also, from a margin standpoint, we've exited a few businesses over the years that were not as profitable, and that's helping the margins as well. So it's a combination of some of the portfolio choices in the overall supply chain efforts that we're making to improve those margins that have helped retail.

**David A. Ciesinski**
*President, CEO & Director*

And Tom, would it be fair to add on this one, too, that the pricing in this business lags a little bit versus foodservice, where mark-to-market, quarter-to-quarter.

**Thomas K. Pigott**
*VP, Assistant Secretary & CFO*

Yes, sure.

**David A. Ciesinski**
*President, CEO & Director*

And so once pricing did in fact catch up on that business, we saw the margins return. And then as cost in areas have moderated, unlike foodservice, where you give it back, the cost sticks. So that's been a modest contributor to this overall margin improvement as well.

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

Okay. Great. And my final one. Just I know we kind of touched on acquisition pipeline on the brand side. But you've talked about a second leg or maybe the next use of capital is for an acquired facility that keeps you from maybe necessarily building something greenfield or really helps to optimize the current production footprint. Anything to update us on that front as far as targets or progress that you've made there?

**Thomas K. Pigott**
*VP, Assistant Secretary & CFO*

Yes. Todd, what I would say is we're working on both fronts. I think on the factory side, we broadly see ourselves well positioned to continue to grow both with our existing customers and new customers. While we're seeing some current softness in foodservice traffic, we don't see that as a longer-term trend. And we think we're well positioned with our sauce portfolio to continue to expand and grow. So we're definitely working both ends of the equation for retail looking at some of the brands that fit into our core competencies. And as Dave said, we have an active screening effort. And then certainly, on the network side, we think there's probably an opportunity out there for us there as well.

**David A. Ciesinski**
*President, CEO & Director*

Maybe I'll just add to that point that we're just trying to constantly balance the long term and the short term. One of the things that we've done over the last handful of years working together is we've laid out a longer-term strategy in terms of the categories we want to be in, the margins we want to achieve, the growth rates we want to deliver. And we've had to go back at points in time and invest in capabilities or prune pieces of the portfolio. And Tom pointed to plants, in particular, we do feel like there's an opportunity for us just to continue to strengthen our manufacturing network to improve our delivered cost and our service to our customers and set the business up long term. So this is very much, I think, in keeping with our priority to think long term, execute short term and continue to balance between the two.

**Operator**

[Operator Instructions] Our next question comes from the line of Robert Dickerson from Jefferies.

**Robert Frederick Dickerson**
*Jefferies LLC, Research Division*

Great. I Have 2 pretty quick clarifying questions. So I think I heard you say QSR traffic was up in the quarter. So I guess, first, I wasn't -- I just might not have heard it. If that was for kind of industry overall or for your customers. And then you also kind of spoke to increased demand from some of those national chains. So I'm just trying to get a better sense of like is your volume performance, I mean clearly, it's being driven by some of the new items and your success with those customers. But is it also -- are you kind of implying that kind of your weighted foodservice customer base maybe was doing a little bit better, a little bit more advantaged relative to the industry?

**David A. Ciesinski**
*President, CEO & Director*

Yes. So thanks for raising the question, Rob. We didn't, in fact, say that traffic is growing. What we pointed to is that if you looked across all restaurant traffic, it improved modestly in the period versus where it was. So it was up 200 basis points. Now it's off 100 basis points. So just a relative improvement, particularly in QSR, when you look at it. But we're still -- we still see industry-wide traffic being off 100 basis points. If you look at our unique customers and our mix of business, I would say it's probably performing in line or maybe slightly better.

We have certain customers like a Taco Bell and a Domino's that might be performing a little bit better. And then some others that might be lagging. But generally, we're at or slightly ahead of the industry when you look at our book of business. What's really driving our volume outperformance is a lot of the custom culinary work that we're doing with concepts that are out there that are heroing sauces to place on chicken.

And that's really what's driving a lot of our business. And we have those items that are out there today, and we have a pipeline of activity that's in flight with restaurant concepts for new items that they intend to launch as we go through the year. And it's really predicated on that. Our book of business plus this activity that we have on LTOs that gives us a margin of comfort that we think we can continue to deliver low single-digit growth.

**Robert Frederick Dickerson**
*Jefferies LLC, Research Division*

Okay. Great. And just like as an example, if you talk about some of those customers and new items and sauces you're delivering. Is that like -- is that something like pimento chicken sandwich or with Chick-Fil-A like as an example?

**David A. Ciesinski**
*President, CEO & Director*

Well, that's not one of ours, but that is a great item. But that would be -- I think if you're watching football these days, you see a lot of chicken items that are being featured, there's a possibility that we might be supporting some of those folks. If you go back, Rob, over the years, we were really a salad dressing company first and a sauce company second, but we've morphed over the last 5 years, and we've become a sauce company first and a salad dressing company second. And that activity, particularly with the growth of chicken and the need of chicken to have sauces has been a big part of what's powered our foodservice business.

**Robert Frederick Dickerson**
*Jefferies LLC, Research Division*

Yes, yes. Okay. Okay. Fair enough. And then you're speaking still to low single-digit volume growth for the year. Volume compares, I guess, at least optically what I see, right, should be a little bit easier for the rest of the year. And then you have your comments about retail benefits from licensing programs and foodservice customer gains. So I'm just curious as we think for the rest of the year, Q2, Q4 kind of relative to Q1, if the traffic environment, let's just say, we're kind of steady for -- from here, does that kind of imply that overall volumes all things considered should maybe accelerate a little bit, I mean, not a lot, but like maybe a little bit better sequentially relative to Q1. That's all.

**David A. Ciesinski**
*President, CEO & Director*

I would love to tell you, yes, Rob. I think what I would point to is the mix of the volume may evolve a little bit, that I think we have a really strong stack of new items in retail. So you're going to see the retail part of the business start to deliver stronger numbers as we go through 2, 3 and into 4. The foodservice business, it remains to be seen what happens externally. But I would say consistent low single-digit growth and expect more of that coming from retail than in foodservice than we've seen in the last couple of periods, is how we'll get there.

Maybe since nobody has necessarily asked, Rob, if you allow me, I'll just mention on the new item stack that we have in there. Obviously, continuing to build on that exciting item with Texas Roadhouse. We have a range of dips with Buffalo Wild Wings that we're launching into retail, and we're going to be doing a rotation of that at Costco as well. We have a big stack of new items that we're going to be introducing here before too long with Chick-Fil-A. We'll be excited to share that with you in due course and other activity with Olive Garden and others. So again, we're looking at the stack of new items that we have. We think it's actually stronger than the stack that we had in our fiscal year '24, which again gives us a little bit of comfort saying low single digit and bucking some of the broader trends.

**Operator**

There are no further questions. We will now turn the call back to Mr. Ciesinski for his concluding comments.

**David A. Ciesinski**
*President, CEO & Director*

Thank you, operator, and thank you, everybody, for participating in our call this morning. We look forward to sharing our fiscal '25 second quarter results with you in early February. In the meantime, we look forward to seeing you on the road and hope you have a great rest of the day. Bye now.

**Operator**
Thank you. At this time, that does conclude our session. You may now disconnect.