

J&J Snack Food (Q2 2025 Call)
May 6, 2025

Corporate Speakers

- Norberto Aja; J&J Snack Food; Investor Relations
- Daniel Fachner; J&J Snack Food; Chief Executive Officer
- Shawn Munsell J&J Snack Food; Chief Financial Officer

Participants

- David Shakno; William Blair; Analyst
- Todd Brooks; Benchmark Company; Analyst
- Andrew Paul Wolf; CL King; Analyst
- Scott Marks; Jefferies LLC, Research Division; Analyst

PRESENTATION

Operator^ Good day. Welcome to the J&J Snack Foods Fiscal 2025 second quarter Conference Call.

As a reminder this call may be recorded.

I would now like to turn the call over to Norberto Aja, Investor Relations.

Please go ahead.

Norberto Aja^ Thank you, Operator. And good morning, everyone. Thank you for joining the J&J Snack Foods fiscal 2025 second 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.

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.

Factors and other items discussed in our annual report on Form 10-K for the year ended September 28, 2024, 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 May 6, 2025.

While we may elect to update forward-looking statements at some point in the future, 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^ Thank you, Norberto. Good morning, everyone. Thank you for joining us today.

While the quarter reflected some short-term pressures, our differentiated portfolio and core brands will stand out as we build momentum for the second half of fiscal 2025.

We're energized by the opportunities we see ahead from new customer relationships, innovations, and improving operating efficiency. Total net sales for our fiscal second quarter declined 1% to \$356.1 million as compared to the prior year quarter, which was primarily attributed to lower sales in our Frozen Beverage and Foodservice segments, partly offset by growth in our retail business.

This led to a 320 basis points decline in gross margin to 26.9%. Adjusted EBITDA in the quarter was \$26.2 million, and adjusted EPS was \$0.35 per share.

Our second quarter performance was primarily impacted by three factors: First, theater channel weakness impacted beverage volumes in our Frozen Beverage segment, and to a lesser extent, our Foodservice business. The Frozen Beverage segment was also impacted by foreign exchange headwinds.

Second, foodservice sales declined primarily due to the loss of limited-time offer churro volumes from a year ago.

And third, we experienced continued input cost inflation, which was mostly related to chocolate in our bakery business. Despite challenges in the quarter, we're confident that the foundation of our business is strong.

We expect earnings to improve in the second half, driven by projected theater industry rebound as well as actions we're taking to capture additional price increases and to grow volume.

I'd also like to thank our terrific team members for their effort and dedication to the company and our customers during this challenging quarter.

Our teams across the country and globe are leading initiatives that will help drive our long-term success.

I'm very proud of our teams and their leadership, especially the way that they react to challenges with perseverance and grit.

Before I discuss the outlook in more detail, I'll first address the second quarter by walking through our segment performance. Frozen beverage sales declined by less than 1%, with the decline primarily reflecting weakness in the theater channel due to underperforming movie releases as well as unfavorable foreign exchange impacts from a weaker peso. North America box office sales in our fiscal Q2 declined an estimated 10% as compared to the prior year. Beverage sales declined 7.1%, with gallons down by a similar percentage.

The beverage sales decline was partly offset by higher maintenance and machine revenue, which rose 4.2% and 17%, respectively. The beverage volume loss compressed margins, given the relatively higher margin profile associated with beverage sales. Margins were also impacted by unfavorable foreign exchange effects from a weaker peso.

While we were disappointed with the theater traffic in the second quarter, we have been pleased with the success of the Minecraft movie to date, which is evident in sharply improved U.S. beverage volume in early Q3.

We are optimistic that a strong summer lineup that includes movie releases such as How to Train Your Dragon and Lilo & Stitch will provide tailwinds to the Frozen Beverage segment.

Industry forecasts suggest that the North American box office sales in our fiscal third quarter could increase by 30% or more as compared to the prior year. Moving on to our Foodservice business.

Sales declined 1.7%, with the largest impact coming from the loss of the limited-time offer churro volumes with a major QSR last year, which drove churro sales down by 18.7%. This year, we successfully added new churro volumes.

And while these additions have not fully offset the strong performance of last year's LTO, we remain encouraged by the compelling opportunity with churros.

I want to reiterate that we view LTOs as a valuable platform to engage our customers and create opportunities for long-term menu items. Pretzel sales declined by 7.9%, with some of the decline

driven by the theater channel weakness as well as general market softness in the pretzel category within foodservice. Notably, our market share improved by 1.4 points and by 4.4 points within Bavarian pretzels as demand for that type of pretzel continues to grow. Bavarian pretzels remained a standout performer within the category, making it a key area of focus and a significant opportunity to leverage our leadership position in pretzels.

I'm excited about the innovation and marketing behind our pretzel business, and we'll share more on that shortly. The segment was also pressured by continued chocolate cost inflation, namely in our bakery business.

While we did take incremental pricing in the quarter across our portfolio, it did not fully offset cost inflation.

We are continuing to implement price increases across the portfolio selectively during the third quarter.

We will continue to be surgical as we implement price increases to protect volume for the long term.

Frozen novelties continue to show strength with sales up 4.1%. The growth mostly reflects the continued success of Dippin' Dots, reflecting the rollout to theaters and further penetration with other customers and channels.

We expect to drive improvement across foodservice in the second half of fiscal 2025 as we grow volume, increase pricing selectively, and bring innovation to the market. Retail sales grew 1.8% in the quarter including a 14.7% growth in frozen novelties, led by the Dogsters brand, which added 2.7 points of share growth in the quarter on continued unit growth.

Additionally, the recent launch of Dippin' Dots Sundays reached \$1 million in sales during the quarter, while ACV climbed to 15%.

The outstanding off-season performance of this product positions us well for summer as we continue to expand distribution and receive positive feedback from consumers. Regarding handhelds, sales declines reflect temporary capacity constraints caused by a fire-related outage at one of our facilities late last year.

We are working to mitigate the constraints with supplemental capacity elsewhere.

We expect our business interruption insurance to provide some mitigation to these impacts as we work through the details with our insurer.

Overall, we are pleased with our retail business performance and continue to invest behind the brands accordingly.

I'd like to share more about the recently announced enhancements to our flagship super pretzel recipe and packaging for retail.

In response to consumer feedback, we made small but meaningful recipe updates to give our super pretzel a softer texture and a more robust Bavarian-style flavor. The new recipe positions the product well given that Bavarian-style pretzels are some of the fastest-growing products in the pretzel category.

We also refreshed the retail packaging, introduced an omnichannel marketing plan to support the launch, and we will convert some of our top foodservice SKUs to the new recipe this summer including the pretzels that consumers find at baseball games and amusement parks.

We're very excited about this update to the Super Pretzel brand, and we know that consumers will be pleased with the new enhancements as well.

The quarter was challenged in part due to weakness in the theater channel.

Additionally, the recent decline in consumer sentiment amidst macro uncertainty may be influencing consumer demand. Although the consumer backdrop presents challenges, we believe our portfolio is relatively insulated during periods of economic uncertainty because our products are relatively affordable and tend to be viewed as treats by consumers. Recent data indicates that consumers rank cost of living and affordability among their top considerations when weighing purchase decisions.

We also made progress on several market initiatives during the quarter.

We've increased Dippin' Dots theater presence by over 30% since the end of fiscal '24.

We are thrilled to announce that we recently added Urban Air, the ultimate indoor adventure park and family destination, as a new customer for Dippin' Dots.

Our first shipments will commence soon, and we expect Urban Air to become the largest single customer for Dippin' Dots.

As mentioned, the rollout of Dippin' Dots Sundays has been successful and reached \$1 million in sales during the quarter, with more growth coming as our distribution expands and we approach the peak selling season.

We are testing a churros innovation with a QSR customer as part of their value menu, which could lead to meaningful volume.

In fact, this is a great example of a limited-time offer fostering a potential permanent menu placement.

We continue to bring innovation to the market across the portfolio including whole grain SUPERPRETZEL varieties and other new Dippin' Dots products for retail.

As it relates to GLP-1 drugs, penetration appears to remain steady at around 8% to 9%.

It's unclear whether demand for our products has been affected by GLP-1-related diet preferences.

However we are actively innovating our portfolio to offer more products that are compatible with GLP-1 diets and, more broadly, better-for-you diet trends.

For instance, we have been developing a high-protein pretzel with approximately 10 grams of protein to help meet the growing demand for protein-enriched products.

We're also innovating some of our frozen novelties to add better-for-you attributes, such as by enhancing them with electrolytes, antioxidants, and probiotics. These are just a few of the innovations that are underway as we adapt our portfolio to meet consumers however and wherever they choose to snack.

In summary, while the quarter was more challenging than anticipated, we are optimistic that our results will improve as theater traffic rebounds, price realization improves, our retail brands continue growing in the peak season for frozen novelties, and new business initiatives and innovations take hold and help drive results.

With that, I would now like to turn the call over to Shawn to review the financial results in greater detail.

Shawn?

Shawn Munsell^ Thank you, Dan. And good morning, everyone.

Our second quarter revenue declined 1% to \$356.1 million. Frozen beverage sales decreased less than 1%, Foodservice sales decreased 1.7%, and retail sales grew 1.8%. Cost of goods sold increased 3.5% to \$260.4 million, which generated gross profit of \$95.7 million compared to \$108.2 million in the year-ago period, while gross margin declined to 26.9% from 30.1%. The softness in our frozen beverage business, primarily caused by lower beverage volumes and foreign exchange headwinds, contributed to approximately 60 basis points of gross margin compression, while the loss of churro and pretzel volumes in foodservice together contributed to approximately 190 basis points of gross margin compression.

We continue to monitor the evolution of tariff policy. Changes in tariffs did not directly impact our input costs in the fiscal second quarter but could impact future quarters. The tariffs currently in place could increase our input costs by \$4 million to \$6 million on an annualized basis, if not mitigated by pricing, alternate sourcing, or other strategies.

We're actively seeking options to mitigate these impacts.

Operating expenses totaled \$89.7 million or 25.2% of sales as compared to 25.1% last year.

Operating expenses decreased by less than 1% as compared to the prior year quarter, primarily due to one-time start-up costs at our regional distribution centers last year. Marketing expenses were \$28.5 million or 8% of sales, up from 7.7% last year and increased 3.1% versus the prior year quarter. About half of the year-over-year increase was related to higher brand amortization expenses associated with the legacy Churro brand that is being phased out for the Ola Churro

brand. Distribution costs were \$41.8 million or 11.7% of sales, down from 12.3% in the prior year. Distribution costs overall declined by 5.5%.

The decline primarily reflects the impact of start-up costs at our regional distribution centers last year. Adjusting for those impacts, distribution costs would have been approximately in line with last year as a percentage of sales. Distribution costs rose sequentially from the first quarter as we built inventory in advance of our peak season. Administrative expenses were \$19.8 million or 5.5% of sales, up from 5.1% in the prior year, mostly driven by higher compensation costs as well as higher nonrecurring legal expenses.

Operating income declined to \$6 million from \$17.9 million, while adjusted operating income was \$8.9 million compared to \$21.8 million last year.

The effective tax rate was 27.2% for the quarter. Net earnings totaled \$4.8 million compared to \$13.3 million in the prior year quarter, and earnings per diluted share fell to \$0.25 versus \$0.69. Adjusted earnings per diluted share were \$0.35 versus \$0.84 in the prior year quarter. Adjusted EBITDA was \$26.2 million versus \$39.3 million in the prior year.

We continue to have a healthy balance sheet and liquidity position with \$48.5 million in cash and no long-term debt.

We had approximately \$213 million of borrowing capacity under our revolving credit agreement.

We repurchased approximately 39,000 shares for \$5 million at an average price of about \$128 per share.

In closing, we are encouraged that we will deliver a stronger second half, driven by improving theater attendance, the impact of pricing actions, and exciting innovation across our portfolio.

With a portfolio of great products and brands, J&J is well-positioned to deliver value to both customers and shareholders in the quarters ahead.

I would now like to turn the call over to the operator for Q&A.

Operator?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of David Shakno of William Blair.

David Shakno^ You provided a helpful gross margin bridge in the press release, but I think there were 70 to 80 bps not covered within that. Any color that could help us understand the balance of the decline there?

Daniel Fachner^ Yes. Sure. Most of the remaining balance really just represents that chocolate cost inflation relative to the pricing offset.

So that was about 60 basis points, and that covers most of the gap.

David Shakno^ Then just one follow-up here.

Forgive me if I missed this in the prepared remarks, but you mentioned last quarter that you didn't expect to get gross margins back to the low 30s until the second half of the year.

I wanted to see if that's still the expectation.

Or if you've had to recalibrate that a bit, given the macro environment.

Daniel Fachner^ No. We still believe that's the expectation for us as we enter into the back half of the year.

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

Todd Brooks^ Dan, just following up on the expectation to get gross margin back to the low 30s. Does that assume just the pricing that you've been able to capture to date?

Or does that assume some success with forward pricing activities?

Daniel Fachner^ Well it does assume some of the pricing that we have as it continues to build through the remainder of this year.

Then also, don't forget, as we get into the back half of the year, you have the influence from our frozen beverage business and our Dippin' Dots business. And even as we said in the remarks, early indications that the theater business comes back, and as we look at early Q3 right now those two pieces of business really start to drive that margin nicely as we get into the back half.

Todd Brooks^ And where we're highlighting theater is such a driver, can you update us on I think last we heard it was kind of 25% of frozen beverage and a slightly lower percentage in foodservice. Where are the percentages now as we start to look at the ebb and flows on theater attendance?

Daniel Fachner^ Yes. We're still in that same area, Todd. That hasn't changed a lot.

It has a pretty size impact on our frozen beverage business.

It will begin to have a larger impact on our Dippin' Dots business as well.

Then, of course, as this last quarter unfolded, we saw a dip on the foodservice pretzel side of our business.

So all three of those have a piece of it, but specifically, to the ICE side, it's about 25% of their business.

Shawn Munsell^ Yes. I was just going to say as it relates to getting back to 30% in the second half, and Dan touched on it. Remember, as we get into the second half, you get a much higher proportion of our business coming from frozen beverage retail, and retail is mostly frozen novelties as well as the Dippin' Dots business.

So all of those are our higher-margin businesses. And just using '24 as a point of reference, our frozen beverage business grew sequentially from Q2 to Q3 by about 40%.

You're up about 30% in retail and a much bigger increase in the Dippin' Dots business.

Todd Brooks^ Then two more quick ones, if I may.

Shawn, on the distribution line, with the volume, we should leverage that, I would expect in the second half of the year, but that ability to get down to that 10% or slightly below level, is that tracking based on kind of what you're seeing and how the facilities are operating?

Shawn Munsell^ It is. So I would expect that we'd see something closer to 10% -- near 10% in the third quarter, not terribly different from where we were last year.

Todd Brooks^ And a final one. Just if we're thinking about Q2 versus Q3, how does Easter impact the business?

Is there any Easter shift impact with not just the holiday shift, but later spring breaks and things like that, that either you can size from what it cost the March quarter, just talk to as a driver for the upcoming quarter?

Daniel Fachner^ Yes. Todd, probably more impacted by weather during this time of year than we are by Easter break itself. Although there's plenty of vacations that get taken around Easter, and so it starts to kick in for many of our amusement parks, probably as you think about May but more impacted even by Memorial weekend than it is by Easter.

We just get into that time of year now where you really want to cheer on the weather as we get into the more summer months and kids are out of school.

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

Andrew Paul Wolf^ So I wanted to hear about -- a little more about your kind of top-line views. Clearly, theater business is going to be a nice tailwind, at least in this quarter for foodservice, but -- and frozen beverages, like as Todd got to, that it's a big part of the business, but the majority of the business is rest of foodservice, amusement parks and so on and convenience stores.

So are you expecting that to be good enough from that 25% or so of the business, that 30% increase in traffic to theaters to have the top line turn up in those two segments?

Or another way of saying it is what's going on with the end customers sort of organically, how do you view the season -- the summer season for your foodservice customers, and I guess convenience stores, if you have a view on that as well?

Daniel Fachner^ Right. Well, as we've talked about, it's a tough quarter for sure.

With consumer confidence and sentiment struggling, right?

We know there's an impact from that on our business.

But what we really tried to highlight is that we view it as three real buckets that were headwinds in the quarter that start to go away as we look into the third and fourth quarter.

That theater business, as we've talked about, and there's also conversation about is that the theater industry is dying.

But every time we see a good movie like we did with Minecraft, we see that business just jump up and do really, really good things for us.

So if you look at the theater business, as you get into the third quarter, especially the one that we're in right now it looks to be really, really strong and then levels off a little bit in June and then looks to be a nice fourth quarter for us as well.

We don't have that churro piece of business that headwind that we're up against. That was a great LTO, and it spurred some other LTOs and may even spur a permanent menu item on a big QSR chain that we're really excited about that will happen in '26.

And as we mitigate the input costs, especially around chocolate as we get into the back half of the year, we think all of those headwinds are kind of behind us.

Then you're looking squarely at what does consumer confidence look like. That's a tough one to try to understand.

We believe and we have great confidence in what we're doing and the new pieces of business that we're bringing on and the new innovation, even as we talk about the pretzel innovation with new packaging and a new recipe. We're really encouraged by that.

We think -- I guess I would say we're optimistic about the back half of this year, and I think it's going to be really strong.

It might end up slightly below last year's sales, but we still are hopeful that back half of the year can do really good things for us.

Andrew Paul Wolf^ All right. I wanted to ask about kind of price realization as part of -- obviously, it's getting better.

But I think you did say you want to be selective with price increases, and I can understand this is not the time to be just throwing out unaudited.

I'm sure you're going to get audited on a lot of the stuff how you rate your customers.

But where do you feel -- I mean do you feel you're going to get your price realization in the impacted categories of chocolates and eggs and anything else that really has real inflation in it?

Daniel Fachner^ We do. We think we're catching up to that really nicely. The teams have done a nice job getting out there and getting the pricing.

It may have come a little slower than we anticipated, but it also came with some directions from me that I don't want to lose volume or customers, well we're passing this needed price increase along.

That's going to continue to build even as we get into the third quarter. We feel confident that the team has gone out there and got that.

We've been careful not to turn the wheel too quickly as to lose some volume along the way.

It's a delicate balance, but we're feeling good about where we're going to be there.

Shawn, do you want to add a couple of percentage points to that or?

Shawn Munsell^ Yes. Yes. I'd say that just to help quantify, we expect that we'll pick up, call it, another 80 basis points, maybe a full percentage point here in the third quarter.

But like Dan said, we're being surgical about it and ensuring that we're not losing volume.

That's part of what slowed the pace in the first quarter -- I'm sorry, in the second quarter.

Andrew Paul Wolf^ Yes. No. That's understandable.

I guess my last one is on the Dippin' Dots Sundays. That's the only retail product, if I understand that.

Daniel Fachner^ It is the only retail product to date.

We're working on another one that some of the teams are out there already talking to customers about that we're really excited about.

So as we round out into 2026, we believe we'll have a couple of those Dippin' Dots items out in the field.

But we're so happy with the success of the Sunday so far, and it's early, right?

Even as we see April, April sales really jumped out at us.

So we're excited about that in over 8,000 locations and consumer sentiment has been really strong about that product.

If we can back it up with this next new innovation that we have, I think we'll continue to see great things from it.

Operator^ (Operator Instructions) Our next question comes from the line of Scott Marks of Jefferies LLC, Research Division.

Scott Marks^ First thing I wanted to ask about just the pretzel category.

So you mentioned pressure on the pretzel category from the theater traffic, but you also mentioned just other general category weakness.

So I was just wondering if you can kind of speak to that and give us some insight into where exactly that's stemming from and what the drivers are?

Daniel Fachner^ Yes. The category did show some weakness in the quarter, and it's something that we're trying to address even as we talked about some new packaging and formulation of our product that will begin in the retail side to be a little bit more like a Bavarian style pretzel, which we see some real growth in the category.

What's interesting is our market share grew, but the category is down.

So when you look inside the pretzel business, you see that the Bavarian style pretzel growing, and so we're going to attack that really strong. Teams have done a really nice job.

We did some great market research across the country to ensure that consumers like the new product and like the new packaging.

So you're seeing that out the stores right now.

We feel like that will bring some emphasis back to it.

We're still bullish on the pretzel category.

But whenever you see a category down, even if you're growing inside, it draws attention.

And I think there's also a chance that also within that, that's where we're seeing some of that consumer confidence that might be an area that some of the places just aren't as busy, and we're not getting the pull-through on the pretzel category.

Shawn Munsell^ Yes. We talked to one of our QSR customers where we did see some year-over-year weakness in 2Q, and it was interesting, they did cite some of the traffic within their stores.

But part of that, they did attribute to the weather that we had in the quarter.

So certainly not pinning at all on weather, but it seems like at least for some of our customers, that was having an effect.

Scott Marks^ Then I know there's been a lot of discussion about the theater channel, but I don't think I've heard as much about the convenience channel.

So just wondering if you can kind of speak to trends throughout the quarter and maybe what you've seen as we've kind of progressed into April and here into May.

Daniel Fachner^ The convenience channel has been off for about 18 months or so now maybe even longer than that.

It continues to be down, even as you talk to that industry, it's down.

We're doing some good things within the channel.

We're continuing to grow some of those equipment sales that you saw out of the frozen beverage side is going into the convenience channel.

So we're still pushing hard at it and seeing some growth, but the total channel has been off for us.

I think in the quarter, it was down something like 7%.

Shawn Munsell^ Yes. And from a gallon's perspective in the frozen beverage business.

Scott Marks^ Then last one for me.

As we think about maybe some of the regulatory changes around artificial ingredients from some of the health departments here in the U.S. Just wondering if you can kind of help us understand maybe your exposure to that and maybe how you're working on reformulations to try to get around some of those changes.

Daniel Fachner^ Yes, really proud of the team. They've been right on top of this and doing a really good job. The first really one that we're focused on is the dye number 3, red dye number 3, and that is now out of all of our products.

So we're watching it closely. We're continuing to read up on it. We've got a team focused on what we need to do to make sure we stay within regulation.

We feel like we'll be way ahead of that as laws get passed in different states and things like that.

Operator^ I am showing no further questions at this time.

I would now like to turn it back to Daniel for closing remarks.

Daniel Fachner^ Thank you very much.

In closing, we are encouraged that we deliver a stronger second half, driven by improving theater attendance, the impact of our pricing actions, and exciting innovation across our portfolio.

With a portfolio of great products and brands, J&J is well-positioned to deliver value to both customers and shareholders in the quarter, and we feel strong about that.

We look forward to sharing our third quarter results.

And in the meantime I invite you to contact our Investor Relations team at JCIR at (212) 835-8500 with any questions.

Thank you. And have a great day.

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

You may now disconnect.