

S&P Global

Market Intelligence

The Marzetti Company

NasdaqGS:MZTI

Earnings Call

Monday, May 4, 2026 3:00 PM GMT

CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	7

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*

James Ronald Salera

Stephens Inc., Research Division

Scott Michael Marks

Jefferies LLC, Research Division

Todd Morrison Brooks

*The Benchmark Company, LLC,
Research Division*

Presentation

Operator

Good morning. My name is Didi, and I will be your conference call facilitator today. At this time, I would like to welcome everyone to The Marzetti Company's Fiscal Year 2026 Third 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 The Marzetti Company.

Dale N. Ganobsik

Vice President of Corporate Finance, Investor Relations & Treasurer

Good morning, everyone, and thank you for joining us today for The Marzetti Company's Fiscal Year 2026 Third 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 website, investors.marzetticompany.com later today.

For today's call, Dave Ciesinski, our President and CEO, will begin with an update on our Bachan's acquisition that was successfully completed on Friday, May 1, along with a 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 The Marzetti Company'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 third quarter results for fiscal year 2026. I would like to start today's call by providing you with some insights specific to our acquisition of Bachan's, the fast-growing Japanese American Barbecue Sauce brand known for its delicious, authentic clean label products.

I'm happy to share that in advance of last week's closing of the transaction, we have been collaborating closely with the Bachan's team on our future plans for the business. Everything we've learned has made us even more convinced about what a great addition this is to our family of brands.

Since our announcement, the Bachan's business has continued on a path of strong growth with Circana data for the quarter ending March 31 showing strong sales growth of over 25% and TDPs up over 50%. This growth has resulted in share gains for Bachan's in the barbecue sauce category, positioning them as the second leading retail brand.

Consumers love both the brand and the products, as evidenced by its broad usage across a wide variety of proteins, food types and meal occasions. We believe this brand has tremendous potential and is the perfect fit for our sauce portfolio.

Our thoughtful plans for the Bachan's integration are fully on track. They will remain based in California with their very strong team retained to lead the business. We are also delighted that Bachan's founder, Justin Gill has agreed to continue working with us on product development and marketing strategy.

At the same time, we are developing plans to provide this team with the opportunity to draw from Marzetti's resources, including our go-to-market capabilities, culinary expertise, procurement capabilities and supply chain expertise to support both their continued growth and cost synergies.

Over time, we anticipate additional opportunities for Bachan's to more fully leverage Marzetti's supply chain network. We believe our light touch integration approach will allow Bachan's to continue its strong growth trajectory, and we look forward to a bright future with the Bachan's team.

This acquisition strategically expands our portfolio of leading sauces, dressings and dip brands that now represent 2/3 of our consolidated net sales. It also specifically strengthens our portfolio of sauces, which alone account for nearly 40% of our consolidated net sales.

In the era of MAHA and GLP-1 we believe consumers will continue to seek flavor enhancements for their meals. We believe our deep culinary expertise and focused scale in these categories positions us well to support the continued growth of Bachan's as well as our other brands.

Moving on to The Marzetti Company's results for our fiscal third quarter, which ended March 31, consolidated net sales declined 1% to \$453 million. Excluding noncore sales attributed to the temporary supply agreement, or TSA, adjusted net sales decreased 0.9% to \$452 million.

Despite the lower sales, we were pleased to report record third quarter gross profit of \$107.2 million, an increase of 1.2%, driven by our cost savings programs. In our Retail segment, net sales declined 3.2%, while volume measured in pounds shipped declined 5.6%.

Our category-leading frozen bread brands were a bright spot as sales of our New York Bakery frozen garlic bread products continue to grow and increase market share, while sales of our Sister Schubert's dinner rolls benefited from the pull forward of demand due to the earlier Easter holiday.

These sales gains were more than offset by the impacts of category softness and reduced sales into the club channel. We have initiatives in place with our club channel partners to pursue future growth for both our Chick-fil-A sauces and Olive Garden dressings.

Circana scanner data for the quarter ending March 31 showed sales of our core brands and licensed items up 0.2%. In the frozen garlic bread category, our category-leading New York Bakery brand grew sales 4.4%, adding 260 basis points of market share for a category leading share of 46.7%.

In the frozen dinner roll category, our own Sister Schubert's brand and our licensed Texas Roadhouse brand combined to grow 10.1% for a category-leading market share of 61%. In the shelf stable sauces and condiments category, sales of our licensed Chick-fil-A sauces grew 4.4%, resulting in a 5 basis point growth of share. In the Crouton category, our branded croutons added 40 basis points of market share for a category-leading 28.5%.

In the Foodservice segment, excluding the noncore TSA sales, adjusted net sales grew 1.8%, while volume measured in pounds shipped improved 0.8%. In addition to the benefit of inflationary pricing, the increase in Foodservice segment net sales reflects increased demand from several of our core national chain restaurant customers.

We were pleased to report record third quarter gross profit of \$107 million with reported gross margin up 50 basis points. 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 third quarter results. Tom?

Thomas K. Pigott

VP, Assistant Secretary & CFO

Thanks, Dave. Overall, the company delivered improved gross profit performance despite a modest decline in revenue. In addition, investments were made to support future growth.

Third quarter consolidated net sales decreased by 1% to \$453.4 million. The revenue performance was primarily driven by a decline in core volume and product mix of 120 basis points. This decline was partially offset by net pricing, which was accretive by approximately 30 basis points.

Despite the decline in revenue, consolidated gross profit increased by \$1.3 million or 1.2% versus the prior year quarter to \$107.2 million, and reported gross margin expanded by 50 basis points. The gross profit growth was driven by our productivity program, where we benefited from cost savings across a number of areas, including procurement, manufacturing, value engineering and distribution.

This quarter marks the 11th straight quarter of gross margin improvement versus the prior year. This accomplishment is a reflection of the many cost savings initiatives, network restructuring programs, revenue growth management projects and the ongoing pricing net of commodities management program that the company has successfully implemented.

Selling, general and administrative expenses grew \$5.4 million or 9.5%. The increase was primarily driven by a net increase in acquisition-related costs, higher IT expenses and personnel-related costs as we invested to support continued growth. Consolidated and reported operating income decreased \$3.3 million. The gross profit growth was offset by the higher investments made in SG&A.

Our tax rate for the quarter was 23.3% versus 20.7% in the prior year quarter. We estimate our tax rate for the fourth quarter of fiscal '26 to be 23%.

Third quarter diluted earnings per share decreased \$0.14 or 9.4% to \$1.35, driven by the reduced operating income and higher tax rate.

Turning to the balance sheet and cash flow. The company had strong cash flow generation during the quarter and year-to-date operating cash flow is up over \$55 million versus the prior year. Year-to-date payments for property additions totaled \$54.6 million.

For the full year of fiscal '26, we are forecasting total capital expenditures of \$80 million. We will continue to invest in both cost savings projects and other manufacturing improvements as well as the Atlanta facility we acquired to support future growth.

In addition to investing in the business, we also returned funds to shareholders. Our quarterly cash dividend of \$1 per share paid on March 31 represented a 5% increase from the prior year's amount. Our enduring streak of annual dividend increases stands at 63 years.

As we've completed 3 quarters of the year, we are pleased to report growth across a number of metrics in a difficult operating environment. Reported and adjusted net sales increased 2.2% and 0.9%, respectively. Reported and adjusted gross margin reflected increases of 40 and 80 basis points, respectively.

Reported operating income was flat, while adjusted operating income increased 1%. In addition, operating cash flow grew by 32%. We finished the quarter with a debt-free balance sheet and over \$218 million in cash.

As was previously announced, we closed on the \$400 million acquisition of Bachan's on May 1. The transaction was funded by a \$200 million term loan and cash on the balance sheet. The interest rate on the debt is currently less than 5%. The company's strong cash-generating capabilities and low debt levels put us in a position to continue to invest for growth and return funds to our shareholders.

So to wrap up my commentary, our results demonstrate strong execution across a number of areas, and we continue to invest to support the future growth of our business and return funds to our shareholders.

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

David A. Ciesinski
President, CEO & Director

Thanks, Tom. Going forward, The Marzetti Company 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 our cost and grow our margins; and number three, to expand our core with focused M&A and strategic licensing.

As we look ahead to The Marzetti Company's fiscal fourth quarter, in addition to the incremental sales attributed to the Bachan's acquisition, we expect retail sales will benefit from new product introductions, including Marzetti Protein Ranch dressing and veggie dips, our new Olive Garden Zesty Italian dressing flavor and the addition of a larger-sized bottle for the popular Chick-fil-A Avocado Lime Ranch dressing.

In the Foodservice segment, we anticipate continued growth from select customers in our mix of national chain restaurant accounts. Specific to the contribution of the Bachan's business as part of The Marzetti Company for 2/3 of our fiscal fourth quarter, we would guide to a net sales run rate moderately above the \$87 million that the business reported in calendar year 2025 with an operating margin similar to Marzetti's current level.

Like many of you, we continue to monitor external factors, including U.S. economic performance and consumer behavior that may impact the demand for our products. With respect to input costs, in the aggregate, we anticipate that inflation will continue to tick up during the months ahead, and we will continue to carefully monitor the macroeconomic impact of the Iran war.

We believe our commodity risk management program will serve us well in these volatile times. Specific to soybean oil prices, we believe we have sufficient coverage in place to mitigate the near-term impact of the price runup, and moreover, to implement relevant pricing.

In closing, I would like to thank the entire Marzetti Company team for all their hard work this past quarter and their ongoing commitment to grow our business. I would also like to reiterate to Justin Gill and the entire Bachan's team, how excited we are about the opportunities for future growth and shared success. This concludes our prepared remarks for today, and we'd be happy to answer any questions you may have. Operator?

Question and Answer

Operator

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

James Ronald Salera

Stephens Inc., Research Division

Dave, you almost read my mind in your prepared comments there. I wanted to start on soybean oil, so it's very convenient it's the last thing that you mentioned. Can you just give us a sense for how the duration of the coverage in place right now? I know there's a lot of moving pieces, but certainly, it's an important input.

And I know we get questions from investors about as you're doing kind of demand forecasting and procurement planning for 2027, how the recent run-up impacts the mix and kind of the margin outlook? So any thoughts there would be very helpful.

David A. Ciesinski

President, CEO & Director

Jim, I'd be happy to share that with you. So we have, I would call it, intermediate-term coverage that takes us through essentially the end of the summer on board and basis which should be more than enough time for us to be able to get into the marketplace and implement pricing, so that our retail team is in the throes of putting those plans together right now.

And in the case of private label, we've already begun to see the market start to move within the last few weeks. So we feel like we're in a much better position as it pertains to that than we were in 2022, the last time we saw a spike.

On the Foodservice business, as you recall, it's a mark-to-market process, where we have some of our customers on national accounts that have taken positions, some that were a little closer nearby. But independent, the pricing differential is passed through. So I think for you and others that track us, the watch is our coverage on retail, and we feel like we're in a strong position relative to where we were in 2022.

James Ronald Salera

Stephens Inc., Research Division

Great. And I was hoping you could help us size up how you're thinking about the protein launch. I know the protein craze, all these protein forward new products have been very high with consumers. If I recall correctly, I think your produce dressing business is around \$150 million, inclusion of Chick-fil-A, on a retail sales basis.

Given that I would imagine this would maybe pull some people that aren't historical consumers in that category into the category, can you just help us think about how we should think about that business scaling?

David A. Ciesinski

President, CEO & Director

Yes, I'd be happy to. So this was a fast launch in the marketplace now. It's continuing to build distribution, and we attacked it in 2 different places. One was as it pertains to produce dressing. And you're right, the overall category is about \$525 million, of which we have about \$150 million, \$140 million or so size of our business.

And we've launched a ranch protein SKU that's in the marketplace that we're watching carefully. And then we also launched it in cups, in a 75-millimeter dip cup. And we launched the product in dips as well. And

what we're seeing so far is that the product actually in the portable cup seems to be performing the best. So we're excited about both of those.

And to help you size dips for you, let me look here, the size of the category is about \$200 million. If you remember, we have about a 75% or stronger share there. So we have 2 different places where we see that there is an opportunity, and it really depends.

I think for this launch, we're going to be, I would say, an agile innovator, in particular, looking at making sure that we nail the right size format. Our supposition is this is something that's going to be perfect for kids and adults that are on the go so that the dip cup in particular, seems like it's particularly interesting to us.

Operator

And our next question comes from Alton Stump of Loop Capital.

Alton Kemp Stump

Loop Capital Markets LLC, Research Division

Just wanted to ask, first off, obviously, you, of course, mentioned the sell-through data, which was once again very strong for both your frozen dinner rolls and for Chick-fil-A. Yet obviously, overall segment sales were down. So what do you think were sort of couple of kind of key areas of weakness that you saw when -- as you kind of look at your -- just over 5% volume decline in the quarter for the retail segment?

David A. Ciesinski

President, CEO & Director

Yes. So really, Alton, I'd point to 3 things. One is January and February weather resulted in the Northeast being particularly hard hit. The second is category softness in both produce dressings as well as portable dressings, where the category is down about 5 points. And then the third is that we're lapping the pipeline build of both Chick-fil-A into the club channel and Texas Roadhouse rolls.

So really those 3 things combining together are what really drove that decline on the volume front. As you swing around and you say, what of this came as maybe a surprise to us or below our expectation, well, weather just necessarily can't plan for when we were talking to you in January.

I would say, as it pertains to the launch of our Roadhouse rolls, the velocities in Walmart continue to be particularly strong. It's taken us a little bit longer to build the quality of distribution that we want in retail. So as a consequence, those velocities are lagging a little bit.

But I think as you put all those together, I'd ladder back to some January, February weather, category softness in produce and in refrigerated dressings at about 5 points, which is significant, and then lapping that pipeline build. And the executional component that we're really continuing to focus on is continuing to drive improved velocities on Roadhouse, not in the aggregate, if you look at the share data that's out there, but in retail in particular.

Alton Kemp Stump

Loop Capital Markets LLC, Research Division

Got it. Great. Very helpful. And then I guess just a question I wanted to ask is just with your comments, I think you used the word moderately higher as far as modeling Bachan's sales, now that, obviously, that has closed for the last 2 months of the current quarter. But then you mentioned that sell-through data was up over 25% during the first quarter.

So is this just you guys, look, we just closed and want to be a little conservative here? Or is there any reason why we should think that there should be any kind of slowdown as it pertains to the current growth profile of that brand or of that business, I should say?

David A. Ciesinski

President, CEO & Director

Yes. So what I would point to, Alton, is let's kind of look at it strategically. First of all, an amazing product, authentic founder story, great ingredients and really connecting with consumers, has been growing in strong double digits, both the velocity as well as distribution, and we expect that to continue.

Now as we sort of work our way through the next handful of quarters, they have some new item launches that they have that are in the queue and some other activities. So I can't tell you it's necessarily going to be linear at the exact same rate, but we continue to be extremely bullish on the growth of the brand.

And as a proof point, I think what I would look to is 2 important pieces of data. In the recent Circana period, they actually became the #2 barbecue sauce right behind Ken's. So they passed -- or not Ken's, excuse me, but behind Ken's and Sweet Baby Ray's, but in front of Kraft and Kinder's in that period.

The second thing that I would point to is the velocities on those items. They continue to be extremely high, satisfying both retailers, of course, us. And then the last item that I would point to, and this is sort of a longer-term piece. When we look at something like a Net Promoter Score, the brand actually connects and scores more strongly than almost any other sauce brand that's out there.

So all of these make us confident that this is a great platform with room to continue to grow. So as you're aware, we closed on the transaction on Friday. I'm jumping on a plane tomorrow morning, first thing and flying out there along with the leader of our retail team where we're going to spend a couple of days with them celebrating the close.

We've been working with them and the leadership team to put together their AOP for our fiscal year that will be forthcoming. And I can tell you that they couldn't be more excited about the opportunity to work with our culinary and product development team.

So we're really -- we're very, very bullish about it. Great brand, and maybe later in the call, I'll talk about why I think that this transaction, in particular, marks an important evolution in our company's strategy.

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. I would say we're probably a little conservative in what we put out there, and we'll see as we progress deeper into it.

Operator

And our next question comes from Todd Brooks of Benchmark StoneX.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Congrats on getting the Bachan's deal across the finish line. Good to hear.

David A. Ciesinski

President, CEO & Director

Thanks, Todd.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Two questions. Talked about some friction in the club channel. Can you walk through details behind that? And is that related to maybe the new SKU introductions on the Olive Garden side around Zesty? Can you just walk us through maybe some of that friction you saw and how you work that out and restore the momentum in the club channel?

David A. Ciesinski

President, CEO & Director

Yes. So good eye, but that's not the cause. That new item that's coming out there is really the response. So within club, 2 different points of noise. One is we're lapping the launch of Chick-fil-A sauce last year. So

we had a big pipeline build in the period. When we went out with that item, we launched it in a 2-pack, so two 20-ounce Chick-fil-A sauce.

What we found is that the sell-through was strong. However, buyers didn't come back. And when we did the math, what we realized is that we were selling consumers about what becomes a year's worth of supply of Chick-fil-A sauce. So in conversations with the buyers at Chick-fil-A, what we've elected to do is to come back with a 3-pack. So it's going to be 2 smaller originals and 1 Polynesian sauce, and that's shipping into the marketplace now.

The other thing that happened, and this isn't related, is that, as you recall, you followed us for a while, we've been in club with our Olive Garden dressing for quite a long time with the exact same variance. We had a couple of different regions on Costco, not on Sam's, that elected to move us from full-time distribution to more of a rotation sort of distribution.

And in response to that, we've gone back and retooled the offering to offer a multipack as well, where it's the original plus the Zesty that we're bringing to the marketplace there. So we are working with our club partners to work on innovating and ensuring that, that offering is relevant, but it doesn't have to do with the Zesty. The Zesty is part of the response.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Okay. Great. And then can we talk through just within the concept of frozen bread, how we should be thinking about Easter shift impacts with the 2-week earlier Easter that we had this year versus prior, just think about so that we can really fine-tune the modeling that segment of the business as we're looking at the upcoming quarter?

David A. Ciesinski

President, CEO & Director

Sure. Well, while Tom and Dale are going to give you specific information on Sister, I think what I would point to is maybe just a quick set of words on what's going on with New York Texas Toast, which really continues to be our evergreen legacy brand growth story, where it was up several points in the period behind both the strength of our gluten-free item, which I think in sales value now is pushing \$20 million and also our value size of sticks, which continues to grow in the high single-digit, if not double-digit range.

So that brand just continues to grow almost independent of the economic circumstances. That category is down about 1.5 points, but we're continuing to deliver not only just market share gains but actual sales gains through this. And increasingly, what you're seeing is the category seems to be closing in on more and more of a 2-brand set where it's our brand and private label and select retailers. So -- but that's Toast. And then Tom?

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. On the Retail segment, we benefited only about 30 basis points, really driven by Sisters in terms of revenue impact, maybe slightly less than what we had anticipated when we talked to you at the prior quarter.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

And then on Roadhouse, just to kind of finish up the frozen side. You talked about good performance of -- really actually a very strong performance at Walmart being the retail distribution the way that you wanted to get it so you can really accelerate that roll, and I think at one point, you thought that was an extendable category as well with different flavors, many type of SKUs. Do we need to get the retail distribution in place before we start to see SKU extension? Or how do we stage those 2?

David A. Ciesinski

President, CEO & Director

Sure. So maybe I'll give you a little bit of backdrop. So when we originally launched the item into Walmart, it was in a 10-count displayable case and the velocities were so fast, we were having a hard time keeping it on the shelf.

And at the request of our partner, we shifted it to a 20-count case. The case was not a display-ready case. So that worked fine for Walmart where they had already built the awareness in trial and repeat was strong and it continued to grow.

But as we then pivoted into driving retail distribution, having a case that wasn't display-ready resulted in, let's just say, a suboptimal merchandising on the shelf. So the team has been working for, let's say, the last 3 or 4 months on strengthening the display of that item, and we feel like we're starting to make some progress there.

So really, as we look through the remainder of this fiscal year and into next fiscal year in the Retail segment, which you can expect to see us more effort on getting display strengthened and getting it where we want it on the shelf.

As it pertains to extending the platform into new flavors, those plans are already in place, and we should have some news here shortly to share with you, but we're well down the path on that. We continue to believe that it's not only viable, but we have great confidence in it.

Operator

And our next question comes from Scott Marks of Jefferies.

Scott Michael Marks

Jefferies LLC, Research Division

First thing I wanted to ask about, I don't think we've really touched as much on the Foodservice side of things. So wondering if you can help us understand some of the puts and takes there, maybe how the businesses are doing within Chick-fil-A operator as well as some of the other bigger customers you have and help us understand how we should be thinking about that going forward.

David A. Ciesinski

President, CEO & Director

Yes. No, I'm glad that you asked. And Foodservice actually had a pretty solid quarter when you look at it, where volume and sales were both up in the period. And let's maybe pull it apart. If you look at the whole industry, the industry is essentially where it was 3 months ago, it's flat.

Now you pull that apart and we look at national accounts, what I would point to, Scott, is it sort of bifurcates into the concepts that are emerging as the continuous winners and those that I think are struggling. Within our portfolio, we have a handful of those performers that continue to do pretty well.

One of those is Chick-fil-A. They're doing it on their base business, but they're also doing it behind several of their LTOs, which we've been fortunate enough to support. Taco Bell has also continued even in this economic environment to emerge as a winner. And we have a handful of others that I would say we're continuing to win with.

What we're seeing then on the other side of the ledger, though, is for those concepts that can't lead with price or they have a product offering that isn't necessarily connecting with consumers, they're struggling. But all in, on our national accounts component, which is 75% of our Foodservice business, we were able to grow it really led by Chick-fil-A and our winners offset partially by some of the others.

And on our branded piece of the business, that business was flattish, would have been up were it not for the fact that we exited a very low-margin breadstick business, which is pulling it back slightly. So net-net, for our Foodservice business in a competitive environment, I think we continue to do well.

Part of it is we sell sauces and it continues to be the area where our partners look to differentiate their menu. And the other part of it is because we're fortunate enough to have partners with big, strong concepts that seem to be performing best in this environment.

Scott Michael Marks

Jefferies LLC, Research Division

Appreciate the color on that. Second question for me would be, you made some comments about higher investments in personnel and IT. I know you've also been working through testing some different advertising concepts within the retail business.

So I was just wondering if you can give us an update on some of those initiatives and some of the extra costs that you've called out and how we should be thinking about where those investments are going and the kind of growth you're looking for because of that.

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. Great question. So on the IT side, after we put in SAP, there are a number of legacy systems that, quite frankly, needed to be replaced, and were not being supported by vendors anymore. And then there was opportunity to put in systems that would give us more sophistication.

So a couple of examples would be on the Foodservice side, the trade system we put in really helps us on the branded business to improve the trade optimization, and that's been a key contributor to the improved PNO performance we've seen in Retail on a year-to-date basis. So that's been very positive.

And then there's some other legacy systems that we've had to replace that are not as value-added, but necessarily to kind of sustain the business and the growth. What I can tell you is that from an IT standpoint, a lot of that spending is now behind us. And as we plan the future years, we're not putting as much emphasis on that aspect of it.

So going forward, I think you'll see -- and in Q4, you'll see, even with Bachan's, just a modest increase in SG&A in line with inflation. So as we plan for the next fiscal year, I think we're in the same mode in terms of SG&A spend. Now as we see good marketing spends to support growth in Bachan's and other brands, we will continue to invest, but that's kind of our overall profile going forward.

Scott Michael Marks

Jefferies LLC, Research Division

Appreciate the color there. And then just one quick just technical question. I think you called out earlier, the Bachan's op margin is the same as The Marzetti Company. Is that referring specifically to the retail segment? Or is that total Marzetti?

Thomas K. Pigott

VP, Assistant Secretary & CFO

That's total operating margin. Now again, I think we're being a little conservative at the onset and as we get into it, certainly, what we know to be true is that they're an investment -- invest-to-grow brand. And so there's a higher level of marketing spend there as they expand into markets and build awareness, as Dave shared.

It's a fantastic brand. It's #2 in barbecue sauce, but the awareness is relatively low. So their margins are slightly below -- their operating margins are slightly below our existing retail, and part of that is the amount of investment going into the brand to sustain its growth and to build it out.

At the gross margin level with Bachan's, it's nicely margin accretive to the business. And as we get into next quarter's call, we'll have completed the planning process with the team, and we'll have certainly more to share. But as Dave shared, everything we can see in terms of their performance give us comfort in terms of our business model for what we can achieve with that acquisition.

Operator

[Operator Instructions] And 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

Thank you, operator. And before we end the call, I just wanted to make a couple of short comments about strategically, the disposition of the company and where we're heading. And I believe that the acquisition of Bachan's is an opportune time to kind of take a step back and take an inventory of where we've been and where we are and where we look to go.

And really, over the last 10 years, if you've looked at the evolution of our company, we started as a company really focused on driving our legacy brands, and really, we focused in that mode, and then we started to add to that with our restaurant brand licenses.

And I would argue that over the course of the last 7 years, we've built out our retail business essentially by leaning into the growth of those licensed restaurant brands. As we sit today, it's about \$550 million or so of Circana sales. It's about \$350 million more than that of net sales, and it's been really an important driver of our growth story.

At the same time, we've leveraged our strong balance sheet as a means by which to go back and make key investments in our infrastructure, both our plant infrastructure by retiring old lines and putting in place high speed, more efficient lines and then putting in place scalable IT infrastructure.

What Bachan's really marks for us is not only just the acquisition of a phenomenal brand and the opportunity to work with tremendously talented people, but the first of what we believe will be more acquisitions in an area that we're calling authentic flavors. So if 10 years ago, the growth of our company, Marzetti or in Lancaster Colony was driven by legacy brands, Marzetti, Sister Schubert's and New York, the more recent period has been driven by that plus restaurant brands.

As we look to go forward, what we're excited about is the opportunity to add a whole new growth leg to our overall story, which is authentic flavors. So if you look at what our aspirations are going forward, it's to continue to innovate and market and grow against our legacy brands and our restaurant licensed brands, but also to use our end-to-end focused scale from culinary to product development through the supply chain to help highly relevant brands like Bachan's achieve their full potential in the marketplace.

And what we would love to be able to do as we learn more about Bachan's and we get the integration successfully underway is to start to think about where are those opportunities to continue to leverage our balance sheet and find other authentic flavors where those brands and those teams can come and take their business to the next level.

So as we look at the next 10 years going forward, it really gives us a platform for a much more balanced pathway to grow in Retail and in Foodservice. And before we wind down the call, I just wanted to share that with those of you that are listening.

But with that, operator, and everybody else, thank you for your time today. We look forward to being with you in August. Have a great rest of the day.

Operator

Thank you. This concludes today's conference call. Thank you for participating, and you may now disconnect.

Copyright © 2026 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2026 S&P Global Market Intelligence.