J&J Snack Foods Corp. (Q3 2026)
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Corporate Speakers:

- Reed Anderson; ICR; Managing Director
- Daniel Fachner; J&J Snack Foods Corp.; Chief Executive Officer
- Shawn Munsell; J&J Snack Foods Corp.; Chief Financial Officer

Participants:

- Todd Brooks; Benchmark; Analyst
- Scott Marks; Jefferies; Analyst
- Jon Andersen; William Blair; Analyst

PRESENTATION

Operator^ Good day and thank you for standing by. Welcome to the J&J Snack Foods Third Quarter 2026 Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Reed Anderson with ICR. Please go ahead.

Reed Anderson^ Thank you, Operator, and good morning, everyone. Thank you for joining the J&J Snack Foods fiscal 2026 third quarter conference call.

Before getting started, let me take a minute to read the safe harbor language.

This call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements made on this call that do not relate to matters of historical facts should be considered forward-looking statements including statements regarding management's plans, strategies, goals, expectations and objectives, as well as our anticipated financial performance. This includes without limitation our expectations with respect to the success of our cost savings initiatives or demand improvements in the sales channels in which we operate.

These statements are neither promises nor guarantees and involve known and unknown risks, uncertainties and other important factors that may cause results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Risk factors and other items discussed in our annual report on Form 10-K and our other filings with the Securities and Exchange Commission could cause actual results to differ materially from those indicated by the forward-looking statements made on the call today. Any such forward-looking statements represent management's estimates as of the date of the call today, August 5, 2026.

We may elect to update forward-looking statements at some future point. We disclaim any obligation to do so, even if subsequent events cause expectations to change.

In addition, we may also reference certain non-GAAP measures on the call today including adjusted EBITDA, adjusted operating income or adjusted earnings per share, all of which are reconciled to the nearest GAAP measure on the company's earnings press release which can be found in our Investor Relations section of our website.

Joining me on the call today is Dan Fachner, our Chief Executive Officer, along with Shawn Munsell our Chief Financial Officer. Following management's prepared remarks, we will open the call for a question-and-answer session.

With that, I would now like to turn the call over to Mr. Fachner. Please go ahead, Dan.

Daniel Fachner^ Good morning. Thanks everyone, for joining today's call to discuss our third quarter results.

We are proud of the progress we've made implementing our transformation initiatives, which helped to support earnings performance despite material fuel and freight pressures during the quarter. Gross profit improved about $1 million to $151 million, and consistent with the first half of the fiscal year, gross margin continued to expand, rising 240 basis points to 35.5%.

Adjusted EBITDA came in at $67.4 million, a decrease of 6.4% from last year and adjusted earnings per share were $1.96 versus $2 a year ago. The $4.6 million EBITDA decline from the prior-year quarter was primarily attributed to freight and fuel cost pressures, which together increased about $4.7 million net of surcharge collections.

Net sales were $426 million, down 6.2%, with over half of the decline attributed to anticipated sales reduction in bakery. About 140 basis points of decline was attributed to our frozen beverage business, where higher beverage sales only partly offset lower service and machine sales. Retail sales improved 1.7% in the quarter as higher levels of promotions lifted volume.

Looking ahead, sales momentum is building, and we expect the sales environment to improve in the fourth quarter with our toughest top-line comparison behind us. The impact of the anticipated bakery sales reduction peaked in our third quarter and will diminish in the fourth quarter to about 2.5% of prior-year sales.

We are shipping against several new meaningful pieces of business in the fourth quarter across our core portfolio that includes churros, pretzels and frozen novelties. We also expect retail sales to improve further as we realize benefits from innovations and promotions while the slotting fee headwind diminishes.

Our innovation rollout continues and we've been pleased with the results. Some headwinds in service and machine sales are anticipated in the fourth quarter, but we expect beverage volume increases to partly offset those headwinds. Further, we have line of sight to begin closing the service revenue gap in the fourth quarter, with most of it closed by the first quarter of fiscal 2027.

We expect the company to return to sales growth in fiscal '27. The increase in fuel and freight expenses reflects higher oil prices and significant tightening of freight markets during the quarter. Fuel costs were about in line with expectations, while freight rates rose sharply as the quarter progressed. The freight increase primarily reflects constrained capacity because of regulatory and legislation changes. We are pursuing steps to mitigate some of the pressure.

We expanded our application of fuel surcharges during the quarter and recently increased our minimum order quantities. While we expect fuel and freight pressures to persist in our fourth quarter, diesel prices have moderated from the highs earlier in the summer.

With respect to segment performance, there are several bright spots in the quarter. In food service pretzels, we extended our category leadership, picking up 4.6 points of dollar share.

Our retail segment had a solid quarter. Net sales were up 1.7% as higher promotions supported volume. Moreover, we incurred higher slotting fees to support the rollout of new innovation, implying underlying growth in the mid-single-digit range.

Syndicated data for the 13 weeks ending July 12 showed retail pretzel sales up about 2% and novelties up 3%. Dogsters continues to perform exceptionally well, with retail sales up over 30% in tracked channels.

Over the same period, syndicated data shows LUIGI'S up over 20%, aided by end-cap placements with a major customer.

Retail Dippin' Dots growth was driven by the launch of the high-temp Dippin' Dots product, as well as two more sundae flavors, with the brand up more than 100% in tracked channels for the 13 weeks ending July 12, with almost $4 million in retail measured sales.

Within our frozen beverage segment, beverage volume increased mainly on the strength of theaters and mass merchandising channels, driving a net sales increase for beverage of 5.9%. A slate of solid movies in the quarter more than offset the success of the Minecraft movie in the prior year quarter.

We are extremely encouraged by the movie lineup for the fourth quarter and for fiscal '27, which includes the new record-breaking Spider-Man movie that was released this past weekend. The test with a West Coast QSR operator continues, and we remain optimistic that it will conclude with a positive outcome soon.

We are actively testing and expanding our footprint with both new and existing partners across convenience, theaters, and entertainment venues, and early signs are very encouraging.

The more efficient cost structure we built through Project Apollo, along with the improved sales mix, has underpinned much of our gross margin expansion and puts us in a strong position as we look to return to top-line growth in fiscal 2027. Plant consolidation savings are ahead of target, giving us the confidence to raise the plant consolidation component of Apollo to at least $20 million of annualized savings. That would take the full program annualized run rate to at least $25 million. Further, our G&A initiatives were implemented in the quarter, which helped to moderate administrative expenses, which were materially flat in the quarter. And despite the fuel and freight cost increases, we did realize distribution cost savings in the quarter from Apollo initiatives.

Our innovation pipeline keeps gaining traction. We're picking up new distribution across both retail and foodservice.

We are encouraged by the early results of our new Better-For-You lineup including our SUPERPRETZEL, 10-gram protein pretzel and the new LUIGI'S Mini Pops with benefits of hydration and antioxidants, which are generating strong velocities for our retail partners. Dogsters has yielded the most incremental distribution, and we're also optimistic about the rollout of Dogsters to the pet retail channel, which had just started in August.

Our balance sheet remains in great shape. This quarter we returned another $25 million of cash to shareholders including $15 million in dividends and $10 million in share repurchases.

I'll now hand things over to Shawn, who will walk you through the numbers in more detail. Shawn?

Shawn Munsell^ Thanks, Dan, and good morning, everyone. Building on what Dan covered, our third quarter results reflect continued execution on our transformation initiatives, even with some cost headwinds working against us.

Food service net sales declined $22.9 million or 8.3% to $254.3 million, with about $16 million of the decline associated with anticipated reductions in bakery.

We saw modest growth in both pretzels and churros, but this was more than offset by continued softness in cookies and handhelds, consistent with the pattern we saw in the second quarter. Food service segment operating income of $28.1 million was modestly above prior year as higher distribution costs mostly offset continued improvements in gross profit.

Retail segment net sales increased $1.1 million, or 1.7%, to $64.9 million. We incurred a $2 million increase in slotting fees in the third quarter to support the rollout of recent innovation. Absent slotting increases, retail segment sales would have increased 4.8%. Dogsters continues to perform exceptionally well with units up about 40% in the quarter. Retail segment operating income declined $3.5 million, primarily driven by the increase in slotting fees and distribution costs.

Frozen beverage segment net sales decreased $6.5 million, or 5.8%, to $106.7 million. Strong growth in beverage sales of 5.9% was more than offset by lower service and machine sales. Lower service sales were driven by customer insourcing decisions consistent with our fiscal second quarter, while more and more of the sales were driven by the sales of the product, while machine sales declines mainly reflect the cyclicality of the machine business.

Beverage strength primarily was driven by theater and mass merchandise channels. Convenience channel sales were soft in the quarter. Frozen beverage segment operating income decreased $900,000 to $22.8 million as sales declined and higher distribution costs were partly offset by favorable foreign exchange and cost containment initiatives.

Consolidated gross margin improved 240 basis points to 35.5% due primarily to plant consolidation savings and mix improvements. Year-to-date, gross margin has expanded 200 basis points, and we expect gross margin expansion to continue in the fourth quarter.

Total operating expenses increased approximately 17.1% or $15.3 million. Prior-year reported results included a $9.1 million non-recurring net gain driven primarily by receipt of insurance proceeds.

Selling and marketing expense increased approximately 2.3% or $800,000 versus the prior year, representing about 8.1% of sales compared to 7.5% in the prior year. Distribution expenses increased $4.9 million and accounted for 11.6% of sales, compared to 9.8% in the prior-year period, driven by higher freight and fuel costs of approximately $5 million, excluding any offset from fuel surcharges. Administrative expense was approximately flat versus the prior year and included about $600,000 of non-recurring legal charges.

Implementation of G&A savings initiatives helped to drive a moderation in administrative expenses. Adjusted operating income was $48.1 million compared to $53.4 million in the prior year. Adjusted EBITDA was $67.4 million, down 6.4% from $72 million last year. The effective tax rate for the quarter was approximately 23.2% as compared to 27.2% in the prior year.

On a reported basis, earnings per diluted share was $1.88 compared to $2.26 last year, with the prior year benefiting from a one-time insurance gain. On an adjusted basis, earnings per share was $1.96 compared to $2 a year ago.

Our balance sheet remains strong with cash net of debt of approximately $35 million. We have approximately $182 million of borrowing capacity under our revolving credit facility.

During the quarter, we generated approximately $48.8 million in operating cash flow and invested about $18.1 million in capital expenditures.

We expect to collect approximately $17 million in insurance proceeds in August, reflecting the final settlement of the fire-related loss at our Holly Ridge plant, which was closed as part of Project Apollo.

We repurchased approximately 136,000 shares of common stock for $10 million during the quarter. On a year-to-date basis, we've returned approximately $120 million to shareholders through the first nine months of fiscal 2026 through dividends and share repurchases.

That concludes our prepared remarks, and we're now ready to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Todd Brooks of Benchmark.

Todd Brooks^ Dan, you spoke to headwinds diminishing in Q4 in the earnings release.

What are you speaking to specifically that eases in Q4 and what's your visibility into that happening?

Daniel Fachner^ Todd, before we start, I just wanted to say a couple of things.

Our late founder, Gerry Shreiber, might have said this was a quarter to crow about. I feel like there's a few things I wanted to crow about, if I could do that just before we get started.

I'm really proud of the team and what they are accomplishing, especially in this quarter. We started out the year with a play that we call the raise margins, reduce expenses, and they’re really run at the headwinds.

This quarter that we were up against last year was a record-breaking quarter, and we ran at it and did pretty well up against it, especially when you consider the fuel and the freight picture that we're up against.

Without that headwind, we wouldn’t have beaten last year EBITDA. In short, Todd, Project Apollo is doing exactly what we designed it to do, and it's protecting margins in the quarter despite the pressures that are out there. And we're really seeing some great momentum building in our sales heading into the fourth quarter.

So some really exciting things and new pieces of business that we have that are shipping this coming quarter. Some great things with pretzels in a QSR, with churros in a club store, and really frozen novelties in a lot of different areas including some great private label stuff that we're doing.

Then the last thing I would crow about, we had a headwind with service, and the team's gone out there and signed a new deal with a big service organization that will get us back on track in the fourth quarter and really start to get back to normal growth as we see 2027.

So really a lot of good things happening.

Your question around what are some of those, we had bakery headwinds that had some declines. We're still doing that SKU rationalization, but we hit the peak of that as you get to Q3 and it starts to taper down as we get to Q4.

Q3, it was 3.5%; Q4, somewhere in that 2.5% range. We’re really closing that service gap like we just talked about. Got a great new piece of business, anxious to share the name of that customer at some point in the future, but we have signed the contract, and that piece of business is coming onboard now and will continue to grow into next year.

Retail is doing great. You know you saw that up 1.7% in the quarter. Really happy with their progress. We've been talking about doing a lot of promoting in that, but we're seeing volumes outpace the promoting, which is really exciting.

Then slotting fees, as we've had to pay for a lot of that great new innovation, and it is great new innovation. Some of that doing extremely well for us, but those slotting fees are starting to diminish as well.

Then last but not least, really excited to see what the theater is starting to do. I'm sure everybody's been reading about that. In different times, people would have thought that theater business had been left for dead. But it has charged back really, really strong. In this past weekend, we had Spider-Man that was released. It was a record-breaker.

So we're really excited about some of the things that we have going on and are looking forward to Q4 and beyond.

Todd Brooks^ That's great, Dan. And if I can extend that question and start to talk about fiscal '27, J&J has a long history of generating amount of organic growth, and then there's market-related growth, plus or minus around that.

If you look at what you're tasking the teams with or what the outlook is, what do you see for the organic growth outlook for the company in '27, and what are the big drivers that give you visibility into that controllable growth that you might be able to harvest [ph] in this?

Daniel Fachner^ Yes. We definitely see organic growth returning in 2027.

I said this earlier. We've got some really good things happening in our core products in pretzels and churros and frozen novelties. We talked a little bit about the frozen beverage. We think theaters are coming back strong. We think '27, the lineup of theaters looks good.

I still like the tests that we have going on with the ICEE business and a QSR that I think that we'll see some positive results that happen in '27. Then a couple other tests that the team is generating beyond that. Our sales team right now is hitting on all cylinders.

So I like what we have going into 2027. We haven't released what that number will be, but I absolutely believe we'll be back to organic growth. Then I think we'll continue to see great results from the innovation that we've had going on and some innovation to come as well.

Operator^ Our next question comes from the line of Scott Marks of Jefferies.

Scott Marks^ Dan, Shawn, first thing I wanted to ask about, you talked about the food service segment. I think if we exclude the bakery SKU rationalization, sales were still down a little bit. You called out some weakness in cookies and handhelds.

So just wondering if you can dive into that a little bit, just help us understand what's happening with that part of the business and how you're thinking about maybe operational adjustments or changes to help stabilize that part of the portfolio.

Daniel Fachner^ Yes, Scott. We're proud of what the food service group is doing as well.

It's a big group. If you think about our total business, it's still two-thirds of our business. There's a lot of moving parts and the team is doing really, really well there.

When you think about a couple areas that are weaker, meaning the cookies and the handhelds, the cookies is just an offshoot of the buying being down in that area. We have a major customer south of the border that has been a little bit softer this year. We continue to hope that it will come back to its normal self, but it hasn't. The fortunate thing is it's a lower margin business, as is the handheld business as well.

And most of our handhelds go to a couple of big customers where there's been some, not direct competitor environment, but some other products added to a different – to that area that have maybe impacted those sales slightly.

The way that we're going to go about fixing that or attacking that, and the team is doing that right now, is to go grow the core. We've seen some great churro growth happening. We've got a really nice piece of churro business that will be shipping out in the fourth quarter, and it could be backed up by some really strong ones in Q1.

We’ve got a big pretzel opportunity that we'll be hitting here in the fourth quarter, and it's even using our brand SUPERPRETZEL along with it. So I'm really excited about that.

Then just as I talked about, frozen novelties doing really well in addition to doing some great things with private label, our (inaudible) around the frozen novelties. And that's what we'll do to continue to pull the food service back in line.

Shawn Munsell^ That cookie gap that extended from the second quarter, it did improve in the third quarter, but didn't improve by quite as much as we were hoping.

Daniel Fachner^ We've even seen it improve a little bit here in the fourth quarter, but it's got to continue to grow.

Scott Marks^ Understood. Appreciate the color there.

Then next question from me, maybe if we could shift over for a second to talk about Project Apollo. You talked about a higher amount of annualized savings from the plant closure portion of that.

Just wondering if you can help us understand maybe the drivers behind that. Why is that coming in ahead of plan and prior guidance, and then how we should be thinking about the other components of Project Apollo as well?

Daniel Fachner^ Yes. That's another one of those things we talked about things to crow about. When you start a project like Apollo, those are bigger rocks that you're turning over, maybe even boulders that we're picking up and moving, and the team has done a tremendous job with that.

If you've ever been involved in consolidation or expense savings, those projects are not fun and not easy and require a lot of work. Our teams have done a tremendous job with that. Really, really proud of what it's done.

We talked about raising our thoughts around what it will accomplish for us this year. Shawn, you want to touch on some of those things?

Shawn Munsell^ Yes. Sure.

So again, to be clear, we raised the plant consolidation component of Apollo from $15 million to $20 million, which takes the total program from $20 million to $25 million. And largely what we've seen is some of the costs transitioning products have stabilized.

So that's helping to support the higher number. That $20 million annualized is consistent with what we achieved in the third quarter. And I can tell you too that our target did have a bit of conservatism built into it. We feel comfortable now that we got a couple quarters under our belt that the run rate from the third quarter is going to hold for us.

Operator^ Our next question comes from the line of Jon Andersen of William Blair. Your line is now open.

Jon Andersen^ Sticking with the Apollo program for a moment, I think you've always talked about it as in phases. Obviously over delivering on phase one, the plant consolidation. I'm thinking ahead a little bit as you look forward.

Is there a second phase to this that could end up yielding additional benefits?

And and if so, is there any way for us to think about at least maybe some of the areas you're looking at and maybe benefits and timing at a high level?

Daniel Fachner^ Sure. Yes, absolutely. Great question, Jon. Again, I just want to say this one more time. Proud of what the teams are doing around Apollo. That's not easy work, and the teams are doing a great job with it.

We are looking at what I would call Apollo '27, and there's some real good work around that as well. You saw some of it in this quarter as we talked about G&A expenses and pulling that back in line, and I'm excited about what we see there.

We'll continue to look at areas like the plants and where we're making products and where we can make products in the future to get them closer to points of distribution. We'll look at any form of consolidation that can be done there.

We're still working on it, and we'll be talking about that in the next Q and trying to identify exactly what that might mean for us in 2027. But the teams have embraced it and are doing a really, really good job. And again, that's not easy work, but they're doing it well with it.

Jon Andersen^ Absolutely. You talked about the sales momentum building and that you'd expect a return to organic growth on a full-year basis in fiscal 2027. Do you think you can grow organically in the fourth quarter of '26, or should we be thinking more about these business wins and launches, et cetera, kicking in ahead of time having you inflect in -- early in '27 versus the fourth quarter?

Daniel Fachner^ Well, when you think about Q4, we still have some of the planned obsolescence that we're up against. I think we've talked about that being in that 2.5% range.

So we're still up against that as we go into Q4.

So I'm not sure that I would identify that yet there.

I do think as we get into Q1 with what our line of sight is right now, that we have a really good chance of seeing that at the end of this calendar year or Q1 for us going into next year.

On the pipeline, just to touch on that a little bit, the pipeline from the sales team is about as strong as I've ever seen. So if some of those hit and some of the bigger ones hit well, I'll feel really good about '27.

Of course there's always headwinds, right? And so we'll be facing those too. But I feel good about what we have going on, and I feel good about what the teams are generating right now. They've been working really, really hard.

I would look more towards Q1 than probably Q4.

Jon Andersen^ That's helpful. Given the pipeline as you described it being so strong, are there any capacity considerations here?

Are you in good shape to service that demand on time and in full?

Or are there some investments that you might be making or need to make as you think about capacity?

Daniel Fachner^ No, again, kicked it off with things to crow about and what the teams are doing out there. One of the plays that we called and have called for the last couple of years is to grow the core. That's where really most of this growth is coming from is in our core business. Those are areas that we had invested in already to be able to have that type of capacity.

So what we're looking at right now will not require additional investments around those types of things to get the sales growth that we're looking at.

Jon Andersen^ Okay. I know that you've gone through this process this year, which makes a lot of sense, to SKU rationalize some parts of the bakery business, maybe more commodity oriented.

Is more of that to do or maybe bigger or additional moves that you might want to make from a portfolio perspective to reorient around, I guess, what you call your crown jewels or core brands?

Or are you happy with the work that's been done and that -- you move into more of a steady state as you get into next year?

Daniel Fachner^ Yes, another really good question.

I don't see us, at this point in time, having any more SKU rationalization or planned obsolescence. We are continuing, though, to assess the portfolio and make sure that what we sell and what we want to sell in the future are good fits for this organization and help us reach those goals like we did this quarter with a 35.5% gross profit margin. We've talked about that for a long time and it was really exciting to see that happen.

We'll continue to assess the entire portfolio, but I don't see at this point in time any additional SKU rationalization that needs to be done.

Operator^ This concludes the question-and-answer session. I would now like to turn it back to management for closing remarks.

Daniel Fachner^ Great. Thank you very much. Thanks everyone for your questions.

Stepping back, I think our third quarter results showed that the transformation work that we've been doing is holding up. We're protecting margins and profitability, even with some top-line and distribution cost pressures working against us.

If I had to sum up fiscal '26, it's really been a year of repositioning the business for the long run. We stayed disciplined on product development, innovation, and really building the right partnerships. I think it sets us up well heading into fiscal '27.

Our balance sheet gives us great room to keep investing in growth while returning cash to shareholders. We remain completely confident in Project Apollo and believe that it will continue to pay off.

So I want to thank you again for your support and we look forward to catching up with you next quarter. Thank you very much.

Operator^ Thank you for your participation in today's conference. This does conclude the program.

You may now disconnect.