The Marzetti Company

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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

James Ronald Salera
Stephens Inc., Research Division

Matthew James Curtis
D.A. Davidson & Co.

Scott Michael Marks
Jefferies LLC, Research Division

Todd Morrison Brooks
The Benchmark Company, LLC, Research Division

Presentation

Operator

Good morning. My name is Kevin, and I'll be your conference call facilitator today. At this time, I'd like to welcome everyone to The Marzetti Company's Fiscal Year 2026 Fourth Quarter Conference Call. Conducting today's call will be David 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 Fourth Quarter Conference Call. Our discussion this morning may include forward-looking statements, which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially, and the company undertakes no obligation to update these statements based upon subsequent events.

A detailed discussion of these risks and uncertainties is contained in the company's filings with the SEC. Also note that the audio replay of this call will be archived and available at our website, investors.marzetticompany.com later today. For today's call, David Ciesinski, our President and CEO, will begin 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 financial results and update you on the latest developments across our business. Before I provide my comments on our fiscal fourth quarter, I am pleased to share that we completed fiscal year 2026, which ended June 30 with record highs in net sales, gross profit and operating income.

FY '26 marks the fourth consecutive year of record highs for net sales and gross profit and the third consecutive year of record operating income. I'd like to extend my sincere thanks to all of our teammates throughout our business for their countless contributions to this achievement.

Moving on to our results for our fiscal fourth quarter. We were very pleased to deliver record fourth quarter gross profit and operating income. On the sales front, reported consolidated net sales declined 2.2% to $465 million. Excluding noncore sales attributed to the temporary supply agreement, or TSA, adjusted net sales improved 40 basis points.

In our Retail segment, net sales increased 0.9%, including $15.4 million in incremental sales from Bachan's, our newly acquired Japanese Barbecue Sauce brand known for its delicious, authentic and clean label products. Retail sales were unfavorably impacted by reduced sales into the club channel and the comparison to last year's pipeline build of Texas Roadhouse dinner rolls into the traditional grocery channel.

Circana scanner data for the quarter ending June 30 showed continued strong performance of the Bachan's brand with sales up 8.7% and total distribution points increasing 16.6% as the brand continues to grow share in the barbecue sauce category. Texas Roadhouse rolls also continued to grow at a torrid pace. During the quarter, sales were up 28.1%. For the 52-week period, the product delivered $58 million in sales, up 76% versus the prior year.

Importantly, even with expanded distribution, sales velocity measured in dollar sales per TDP were nearly two times the category average. When combined with our Sister Schubert's brand dinner rolls, we finished the quarter with a category-leading market share of 61.7%. Our category-leading New York Bakery brand also continued to perform well with sales up 2.8%, resulting in a market share gain of 220 basis points for a category-leading share of 45.5%.

In the crouton category, our branded croutons added 100 basis points of market share, resulting in a category-leading share of 28.4%. In the Foodservice segment, excluding the noncore TSA sales, both adjusted net sales and sales volumes measured in pounds shipped were nearly unchanged as gains for our leading national chain restaurant accounts were offset by reduced sales to other chains and lower sales of our branded foodservice products.

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

Thomas K. Pigott
VP, Assistant Secretary & CFO

Thanks, Dave. Overall, the fourth quarter results demonstrated strong execution. Gross margin expanded for the 12th consecutive quarter. Reported and adjusted operating income grew by 48.2% and 17.5%, respectively. In addition, record full year operating cash flow has strengthened our capacity to both invest and return capital. Fourth quarter reported net sales decreased by 2.2%. The key drivers were a decline in core volume and product mix of 330 basis points, excluding Bachan's; a pricing contribution of 40 basis points; the addition of two months of Bachan's sales, which added 320 basis points of growth.

These items were offset by the discontinuation of the temporary supply agreement sales we have previously discussed. This discontinuation unfavorably impacted revenue by 260 basis points. Excluding the temporary supply agreement sales that occurred in the prior year, adjusted net sales grew by 40 basis points.

Consolidated gross profit increased by $7.9 million or 7.4% versus the prior year quarter to $114 million. Reported and adjusted gross margins expanded by 220 basis points and 160 basis points, respectively. The strong gross profit growth was driven by our productivity program where we benefited from cost savings across several areas, including network changes, procurement, manufacturing, value engineering and distribution.

We also benefited from the addition of Bachan's net sales, which were accretive to our gross margins. As I mentioned at the top, this quarter marked the 12th straight quarter of gross margin improvement versus the prior year. This accomplishment reflects the many cost savings initiatives, network restructuring programs, revenue growth management projects and ongoing pricing net of commodity management efforts that the company has successfully implemented.

Selling, general and administrative expenses increased by $12.3 million. This increase was primarily driven by acquisition-related costs. These included investment banking fees, integration costs, amortization of intangible assets and other transaction-related expenses. When you exclude the acquisition-related costs from both the current year and prior year periods, adjusted SG&A expenses were up by just $100,000.

This increase reflects the addition of Bachan's core SG&A expenses, partially offset by reductions elsewhere. During the quarter, the company completed the sale of the previously closed manufacturing facility in Milpitas, California for more than $20 million. As a result, the company recorded an $18.5 million gain on the sale that was recorded within restructuring, impairment and other. Overall, restructuring, impairment and other was favorable by $23.1 million versus the prior year, primarily due to the gain on sale and lower year-over-year restructuring costs.

Consolidated reported operating income increased by $18.8 million or 48.2%. Excluding the acquisition-related costs and restructuring, impairment and other from both periods, adjusted operating income increased by $7.8 million or 17.5%. This growth was driven by the strong gross margin performance I mentioned. Our tax rate for the quarter was 14.6% compared to 17.9% in the prior year quarter. The lower tax rate was driven by a favorable tax impact from the Milpitas facility sale. We estimate our tax rate for fiscal '27 to be 23%.

Fourth quarter reported diluted earnings per share increased $0.58 or 49.2% to $1.76. The growth was driven by the favorable restructuring, impairment and other impacts I mentioned as well as the core business performance. These favorable drivers were partially offset by acquisition-related costs recorded in SG&A. Excluding all restructuring, impairment and other items and the acquisition-related costs, adjusted diluted earnings per share increased $0.12 to $1.46.

Turning to the balance sheet and cash flow, the company delivered record operating cash flow of $283.8 million, an increase of $22.3 million or 8.5% over the prior year. Year-to-date payments for property additions totaled $77.7 million. For fiscal year '27, we're forecasting total capital expenditures of $90 million. We continue to invest in both cost savings projects and other manufacturing improvements as well as the Atlanta facility we acquired last year to support future growth.

The company finished the year with slightly less than $200 million of long-term debt on the balance sheet resulting from the Bachan's acquisition. The effective interest rate on this term loan was approximately 4.8% at June 30. The company's relatively low debt levels and strong cash flow generating capabilities allow for continued investment in the business and the return of funds to shareholders.

Our quarterly cash dividend of $1 per share paid on June 30 represented a 5% increase from the prior year's amount. Our enduring streak of annual dividend increases stands at 63 years. Our dividend payments for the year totaled $108.8 million. In addition, the company has the financial flexibility to buy back shares. In fiscal '26, the company completed $36.3 million in buybacks, a $28.3 million increase over the prior year.

Looking at the full fiscal year, we are pleased to report growth across several metrics despite a difficult operating environment. Reported and adjusted net sales increased 1.1% and 0.8%, respectively. Reported and adjusted gross margins increased by 80 and 100 basis points, respectively. Reported and adjusted operating income grew 8.3% and 4.2%, respectively. So to wrap up my commentary, our results demonstrate strong execution across several areas. We continue to invest to support the growth of our business while returning funds to 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 three 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.

As we look ahead to fiscal 2027, in addition to the incremental sales attributed to Bachan's, we expect retail sales will benefit from new product introductions, including New York Bakery Cheesy Focaccia Bread, single-serve packs of popular Chick-fil-A Avocado Lime Ranch Dressing and the much anticipated return of the Sister Schubert sausage rolls.

Pricing is also in place to take effect during our fiscal first quarter, which will help offset inflationary costs. Specific to the contribution of the Bachan's business, we project stronger top-line growth for Bachan's in the back half of the fiscal year, driven by our continued investments in marketing and advertising to build the brand's awareness and support trial.

In addition to building brand awareness, the team is also launching two exciting innovations. First is Bachan's Wing Sauce, which will be produced at our own Horse Cave, Kentucky facility. Crafted by the Bachan's team in conjunction with our culinary team, the wing sauce features craveable tamari-based flavors that deliver rich savory depth. The second is Bachan's Japanese Mayo that offers a smooth, silky umami flavor.

We expect the addition of the Bachan's business to our portfolio to be a key growth driver for Marzetti in fiscal '27. And we're also pleased to share that the integration of this business remains on track.

In the Foodservice segment, we anticipate continued growth from select customers in our mix of national chain restaurant accounts. Contractual inflationary pricing will also support the segment sales in the year ahead.

External factors, including U.S. economic performance and consumer behavior, may impact the demand for our products in fiscal year 2027. Furthermore, we continue to monitor the impact of the Cyclospora outbreak on our business. At this point, we estimate that the outbreak will result in a net sales headwind of approximately 250 basis points in our fiscal first quarter, with the impact similar for both our Retail and our Foodservice segments.

With respect to input costs, in the aggregate, we anticipate a moderate level of inflation in fiscal year 2027 that we plan to offset through pricing and our cost savings program as we remain focused on continued margin improvement.
In closing, I'd like to thank the entire Marzetti Company for all of their hard work this past year and their ongoing commitment to grow our business. Furthermore, specific to Bachan's, as the new addition to our team, I look forward to working with all of you in the coming year, and I share your excitement for the next phase of growth and our continued success of Bachan's. 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] Our first question comes from Jim Salera with Stephens.

James Ronald Salera
Stephens Inc., Research Division

I know you're probably sick of me asking about soybean oil, but you keep delivering gross margin outperformance, and that's against the backdrop of soybean oil up nearly 40% year-to-date. Obviously, a testament to the skill of your procurement team, but could you give us some color on the moving pieces in gross margin as we think about '27, given the commodity inflation, obviously the incremental benefit from the Bachan's integration, some of the pricing you mentioned? Could you just kind of walk us through the gross margin build and how we're thinking about that?

David A. Ciesinski
President, CEO & Director

Well, Jim, I never grow tired of talking about soybean oil. As you know, it's one of those elements of our business that we watch closely. Well, a couple of points: I appreciate the shout-out for our procurement team; they do a fantastic job. And we were able to protect ourselves in the most recent period with hedges we put in place a while ago. And then, as was outlined in the script, we also were able to get through pricing, which should protect us as soybean oil starts to elevate.

So net-net, we feel like we were able to buy when it was advantageous and able to protect ourselves by way of most recent pricing. But as it pertains to the buildup of our margin story, what I'll do is I'll turn it over to Tom and let him walk you through that.

Thomas K. Pigott
VP, Assistant Secretary & CFO

Sure. So as we look at fiscal '27, we're estimating about 100 basis points of margin growth on the consolidated results. About half of that driven by the accretion we get from Bachan's adding to the portfolio, a nice high-margin business. And then the other half is our continued commodity risk management program and our cost savings initiatives combined.

As it relates to pricing, we've rolled out our pricing. We feel confident we'll get it through, but it is essentially helping-it is an impact on our margins in that the commodity inflation is forecasted to be around 5%. And when you consider the higher revenue and the commodity inflation, you do get a dilutive impact of about 50 basis points on the consolidated results. However, that as I mentioned before, our cost savings program is helping offset that. And so overall, our forecast is to grow gross margins by about 100 basis points in fiscal '27.

James Ronald Salera
Stephens Inc., Research Division

Okay, great. That's very helpful. And then turning to Bachan's, if I do my napkin math correct here, if I kind of take the 8% growth rate and just roll that forward, I come up with something in the ballpark of $100 million for the full year '27. Is that the right way to be thinking about that from a sales contribution standpoint?

David A. Ciesinski
President, CEO & Director

I would expect it to be stronger than that, Jim. There are three elements of the growth. The first is the growth of the core. That's going to come by way of expanding awareness, trial and household penetration. The second is the launch of their Mayo, which is already in the process of being sold in and they're getting good acceptance, three different SKUs and a great-tasting product, and it's a category that's about $3.4

billion. The barbecue sauce category, just for a frame of reference, is a little bit bigger than $1 billion. So mayo presents a really big category expansion opportunity. They have three great items and the fastest-growing part of the category is in the either the natural better-for-you mayos or the ethnic mayo. So I think they're well positioned to capitalize on that trend.

The third piece, also in the space of innovation, is the launch of wing sauce. And we're pleased to share that the integration and collaboration with them has gone exceedingly well. They reached out and said, "Hey, we would like to use the Marzetti culinary team and product development team to get into wing sauces." And so we treated them, believe it or not, like a foodservice operator, came up with a variety of formulas. Justin Gill, the founder, and others tasted them; we iterated on them, and we're in the process of selling them in right now as well.

So the reason why I shared that is, as it was mentioned in some of the comments in the script, we expect the sales actually to build as we go deeper into the fiscal year, predicated on not just the advertising on the core, but on some of these new items.

Operator

Our next question comes from Todd Brooks with The Benchmark StoneX.

Todd Morrison Brooks
The Benchmark Company, LLC, Research Division

I want to add on-you just gave us some good color on Bachan's for '27, Dave. But if we're thinking about the licensed branded product portfolio growth, obviously some onetime lapse here that made for a bit of a choppy quarter. And you talked in prior quarters about this not being necessarily the same type of growth engine, but still a growth engine for Marzetti going forward, just at a lower level. I guess, can we talk through thoughts on what licensed branded products should grow? And then a follow-on to that, you kind of teased some new product launches, not just on the branded products like Bachan's, but within the licensed portfolio as well. Can you give us an idea of maybe some thoughts there and maybe a contribution or magnitude of revenue growth that those can support in your mind?

David A. Ciesinski
President, CEO & Director

Yes. So if you sort of step back, I would say we have several things going on in licensed sauces, the first of which is we have another quarter of the noise associated with the pipeline build that we've been referring to. Notwithstanding that, here's how I would think about it: we're exceedingly happy with the performance of our Texas Roadhouse item. In the course of the last year, it grew to almost $60 million in retail sales; it was up 70%.

Velocities are two times the category average or thereabouts. We're launching a second item into Walmart. And honestly, there's more room just through better distribution on the core items for it to grow. So if you go back a year and a half ago when we began to talk about that item, I estimated that it could be a $100 million in retail sales item, and I still believe that it most certainly has the potential to do that.

Then you swing through licensed sauces; we continue to be bullish about Buffalo Wild Wings and Chick-fil-A sauces. The area that we're watching a little bit more closely is the salad dressing category overall has been a bit of a drag for the last few quarters. So we have a whole range of activity that's in flight on our own Olive Garden, but that's one of the washouts that we have. As it pertains to where we go on licensing from here, we have a couple of different initiatives that are in flight.

Unfortunately, we're not far enough along on those to talk to you about them. But some of those actually include us expanding beyond restaurants. So we have restaurant activity that's in flight with some of the banners that you're familiar with, but also some non-restaurant activity that's in flight. We're just not ready to share with you yet.

Todd Morrison Brooks
The Benchmark Company, LLC, Research Division

Okay, fair enough. That's great. And then you talked about Texas Roadhouse. And I think when you initially talked about the potential for that category-and you just confirmed it, kind of, I think it was the fourth product line that would approach or cross over $100 million in kind of sales at retail. Does the second SKU launch get you there? Like how big does the platform have to be to support that type of success? And I'll jump back in queue.

David A. Ciesinski
President, CEO & Director

It's a great question. So here's an interesting thing: that's a $60 million retail sales business, our household penetration right now is 2.5%. That is a really, really small household penetration. So I think with good execution and good trial, that core has the potential to get there. You add that new item, I think it should give us even more confidence that we ought to be able to get there.

But as I look at this product, first of all, it's great-tasting. And I think there are two different themes that our consumers are looking for in this environment. We live in this world of an incredible amount of noise in inflation, debt, the war in Iran, gas prices, et cetera, et cetera. But when you distill it down to houses around the country, people are looking for a couple of different things. What are affordable solutions to extend their meal dollars? And within that space, you see things like our own New York Texas Toast playing really, really strong.

The second category I would characterize as affordable moments of joy, just simple things that mom can bring to the house, or dad can bring to the house that people can eat that bring a little bit of affordable pleasure to the household. And I think Roadhouse in this moment in time fits there. The restaurants fit there if you want to go, you want to go visit a restaurant, and I think the product in the home delivers on that as well.

I think that same thing is true, by the way, with Buffalo Wild Wings and with Chick-fil-A. So I think as we think about where we go with-back to your original question with Roadhouse, I think if we can just continue to drive awareness, trial and household penetration on that item from 2.5% to closer to 5%, that math gets you there. Parenthetically, our own Sister Schubert's has household penetration right now, I think about 8% or maybe closer to 10%. So I think that gives you an idea that there is room to run on that.

Todd Morrison Brooks
The Benchmark Company, LLC, Research Division

So if you roll that up, Dave, how would you frame it up for us-licensed branded product growth in '27 for the portfolio as a whole, how should we be thinking about that?

David A. Ciesinski
President, CEO & Director

I would say if we pull out the noise associated with the Chick-fil-A pipeline build, our licensed sauces I would expect to be closer to flat, with room to grow in our licensed dough items.

Operator

Our next question comes from Alton Stump with Loop Capital Markets.

Alton Kemp Stump
Loop Capital Markets LLC, Research Division

I just want to touch on and I thought it was very helpful with your comments, Dave, talking about the expected impact from the recent Cyclospora outbreak. Obviously, a lot of your retail products, but also foodservice, do indirectly participate in the salad category. So I guess it's also early on, but if you had to speculate sort of how lasting the impact will be, is it possible that it could bleed past the current first quarter? Just kind of what your thoughts are with that recent outbreak in particular?

David A. Ciesinski

President, CEO & Director

First of all, it's nice to speak with you. And I'm really glad you asked this question because this is an important one for our business, but I think food in general. Maybe I'll start with a couple of factoids. If you go back to when the outbreak started in the first couple of weeks -- last couple of weeks of July, what we found is that the host foods, think lettuce and greens and veggies all demonstrated a dip. For that matter, even fruit led by berries demonstrated a dip. So in the case of lettuce, the low watermark in those last couple of weeks of July would have been down 30%.

Veggies during that same period would have been down 16%. Fruit would have been down 13%. You swing around then and you look at what our dressings or basically the food that we offer to complement those items; they were down correspondingly, not to the same amount. Olive Garden in that period would have been down to 11%. Our Marzetti Classics would have been down because it's produce right next to the lettuce, a little bit closer to 15%. Even Chick-fil-A was down.

Having said that, now we roll forward to the most recent period, which is the week of the 21st of August, what we've seen in the case of produce, so lettuce, veggies and fruit-is all of those categories have begun to improve somewhere in the 5% to 10% range off of that low watermark. As we look at our own items, what we're seeing is they too are improving. Olive Garden's low watermark might have been 11%; now it's off more like 6%. Our Classics were off 16%; now they're off more like 8%. So the whole thing seemed to hit the low watermark in those last couple of weeks of July and seems to be coming back.

Now, how do we think about this going forward? What we've done is we went back and we looked at more recent outbreaks. We looked at the outbreaks in '22, which were romaine, but we actually chose to go back and look at the outbreak in 2018. And in that moment in time, there were actually two E. coli outbreaks and there was one Cyclospora outbreak. And we think that one may be the more instructive of the two. And what we've modeled into our volume assumptions is that it follows the path of that 2018 outbreak, not because of the volume of the Cyclospora, but just because of the aggregate media that it received in that moment in time.

So if you follow that through, this thing kind of has a half-life. The first month improves, let's say, by 10%, and then it improves by half of that, and it improves by half of that. So by the time you get more like four months past the event, it's trending back to where things were before. So we looked at '22; it was somewhat similar, but the magnitude of the outbreaks weren't as big in terms of media coverage as this one. So our best estimate is that it's going to follow that 2018 path.

Alton Kemp Stump
Loop Capital Markets LLC, Research Division

That's some great color. And I guess one more and then I'll hop back in the queue. I just wanted to talk about the margin outlook. Quite impressive, I think you said you expect 100 basis points of margin even with all the kind of noise going on. How much of that is sort of internal cost savings driven versus is there any cost synergies baked in with the Bachan's deal? Just kind of if you could sort of, in general, maybe give us a bit more color on sort of how you are confident that you can get to that type of margin expansion this year.

David A. Ciesinski
President, CEO & Director

Why don't I begin top-side, and then I'll turn it over to Tom again, but maybe start with a couple of points. The first thing that I would point to, and Alton, you have followed us well enough to know over the last handful of years, we've invested in a network reset. The investment in Horse Cave, the purchase of the facility in Georgia, the closing down and the sale of the facility in California, all of those various network moves have facilitated this multi-period sequential improvement that we've seen in our gross margin, and we expect it to continue to be a source of that benefit as we go forward. But having said that, for more detail, I'll let Tom will cover it for us.

Thomas K. Pigott
VP, Assistant Secretary & CFO

Yes. When you break it down and you look at it ex-Bachan's, we're about 50 basis points -- about half that 100 basis points I mentioned is on the base. And we've been delivering at that level pretty consistently. We feel confident that with the items Dave had in place, we'll continue to deliver on it. And then the other half represents the accretion from Bachan's, including the synergies that are baked in. And I would say immediately, we're realizing some productivity savings on Bachan's synergy savings in the procurement area, and we have plans to do more elsewhere. But overall, that integration is on track and the synergies are pretty much in line with our expectations.

Operator

Our next question comes from Scott Marks with Barclays.

Scott Michael Marks
Jefferies LLC, Research Division

I wanted to first ask, I kind of have a two-parter question just on the retail business, the core retail business. If we strip out Bachan's, it looks like organic volumes were down about 7%, driven by some of the lapping dynamics that you called out. Wondering if you can, first of all, help us understand how each of those components contributed to that decline? And then secondly, as it relates to Chick-fil-A business within the club channel, can you help us understand the latest there in terms of just distribution and overall business since you've launched the three-bottle pack in place of the two in some regions? And anything specific you would call out around that?

David A. Ciesinski
President, CEO & Director

Yes, no, our pleasure. So maybe I'll start, Scott, if you'll allow me, by sort of laddering back up. We look at the three different pieces of our business. Foodservice, which really hasn't been covered so far, continues to meet and exceed our expectations in an environment where we're continuing to win with winners. Chick-fil-A winning with their consumers, Domino's winning in pizza QSRs and Taco Bell-even in spite of the more recent news with Cyclospora, where they're continuing to win and we're continuing to win with them. Our supply chain, which we've talked about, where we feel like we're executing quite well.

That brings us around to retail, moving Bachan's to the side a second, where we're pleased with the integration and focusing on the core. I think there are several things that are going on as you plot it apart. We continue to be pleased with our progress in specialty bakery as a group overall. We talked about the growth of New York Texas Toast in the script, which just continues to motor along. We talked about Texas Roadhouse and the continued promise there.

As we swing around, I think the soft spot that we're focused on in particular, notwithstanding the cycling of the pipeline build, is dressings and licensing is an area where we continue to need to focus. And I think what we look forward to talking about in the quarters ahead is we have a range of different activities in flight around marketing and innovation that we believe will restore those segments to grow.

So laddering back up, how would I encourage you to think about it? I would expect continued sequential growth in the dough space of our core business, to include the piece that we license from Texas Roadhouse. As we think about sauces, notwithstanding the noise from the pipeline build at Chick-fil-A, we continue to believe overall those brands are healthy as well. The area where we're really focused, which is exacerbated by Cyclospora, is the dressing space.

Scott Michael Marks
Jefferies LLC, Research Division

Okay, appreciate the color there. And then maybe if we just turn to the margins for a sec across the different segments just as we look at maybe the current quarter and what happened there, it looks like foodservice benefited quite a bit more than retail from some of your cost savings initiatives. So just wondering if you can help us break that down a bit. What was the driver of that? And as we look ahead to '27, how should we be thinking about the split between segment profit performance?

Thomas K. Pigott

VP, Assistant Secretary & CFO

So the -- what you're seeing is the benefit of the network moves that are impacting the Foodservice segment. So exiting the Milpitas plant, moving production to Horse Cave, we're more efficient and beginning to ramp up College Park is kind of what you're seeing in the current quarter. As you get into next year, retail will benefit from the accretion from Bachan's being added, and both segments will continue to benefit from our productivity program. So we have positive outlooks on both segments as you get into fiscal '27.

Operator

Our next question comes from Matt Curtis with D.A. Davidson.

Matthew James Curtis
D.A. Davidson & Co.

Maybe a follow-up on gross margin expansion in fiscal '27. I mean, in terms of the timing of the expansion, do you think the gross margin improvement is likely to be balanced? Or would it maybe be weighted more towards the second half as Bachan's strengthens or maybe price becomes more fully realized?

Thomas K. Pigott
VP, Assistant Secretary & CFO

Well, a great question. I think the first thing we need to zoom in on is Q1 and what our expectations are there. Given the Cyclospora impact, we do expect the impact on revenue on the base business that Dave highlighted, which gets us into kind of flattish net sales in Q1. We don't expect to grow our margins in the first quarter. So when you put that together from an operating income standpoint, we are looking at a 15% decline roughly in operating income in Q1. And now your question on the -- once we get past Q1, I think we feel good that we're going to give steady, pretty consistent gross margin accretion throughout the year.

Matthew James Curtis
D.A. Davidson & Co.

Okay. And then I guess on Bachan's growth that I think you said you expect to strengthen in the second half of the year. Is this -- if you can help us understand, is this mostly related to the timing of things like new product launches? Or do other drivers like maybe marketing also play a role in that outlook?

David A. Ciesinski
President, CEO & Director

It's an important question; it's actually both. So the new item launches are being sold in now. There will be a couple of customers that will take them early, more like, let's call it, the holiday time frame. But most of those customers will take those items for their spring reset, so they'll most certainly be a contributor. As you think about the core business, what we've done over the last four months is we've worked with the team to help refine their marketing, and in particular, a couple of different components.

One, who are their cohorts that they want to reach out to where the message resonates the most strongly? And the second component of that is what does that message need to say. That work is being done now. In short order, they'll be reworking their creative, and we expect to turn that on here within the next couple of months. As that comes on, we expect to see more lift in that space.

It may be worth even recalibrating for the group: as of today, the trial on the item remains only 5% or 6%. It was 5% when we bought the business; it's moved to 6%, and that continues to be the single biggest opportunity. The other thing that I would share with you on Bachan's that we've learned is it's a Japanese barbecue sauce, but it's actually an incredibly versatile product. And actually, grilling isn't one of the top occasions that it's used on; it's actually used in a whole range of everyday occasions, which gives us more confidence that we can grow the business, not just in grilling season, but throughout the entire year.

Matthew James Curtis
D.A. Davidson & Co.

Okay, interesting. Got it. And then maybe just the last one for me on your fiscal '27 CapEx guidance. I think you said $90 million. Could you just briefly walk us through what the major buckets of that spend are for this year?

Thomas K. Pigott
VP, Assistant Secretary & CFO

Yes. The biggest piece is really investing in the College Park facility in Atlanta and scaling that primarily to support the growth in Chick-fil-A. We're adding quite a bit of manufacturing capacity to that facility, and that's the largest piece of it. There's also some additional cost savings initiatives that contribute to that margin growth and then some ongoing infrastructure investments we're making, with the biggest piece being the College Park.

Operator

And I'm not showing any further questions at this time. I'd like to turn the call back over to Dave for any further remarks.

Thomas K. Pigott
VP, Assistant Secretary & CFO

Yes, I want to share a little bit more about our expectations for next year in terms of the top line. We are, with the benefit of Bachan's, we're expecting mid-single-digit revenue growth. Retail is expected to grow revenue in the mid-single digits, driven really by Bachan's and a modest decline on the base for the factors that Dave highlighted, including the Cyclospora impact.

And the foodservice business is expected to also grow in the low to mid-single digits. From a gross profit outlook, we've covered that. SG&A is expected to grow in the 10% to 15% range, really driven by the addition of Bachan's SG&A; the base SG&A is expected to grow with inflation. So overall, we feel good about our outlook for fiscal '27, really benefiting from Bachan's, the foodservice business and some work on retail.

David A. Ciesinski
President, CEO & Director

So maybe bringing it all back together, you bring the quarter together, we were pleased to see progress in some areas, not satisfied with our progress in others. Foodservice continues to, we believe, outperform the peers in the space. Our supply chain executed well. In retail, it was a bit mixed. We're super pleased with our progress on the integration of Bachan's.

We're pleased with the growth of what we have going on in specialty bakery. But there's areas within the dressing space where we really have a lot of activity going on to restore those important businesses to grow. You swing forward, even in this environment of uncertainty, we see line of sight to mid-single-digit top-line growth, mid-single-digit bottom-line growth when you bring in the benefit of Bachan's. So a lot going on here. We're excited about our progress. Look forward to having more to share with you guys when we're together here in November. Have a great rest of the day.

Operator
Thank you, ladies and gentlemen. This does conclude today's presentation. We thank you for your participation. You may now disconnect, and have a wonderful day.