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Market Intelligence

**Lancaster Colony  
Corporation** NasdaqGS:LANC

*Earnings Call*

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# Call Participants

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## EXECUTIVES

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**David A. Ciesinski**

*President, CEO & Director*

**Thomas K. Pigott**

*VP, Assistant Secretary & CFO*

## ANALYSTS

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*CL King & Associates, Inc.,  
Research Division*

**Brian Patrick Holland**

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**James Ronald Salera**

*Stephens Inc., Research Division*

**Scott Michael Marks**

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## Presentation

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### Operator

Good morning. My name is Carmen, 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 Second 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 2025 Second 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 at our company's website, [lanastercolony.com](http://lanastercolony.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 second quarter results for fiscal year 2025. In our fiscal second quarter, which ended December 31st, we reported record highs for net sales, gross profit and operating income.

Consolidated net sales increased 4.8% to \$509 million. Gross profit improved 9.3% to \$133 million, and operating income grew 15.1% to \$76 million. In our retail segment, net sales increased 6.3%, driven by volume growth from both our licensing program and our own brands. In licensing, we saw very strong consumer demand for the recently introduced Texas Roadhouse dinner rolls. Along with solid contributions from Buffalo Wild Wings sauces, Subway sauces and Olive Garden dressings.

I'm also pleased to share that our Marzetti branded caramel dips and refrigerated dressings also performed well. Excluding the perimeter-of-the-store bakery lines, we exited last March. Retail segment net sales increased 8.4% and retail segment volume measured in pounds shipped grew 7.4%. Circana scanner data for the quarter ending December 31st showed strong performance for several of our licensed items and core brands.

In the frozen dinner roll category, our own Sister Schubert's brand and our licensed Texas Roadhouse brand combined to grow 15.9% resulting in a market share increase of 440 basis points to a category-leading 60.8%.

In the produce dressing category, our Marzetti brand grew sales 1.4% and increased market share about 30 basis points. Sales of our Marzetti brand produce dips advanced 2% with a market share gain of 110

basis points. In the frozen garlic bread category, our New York Bakery brand grew sales 2.8% adding 40 basis points of market share, resulting in a category leading share of 41.7%.

In the shelf stable sauces and condiments category, Buffalo Wild Wings sauces were up over 11% and Chick-fil-A sauce sales grew 1.1%. In the shelf-stable dressings category, sales of Olive Garden dressings were up 3.3%, further improving their market share in the shelf-stable dressing category.

It's worth noting that it's been more than a decade now since we formed our license agreement with Darden and Olive Garden restaurants to sell their eponymous cell addressing. Since those early days, we've expanded this amazing brand from one SKU in the club channel to a growing multi-SKU, multichannel brand platform with over \$160 million of scanner sales. I believe the long-term performance of this brand and others such as Chick-fil-A, Buffalo Wild Wings and most recently, Texas Roadhouse is a testament to the strength the potential and the enduring consumer relevance of our licensing program.

In the Foodservice segment, net sales grew 3%, led by higher demand from several of our core national chain restaurant accounts and increased sales for our branded Foodservice products. Foodservice segment volume measured in pounds shipped advanced 1.5%.

Finally, we are pleased to report record second quarter gross profit of \$133 million. When compared to last year's second quarter, gross profit margin improved 110 basis points to 26.1%. The \$11 million increase in gross profit was driven by the higher sales volumes, more favorable sales mix, the positive impacts of our ongoing cost savings initiatives and some modest cost deflation.

Our focus on supply chain productivity, value engineering and revenue management all remain core elements to further improve our margins and financial performance.

I'll now turn the call over to Tom Pigott, our CFO, for his commentary on our second quarter results. Tom?

**Thomas K. Pigott**

*VP, Assistant Secretary & CFO*

Thanks, Dave. Overall, the results for the quarter exceeded our expectations. The company delivered strong top and bottom line results.

Second quarter consolidated net sales increased by 4.8% to \$509.3 million. Breaking down the revenue performance. Higher volume and product mix contributed 580 basis points of core growth. This growth was partially offset by the exit of our perimeter of the store bakery product lines, which reduced revenue by 110 basis points. A slightly higher level of net pricing makes up the balance.

Consolidated gross profit increased by \$11.3 million or 9.3% versus the prior year quarter to \$132.8 million, and gross margin expanded by 110 basis points. The gross profit growth was driven by higher volumes and favorable sales mix, our cost savings initiatives and some modest cost deflation.

Selling, general and administrative expenses increased \$1.4 million or 2.5%. The increase reflects \$1.6 million for integration costs for the planned acquisition of the Atlanta-based manufacturing facility we recently announced. These costs are primarily comprised of IT and legal expenses.

Consolidated operating income increased \$9.9 million or 15.1% driven by the gross profit improvement, partially offset by the integration costs I mentioned. Excluding the acquisition integration costs, operating income grew by \$11.5 million or 17.5%.

During the quarter, the company chose to transfer its remaining legacy pension plan assets and liabilities to a third party. This transfer effectively terminated the company's pension plans. It's important to note that these plans were frozen and relate to plant operations that were closed many years ago. The plans participants will either continue to receive their benefits from the third-party insurance company or elected to take a lump sum benefit payment in December of 2024.

As a result of the termination, the company recorded a \$14 million noncash pension settlement charge to recognize all the unamortized costs associated with the plants. Our tax rate for the quarter was 22.5% versus 23.4% in the prior year quarter. We estimate our tax rate for the remainder of fiscal '25 to be 23%.

Second quarter diluted earnings per share decreased \$0.09 or 4.8% to \$1.78 as the growth in operating income was offset by the pension settlement charge. This charge reduced EPS by \$0.39 per share. In addition, the acquisition integration costs reduced EPS by \$0.05 per share.

With regard to capital expenditures, our payments for property additions totaled \$28.7 million for the fiscal year-to-date period. For fiscal '25, we are forecasting total capital expenditures of \$70 million to \$80 million. We continue to invest in both cost savings projects and other manufacturing improvements as well as the planned acquisition of the Atlanta-based manufacturing facility.

In addition to investing in our business, we also returned funds to shareholders. Our quarterly cash dividend of \$0.95 per share paid on December 31st represented a 6% increase from the prior year's amount -- our enduring streak of annual dividend increases stands at 62 years.

Our financial position remains strong with a debt-free balance sheet and \$203.1 million in cash. We expect to deploy \$75 million towards the purchase of the Atlanta manufacturing facility. We also will spend an additional \$10 million in capital expenditures on the facility which is included in the fiscal '25 forecast I provided.

To wrap up my commentary, our second quarter results reflected strong top line growth, improved gross margin performance and double-digit operating income growth. In addition, we're continuing to make investments to support further growth and cost savings.

I will 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, to expand our core with focused M&A and strategic licensing.

Looking ahead to our fiscal third quarter and the remainder of the fiscal year, we anticipate retail segment sales will continue to benefit from our expanded licensing program and growth from investments and innovation for our own brands. We are very excited to share the beginning this spring, we'll be expanding distribution for Chick-fil-A sauces into the strategic club channel.

On the Foodservice side of the business, we anticipate continued growth from select customers in our mix of national chain accounts along with ongoing contributions from our branded Foodservice products. We anticipate external factors, including U.S. economic performance and consumer behavior will continue to impact demand for the Foodservice industry overall.

With respect to input costs, in aggregate, we do not anticipate significant impact from commodity cost inflation or deflation in the remainder of the year. Before I conclude, I would like to comment briefly on the pending acquisition of the Atlanta-based sauce and dressing facility that we announced last November. We remain on track to complete this transaction during this current quarter, which ends March 31st.

The facility is an important strategic addition to our manufacturing network that will benefit our core sauce and dressing operations through improved operational efficiency, incremental capacity and closer proximity to certain core customers, all the while enhancing our manufacturing network from a business continuity standpoint. We evaluated several strategic scenarios to support the continued growth of our sauce and dressing operations and identified this opportunity as the most practical and cost-effective solution for our long-term business needs.

We very much look forward to welcoming the plant's employees to our Marzetti team. 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

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### Operator

[Operator Instructions] And it comes from the line of Jim Salera with Stephens.

### James Ronald Salera

*Stephens Inc., Research Division*

I wanted to start off with the performance at Retail because really strong results, certainly ahead of our expectations. And you mentioned some of the drivers there on the license side of the business. Could you just give us a little more detail as to which of the license products you called out had the biggest impact?

And then if I could maybe tag on a part 2 to that question. With the expansion of Chick-fil-A into club and then no more lapse from the perimeter exit, is it fair to say that Retail sales should kind of continue to accelerate as the year moves on?

### David A. Ciesinski

*President, CEO & Director*

Yes. Well, give us a chance and we'll hit both of those questions in sequence. First, what was it that impacted current quarter than what our outlook is. But as it pertains to retail, and licensing in particular, what I would tell you, it was a combination of different brands.

First, it's the introduction of the Texas Roadhouse rules, which are available today only in Walmart. And if you look at scanner sales, that accounted for an important component of that growth. The second is Buffalo Wild Wing sauces. This is an item that's been around now about 6 years. It was up about 12% in terms of pounds. So it had a really good period as well.

And then both Olive Garden and Chick-fil-A sauces continued to grow as well. But I think that's sort of the ranking and sequence of how these things contributed to the period. Then what I would also shift focus to is even our own core brands continued to perform relatively well in terms of pound growth. Our New York Bakery in terms of consumption, pound sales were up 3.8%. Our Marzetti produce dressing was up 4%. We had a really good season for caramel dip and Sister Schubert continue to grow as well.

And what you don't see in Sister Schubert is we made the decision to exit a channel that created a bit of a headwind on that because the margins were low, but we are able to overcome that, still deliver some incremental growth and improve our margin profile. So I think net-net, it was balanced between licensing and our own brands with licensing growing a little bit more.

Now your second question is an important one. How do we think about the outlook? We're bullish about our new product pipeline. We're continuing to be optimistic about how our core brands are holding up. So we're looking at probably mid to low single-digit growth, just depending on how things play out with consumers. But certainly, we're pleased with how things are going.

### James Ronald Salera

*Stephens Inc., Research Division*

And then maybe if I could just sneak in a question on Foodservice...

### David A. Ciesinski

*President, CEO & Director*

And Jim, by the way, that's all pound-driven, just so you know, there's no assumption in pricing on that.

### James Ronald Salera

*Stephens Inc., Research Division*

Okay. Great. That's helpful. On Foodservice, you mentioned kind of the core national accounts being the drivers there. I know in QSR in particular, there's been a lot of focus on kind of let's just say, value-centric

messaging, price points versus kind of LTOs and flavor extensions. Do you just have any sense in the conversations you're having with your Foodservice partners if we're going to see kind of a return to the more experiential focused messaging as the consumer gets a little bit better as the year progresses?

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

In the conversations that we're having with them, they continue to be somewhat circumspect. I don't think they're expecting a miracle recovery. I think generally, the consensus is that the summer was probably going to be the low point, and then we're going to see modest sequential improvement as we push forward.

If you look at our most recent results, the business was up 3 points. It was 1.5 points of volume. It was 1.5 points of pricing that gets you to that 3%. If you look at our specific mix of customers, obviously, Chick-fil-A is continuing to contribute to our pound growth because of new store openings and their execution. But we have a range of other very important customers that are winning in this environment. One of which just Domino's, which is playing in value in Pizza QSR, and we're winning effectively with them.

As far as their positioning, their menu is going forward, it passes prolog, Jim, what we typically see is that they focus on value until they -- and it brings more traffic back into the restaurant, but it really doesn't help them with margins and it doesn't help with their franchisees' profitability overall. So I think what I would expect to see is certainly not a more intense focus on value. You may begin to see that start to wean down a little bit more and just more focus on delivering great food.

**Operator**

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

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

Dave and Tom, I guess, I want to ask about Texas Roadhouse. Obviously, of course, the first introduction was of the sauces and then us came out thereafter mid-last year with the frozen dinner rolls, it sounds like the dinner rolls for that had become an even bigger business than your sauces. One, is that accurate into how much of a surprise as it has been, given the fact that once again that, that was a secondary offering that came after you first introduced our sauces last year.

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

Yes. It's a great question, Alton. You know what I would tell you, and I know you're very familiar with the restaurant space and you visited Texas Roadhouse. And for anybody like you that has, you know those roles are iconic. That's one of the reasons that people visit those restaurants.

And one of the teams that we're pleased about and our partners at Texas Roadhouse are pleased about is that we've done a really nice job of really mirroring the taste of that role that's available in the restaurant. So we've got it so far into Walmart, 4,000 of their stores, and it's performing exceptionally well. If you look at the scanner data sales when we can keep it in stock, it's running somewhere between \$1 million and \$1.5 million per week.

So it's really performing well. But I think it goes back to the lesson that we've learned with Olive Garden with Buffalo Wild Wings and with Chick-fil-A. When you can take an iconic product from a strong restaurant property with a loyal following -- there's just a lot of consumer upside for those products in retail.

And I think we're going to continue to see that story unfold. Our plans on this product are to -- as we bring online more capacity, which we're having to do to begin to roll it out into all of retail, first in 4 states and then early into our next fiscal year to actually launch it across all channels in all stores, not club, but all channels in retail and mass and then we'll revisit Club at some point in the future.

But this is -- it's been an exciting development. It's exceeded our expectation enough so that we've had to actually take one of our bakery plants and add not just one -- two more shifts to keep up with the demand.

**Alton Kemp Stump**

*Loop Capital Markets LLC, Research Division*

Got it. Great. Well, that's -- and then I guess one question, and I hop back in queue. On the Foodservice side, and back to the last question about restaurant space. Clearly, everybody is trying to -- if they can, to get traffic back. There's been a lot of pricing, of course, across restaurant industry the last couple of years that has primarily driven their comp growth. That's now all but going away. So given that environment where you're going to have a lot of focus on products, collaborations, I think that would fit well into what you guys do with your partners, whether it is developing new sauces and/or similar items.

How much of a benefit do you think that could be to you as you kind of look at the course of calendar '25, if we do indeed see an increased focus from your major QSR customers on particularly new products to drive traffic?

**David A. Ciesinski**

*President, CEO & Director*

Yes. So our outlook for the industry is that it's probably -- this is traffic, not sales, but traffic alone is that it's likely to continue down, Let's say, 1 or 2 points. Our view on our business in Foodservice is, that will be flattish.

So we believe that based on this composition of customers, we'll be able to overcome those trends, to which the consumer gets stronger and traffic improves on restaurants, I'm fully confident that we'll be able to enjoy that and we'll be able to give you guys an indication that sales would trend back into the mid-single -- low to mid-single-digit range.

But for now, predicated on the macroeconomic outlook. I think we're holding fast at sort of flattish on this business, but poised to recover when the industry recovers.

**Operator**

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

**Brian Patrick Holland**

*D.A. Davidson & Co., Research Division*

Congratulations on the strong results. If I could just -- maybe just quickly on the gross margin and specifically the input cost outlook. Obviously, I think you called out modest deflation in the quarter, if I have that right. Just extrapolating that out forward because I think that's obviously an improvement maybe from where we've been. So just as we tease that out over the second half of the year, what's your view on how that dynamic shapes out?

**Thomas K. Pigott**

*VP, Assistant Secretary & CFO*

Brian, this is Tom. Thank you. So you're right. We did have a little bit of deflation. That was a bit of a tailwind for this quarter's results. As we look at the second half, we're projecting more flattish on commodity costs. We don't expect to have that tailwind that we experienced this quarter.

And really, what's behind that is, and I'm sure you've read about it, we've seen a lot of inflation in terms of eggs prices and that's a key input cost for us. But we're getting the benefit from lower soybean oil and grain costs. So when you net it all together, we're looking at a flat outlook for the second half.

**Brian Patrick Holland**

*D.A. Davidson & Co., Research Division*

That's helpful. And then maybe -- and forgive me to the extent that this may have been addressed and I missed it. With the new facility in Atlanta, maybe just to sort of discern between this opens up more revenue capacity implying that demand has increased, there's more innovation opportunities, et cetera, et cetera, versus strategic optionality kind of looking at your manufacturing network. So the first one is probably, to some extent, self-explanatory.

But on the second one, do we think about margins -- the ability of this plan to expand your margins over time, picking up some more cost synergies through optimization, et cetera. And maybe just kind of -- I appreciate you probably wouldn't want to quantify that. But maybe just time line for when we might start to see those benefits flow through?

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

Sure. So why don't I -- I'll address the first part of the question and then let Tom expand on margins. So the first part, as we said in our commentary upfront, we expect to close this quarter. Really what this plan is going to afford us is several things. It's going to give us a capacity to make products that are both cooked and non-cooked.

And just to give you a background, things like barbecue sauce and honey mustard require cooking, whereas things like a ranch dressing, for example, don't. You're just mixing ingredients and then packaging on those. So this plan, importantly, provides us both cooked and non-cooked, which gives us a lot of options to play both in sauces and in dressings. And then as far as the particular packaging abilities, they have a high-speed packaging line, they have dip capacity down there as well. And then they have a range of different food service manufacturing platforms that we're going to be able to use.

Over time, what you can expect to see us do is to begin to put in some of our system specific product packaging platforms. For example, [indiscernible] which we use for Chick-fil-A, they're not a supplier today. You can expect in due course for us to put that down there, and it will provide a benefit for both us and particularly by way of where it's located.

So I would say the single biggest thing that it gives us, Brian, is a great mix of cooked and non cooked a range of different packaging platforms, and it's in a highly cost-effective location for us in terms of proximity to customers.

Now what I'll let Tom talk to is then how does this sort of feather into our outlook on things like margins and things like that in due course. I'll turn it over to you, Tom.

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

Thanks, Dave. So from a top line basis, as we look at our long-term growth algorithm, we've said we're going to continue to grow in the low mid-single digits. This facility allows us to continue to grow without an additional greenfield option. So it supports our growth over the next 5 years as we've modeled it out, which is a very efficient use of capital for us.

So then turning now into the margins. What I would caution is that the first quarter 2, as we get into that facility and start to ramp it up, we do expect a modest headwind as we have some unabsorbed overheads that we'll be incurring. But over time, as you get into fiscal '26, we do expect to see some nice margin accretion from this business.

As you mentioned, we're probably not ready to quantify the specifics on that, but it's projected to provide nice growth and margin accretion for us. The one thing I want to make sure we highlight for you, and we mentioned this in the initial release in the 8-K is that for a period of time, we're going to be manufacturing costs, manufacturing products for the seller of this facility. So we'll be picking up some of their business, and we agreed to do that to facilitate the transaction. We'll be splitting out that revenue separately. We don't expect it to have a significant profit impact, but we want you to take that out because we don't review it as noncore and short term in nature.

So, overall, we feel very good about this acquisition, and we expect it to have a nice return for our shareholders. And as we get further in, we'll share more with you.

**Brian Patrick Holland**

*D.A. Davidson & Co., Research Division*

Thanks Tom and Dave, that's very helpful. And maybe just last question, just -- because I probably left some things incomplete in that first question with respect to input costs, good color there, thinking about the balance of the year, specific to input cost. But if we broaden that out and talk about gross margin, I would presume that throughput benefits on the volume was the primary driver of the gross margin expansion in 2Q. And if we expect volumes to sustain, then margins should be higher over the second half of the year. I just want to clarify and separate that point from the fact that input costs would be closer to flat, Tom, if you could help there.

**Thomas K. Pigott**

*VP, Assistant Secretary & CFO*

Yes. I think as we look at the second half, we do expect our cost savings initiatives to contribute further to our margin growth, why we won't have the commodity tailwind. So as we look at it, we expect to be able to grow our margins in the second half at similar levels of the first half, maybe in the 50 to 100 basis point range as we get greater cost savings initiatives.

And the only headwind that could be an impact to that is the integration of the Atlanta manufacturing facility, the ramp-up and how that all goes. But certainly, we'll give you those impacts as they occur.

**Operator**

[Operator Instructions] Our next question is from Scott Marks with Jefferies.

**Scott Michael Marks**

*Jefferies LLC, Research Division*

Just wanted to follow up on some of the conversation there on the gross margin side. If my numbers are correct, the gross margin that you guys put up in Q2 was the best in 4 years that it's been obviously going through the cost inflation cycle and everything else that's happened over the past few years.

I know you spoke to some of the drivers, why that's the case. But wondering if you could maybe give a little bit more detail about kind of the journey that you've been on and how you've got to this 26% level. And kind of how you think you can sustain it moving forward?

**David A. Ciesinski**

*President, CEO & Director*

Yes. So, maybe I'll start with a little bit of context. One of the features of COVID for our business, in particular, is that we had 20% inflation 2 years in a row. And as you might imagine, Scott, that math is our costs go up to 20%, and we pass it on dollar for dollar into our pricing, i.e., our sales but that in and of itself drove several hundred basis points of margin compression in the early part of COVID.

And then what you've seen in the period thereafter, is you've seen us -- we've been able to hold on to pricing as we've seen a little bit of deflation and Tom has talked about that. But the other thing that's happened is a lot of the noise in the business is behind us. Our ERP implementation is behind us. The construction of the Horse Cave facility is behind us.

And we have a team now that's just really focused on good end-to-end execution and productivity, and we're getting back to more of the ordinary course. So as Tom pointed out, as we think about the outlook going forward, we don't expect some big tailwind from commodities. If we get it great, and you can expect to see that reflected in margin. But our view is, we're going to be able to build on the trends that you see sequentially because of just going back to our roots of driving productivity.

Manufacturing and conversion productivity at the front and the back of our lines, procurement productivity and supply chain and logistics -- excuse me, transportation and logistics productivity. So we have a big

catalog of initiatives that the team is running. They're doing a very nice job. And I have every confidence that you'll see that continue to improve.

So, we don't think just to put a fine point on it, that, that was a one-off. Clearly, it was a high watermark, but we expect to continue to build on every one of the quarters going forward.

**Scott Michael Marks**

*Jefferies LLC, Research Division*

Appreciate that. And next question from me. I know you called out some of the drivers of top line retail volume strength, including some of the licensed brands. And you called out some of the Marzetti products, some of the New York brand products. Obviously, licensed products you're introducing Subway, Texas Roadhouse items more recently, wondering if you can talk about why the improvement in some of the Lancaster-owned brands, if you will. So you spoke to some of the Marzetti dips and the New York brand products. Just wondering if you could speak to some of those trends and what you think the new drivers are.

**David A. Ciesinski**

*President, CEO & Director*

Well, I think we'll hit on each one at a time. In the case of our New York Texas Toast, our garlic bread proposition is doing well, but we also launched the value side of our breadsticks that continue to crush in the marketplace. So good core performance plus breadsticks is what's providing the tailwind on New York.

And then, I think our gluten-free item is small, but it's providing incrementally to that as well. If you look at Sister Schubert, great execution in the holiday season, which is vital on this brand. And then I would add to that, that our sweet rolls are doing well on that business.

If you look at our Marzetti, our Classics proposition has continued to perform well. And over the last, let's call it, a year, we've restated simply, and that part of the portfolio has been performing better. Within Marzetti dressings and dips, we had a particularly good caramel season. When we can get that product with our key customers, Walmart, Kroger and the others out early in the season and merchandise near apples, it just performs well. And this is one of those years where our retailers were willing to really work with us. They got it out early, and it really performed well for us.

So really, it's kind of a mix of, in some cases, the right SKUs like the value pack on sticks. And in other cases, it's just good retail execution by the selling organization, just good solid fundamentals.

**Scott Michael Marks**

*Jefferies LLC, Research Division*

Got it. And then one last one for me. One of the things I don't think I've heard, just speak much about is promotional activity. And obviously, across the food landscape, that's been kind of a hot button topic.

Just wondering if you can kind of share your perspective on what's happening in the promotional environment, maybe what you're hearing from retailers and maybe why that's not really applicable to some of your products?

**David A. Ciesinski**

*President, CEO & Director*

Yes. So if you unpack our trade spending, one of the things that we talked to you about is that we took up our level of trade spending in the back half of last year in retail modestly and that we intended to keep it up in the first and second quarter.

We were going to take the overall spending rate and sort of level loaded. So it's going to be a little bit higher in the first and second quarter and then marginally lower in the third and fourth quarter. So our trade spending rate was modestly, I don't know, Tom, 100 basis points is something maybe if higher in the period. But as it pertains to promotions, what I would focus your attention on, Scott, is I just recently went through all of our updated elasticities with our retail team.

And what we're finding is that heavy trade spending isn't really driving the incrementality that we would have expected. So as we think about trade spending going forward, we're going to be somewhat cautious about it. It's -- there are certain products where it seems to work better than others. If we can get feature and display, particularly on things like our license sauces, get it on an end cap, it really helps us drive household penetration and performance.

But we don't think that it's a lever that we're going to want to lean into in this environment outside of very point specific activities.

**Operator**

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

**Andrew Paul Wolf**

*CL King & Associates, Inc., Research Division*

Congratulations on really good looking quarter. I'd like to ask about the -- a few questions on the Texas Roadhouse intervals. How that I think you've said it right now, it's still only at Walmart. And can you talk about -- is that being featured there? Is that just sort of in their frozen aisle and just its movement is not being kind of promoted in any special way?

And secondly, do you have any view yet from their data or your outgoing shipping data, however, you look at it, about repeat sales from similar customers or if it's still sort of in the trial phase.

**David A. Ciesinski**

*President, CEO & Director*

Yes. So we'll hit those questions in sequence, Andrew. So first, just as context, it's one single SKU that is available right now at Walmart only, and we were able to work with Walmart in this case to codevelop this idea. So we afforded them a small period of exclusivity while we built capacity to launch it into the rest of retail.

But that one SKU at retail is not being featured. It's not getting incremental display. It did get a fair amount of viral support by way of social media once I became aware that the product was out there. And it's just pulling right off of the shelf. So there's really nothing incremental being done in terms of marketing and promotion to facilitate this.

I think I mentioned the sales when we can keep it in stock, it's usually somewhere between \$1 million and \$1.5 million per week as we launch it into full retail, I would expect to see those numbers at Walmart start to pull down as it becomes available at other places.

Now your last question about repeat is a really, really important question. And what we're seeing is the repeat on this item is actually quite high. The purchase cycle is actually somewhere in the range of like 13 days. So, in many cases, we're seeing people come back twice a month and buy this item, which in a frozen category is faster than anything that I've seen.

Sister Schubert tends to be a heavy holiday item and maybe a Sunday dinner item where this item is everyday item. If we look at it today, it's been the #1 item available in frozen bread and when you measure it across all the frozen just the velocity of the items, it's performing also. So I think that the more we see of this, the more we believe that it's just -- it's a great tasting item that we think has long-term legs. So we're excited to share with you as we bring online that capacity, how it continues to perform in the marketplace.

And importantly, how we take the platform of Texas Roadhouse and expand it into more SKUs and more channels and help this brand in this channel achieve all of its full potential.

**Andrew Paul Wolf**

*CL King & Associates, Inc., Research Division*

Got it. So the ACV outlook sounds quite promising. I would imagine whenever that excludes, can you just speak to the exclusivity period? Or is that trade secret.

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**David A. Ciesinski**

*President, CEO & Director*

No secrets here. Beginning in April, we'll begin to ship it into 4 states into all channels, so it will be MULO. And then really beginning in August once we're fully in capacity, we'll begin to ship it to the rest of retail. And then predicated on performance, we'll be evaluating incremental SKUs and then also channels like club and things like that.

**Andrew Paul Wolf**

*CL King & Associates, Inc., Research Division*

Got it. Just 2 quick housekeepings, if I can. On the pension plan retirements, is there an ongoing kind of cost savings was running through the P&L?

**Thomas K. Pigott**

*VP, Assistant Secretary & CFO*

We will get modest savings in terms of fees and administrative costs from that exit. And the amortization of those losses will stop. So modest P&L benefit going forward.

**Operator**

[Operator Instructions] I don't see any further questions in the queue. I would like to turn the call back to Mr. Ciesinski for his concluding comments.

**David A. Ciesinski**

*President, CEO & Director*

Thanks, operator, and thank you, everybody, for participating today. Before we wind up the call, I wanted to make just a couple of comments about all of the emerging discourse that's taking place out in the industry about Make America Healthy Again and particularly the focus on big food.

And in moments like this, we believe it's important to ground ourselves on really key facts. First, as our tagline, the better food company implies, we have and we always will comply with all state and federal food regulations.

As a specialty food manufacturers business has historically focused on supply in leading restaurants and competing in niche retail categories, very few of our products contain many of the chemical ingredients of concern that are receiving attention today. And then I want to assure you that to the degree to which any of our ingredients, those which are receiving some scrutiny today or anything else for that matter, come under scrutiny. We have every confidence that our industry-leading culinary R&D team will enable us to adapt to meet consumer needs and continue to grow a big, strong and relevant food company to supply our critical restaurant partners as well as consumers in the categories in which we compete.

So a lot of interesting times in the food industry these days, and I just want to assure you guys that are following us that we are -- we're keeping track of this course, and we're plotting the strategy to ensure that we always serve safe food and relevant food and meet the needs of all of our stakeholders. So that ends our call today and our comments. We look forward to being with you guys in a few months where we go over our Q3 results. We hope you guys have a great rest of the day.

**Operator**

Thank you everyone, for participating in today's conference, and you may now disconnect.

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