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SPEAKERS

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Bob Radano - SVP and COO
Dennis Moore - SVP Accounting and Administration
Robert Pape - SVP Sales
Dan Fachner - President of ICEE

ANALYSTS

Francesco Pellegrino - Sidoti
Jonathan Feeney - Consumer Edge Research
Jon Andersen - William Blair & Company
Brian Rafn - Morgan Dempsey

PRESENTATION

Operator: Welcome to the J&J Snack Foods Third Quarter Earnings Conference Call. My name is Cynthia, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator instructions]. Please note that this conference is being recorded.

I will like to turn the call over to Mr. Gerry Shreiber. Gerry, you may begin.

Gerry Shreiber: Good morning, everyone, and thank you for participating for our third quarter conference call. Let me begin by introducing myself. I'm Gerry Shreiber, President and CEO of J & J Snack Foods and with me today on the call, I'm going left to right, Bob Radano, our Senior Vice President and Chief

Operations Officer; Dennis Moore, our Senior Vice President, in charge of accounting and administration; Robert "The Bull" Pape, Senior Vice President, in charge of sales; Bo Powell, Vice President in charge of Food Service sales; and Gerry Law, who is Senior Vice President in charge of Marketing and R&D and also my Personal Assistant. Also with us on the call remotely is Dan Fachner, who is President of our ICEE subsidiary.

I will begin with the obligatory statement. The forward looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. You are cautioned not to place undue reliance on these forward looking statements which reflect management's analysis only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof.

Results of operations: Net sales increased 6% for the quarter and 5% for the nine months, 2% for both periods without the benefit of the sales of Hill & Valley, which was acquired this past January and an ICEE distributor which was acquired this past May. For the quarter, our net earnings decreased by 6% to $25.3 million or $1.34 a share from $26.8 million or $1.43 a share a year ago. For the nine months, our net earnings were $54.8 million, $2.91 a share, a decrease of 1% from the $55.4 million or $2.95 a share from a year ago. Our EBITDA, that's earnings before interest, taxes, depreciation and amortization, for the past 12 months was a healthy $157.9 million dollars.

Food service: Sales to food service customers increased 8% for the quarter. Our sales increase of 2% without Hill & Valley was due to increased sales of soft pretzels, handhelds which were up sharply, churros up 11% and bakery products up 5%.

Sales of frozen juice bars and ices were down 11%, and funnel cake sales were down 34%. For the nine months., food service sales were up 8%, and without Hill & Valley were up 3% with increased sales of soft pretzels up 3%, churros up 7%, handhelds up 19%, and bakery products up 3%. Sales of frozen juice bars and ices were down 12% for the nine months, and funnel cake sales were down 5%. Last year, we had sales of almost $4 million, actually $3.8 million of funnel cake products to one restaurant chain for a product rollout, and that is the main reason why funnel cake sales were down for both periods. The chain is still selling the product, but we didn't have the benefit of the major rollout.

Retail supermarkets and grocery: Sales of products to retail supermarkets were up 3% for the quarter and flat for the nine months. Soft pretzel sales were up 5% for the quarter and flat for the nine months, and sales of frozen juice bars and Italian ices were up 5% in the quarter and for the nine months. Handheld sales were down 7% in the grocery market for both periods.

ICEE frozen beverages which includes Arctic Blast and Slush Puppie: Frozen beverage and related product sales were up 3% in the quarter and 2% for the nine months. Beverage related sales alone were up 10% in the quarter and 6% for the nine months with gallon sales up 7% and 5% respectively in our ICEE business in the quarter and nine months. Service revenue for others was up 1% and 2% for the periods. Equipment sales, which follow no specific trend, were down sharply.

Consolidated gross profit as a percentage of sales in the quarter decreased to 32.08% from 33.13% last year and decreased from 30.75% to 30.42% for the nine months. Gross profit margin in the quarter was impacted by the lower gross profit margin of the Hill & Valley business along with higher costs in our ICEE business and a product mix shift in our food service business. Additionally, our quarter last year benefited from a significant rollouts of funnel cake and soft pretzels to two restaurant chains, a total of $5 million of sales. Total operating expense as a percentage of sales was 19.3% in the third quarter, up from last year's 18.6%. For the nine months, the percentage increased to 19.8% from 19.5%. A variety of factors such as higher payroll and payroll cost, product storage and warehouse expense in addition to product mix impacted our operating expense.

Capital spending and cash flow: Our cash and investment securities balance of 239 million was the same as at March quarter end. We continue to look for acquisitions as a use of our cash. One hundred fourteen million of our investments are in corporate bonds with a yield to maturity of 2.1%. Our capital spending was 24 million in the quarter as we continued to invest in plant efficiencies and growing our business. We are presently estimating capital spending for the year to be 60 million to 65 million. We expect to see operational benefits in our plants beginning this very quarter, our fourth quarter. A cash dividend of $0.42 a share was declared by our board of directors and paid on July 6, 2017. In addition, we bought back 13,004 shares of our stock during the quarter at a cost of $1.7 million, average price of $129 a share.

Some commentary: Sales of our food service products improved this quarter with significant increased sales of churros in restaurants and warehouse club stores, funnel cake products in schools and handhelds to a handful of customers. Overall sales of frozen juice bars and ices though were down because of lower sales to one warehouse club store that is primarily the result of the timing of a program, which will move sales to our fourth quarter. Last year we had the benefit of most of it in the third quarter.

Funnel cake product sales were down overall as we had a $3.8 million sales rollout to one restaurant chain in last year's quarter. Bakery sales continued to grow, led by private label business. Soft pretzel sales were up modestly going up against a $1.2 million rollout to one restaurant chain in last year’s quarter. Overall, food service sales to schools, up 4% and to restaurant chains up over 3% have been strong this year.

Hill & Valley sales were $21 million since acquired in January, but had only modest, somewhat disappointing operating income. We expect significantly higher operating income in the coming quarter from Hill & Valley. This past quarter we entered into a license agreement to sell Auntie Anne's retail products including soft pretzels. This will be three items, soft pretzels, a wrapped hotdog and a sandwich. We will be selling that exclusively, the license was effective as of late May, and we expect to improve our overall position in grocery with that. Estimated sales today are $9 million.

Sales of soft pretzels at our retail supermarket segment were up a good 5% in the quarter. Frozen juice and ices were up in the quarter as our LUIGI'S Real Italian Ice product line is performing well. Our handheld sales in this category continue to decline.

In frozen beverages, gallon sales were up 7%, but service revenue to others was up only 1% in the quarter, and that's the smallest increase the ICEE group has had in some time. Machine sales have been down significantly this year, 29% in this quarter and 14% for the nine months, contributing to lower operating income. We acquired the Southern ICEE, the ICEE distributor that was operating in Tennessee and Georgia on May 22nd. That deal was completed and it is integrated, and we are now operating it within our ICEE Group.

Overall, consolidated operating income in the quarter decreased $2.7 million from a year ago, a 7% decrease, even though this quarter's operating income included a gain from an insurance recovery from insurance loss in 2016. Our estimated income tax rate was at 35.4 this year and 35.3 last year for the quarter and 35.0 for the nine months. We're estimating a rate of about 35.5% in fiscal year 2017 which compares to a full year rate of 35% in 2016.

I thank you for your continued interest, and I will turn back now to the listeners for any questions or comments or specialty item details.

Operator: We will now begin the question-and-answer session. [Operator instructions]. And we have a question from Francesco Pellegrino. You may begin.

Francesco Pellegrino: I noticed you did an acquisition during the quarter that you didn't discuss.

Gerry Shreiber: Well, we did two. They were small. They are nice fits. We've been looking at bigger and we think better things, but sometimes you pick some things up along the way because it's the right thing to pick up. We acquired an ICEE distributor that was operating in the South and they were good distributor in there, and we have completely integrated them.

And the Auntie Anne's was really we believe in the long run it's going to be significant. We didn't buy the mall operations. We bought their products that were in the supermarket. I'm not saying there's going to be any padded here because the malls are just suffering all over the country. I read an interesting article yesterday that most of them, 25% to 50% of them are going to be gone in the next five years, but we acquired their products that were being sold in the grocery market. It's a good name. Gerry Law engineered that whole deal for us, and we're looking forward to selling it right next to our products and grocery and growing it.

Francesco Pellegrino: I just wanted to talk about your other most recent acquisition, Hill & Valley. Did it lose money during the third quarter?

Gerry Shreiber: No, it did not lose money cash on cash, but its operating income was significantly off what was projected. And a couple of us here have what we call rabbit ears. We hear that, see that and we're involved. We're extremely confident in the management group that they had. We think that the fourth quarter is going to be better and the first quarter next year will be even more better. So it is not anywhere near panic time, and we're extremely confident.

Francesco Pellegrino: If I could just point, but in yesterday's press release, since you acquired Hill & Valley, Hill & Valley has contributed $102,000 dollars in operating income, right? In the second quarter it generated $144,000 alone. So the difference between that is a negative number.

Dennis Moore: That's down $50,000, marginally down.

Francesco Pellegrino: So it is losing money?

Dennis Moore: Lost money in the second quarter marginally.

Francesco Pellegrino: Right. But when I started thinking about the margin of Hill & Valley, when I do the margin calculation for the second quarter, I get a 1.5% operating margin, there's no operating margin in the third quarter. This was acquired for six times EBITDA. You paid $31 million. That would imply a $5 million EBITDA valuation. I haven't really heard any issues about low operating leverage that you're not getting enough sales volume for the product line. What's going wrong with the integration here?

Gerry Law: Overall we've been disappointed with the sales in the mix coming out of the business. So the sugar-free mix gas been a little bit lower and has contributed a little bit less than that we had planned. We're working on spinning it around, and we are confident in the future of Hill & Valley.

Francesco Pellegrino: Just to shift gears to one of your legacy products, so soft pretzel, so the soft pretzel category, do you think maybe the category had sort of reached its full impact just given where your market share numbers are and just like the modest revenue growth we've really seen over the past six or seven quarters? We’ve seen maybe one impressive quarter, but we've seen just really modest revenue growth.

Gerry Shreiber: No I don't think so. I think that if you take each business segment, and you look at our soft pretzel position in that segment and you looked at some of the growth that we're having outside that, we are still very much bullish on the future of soft pretzels, not only its growth, but our market share. And we've added people in the past three months that have been especially dedicated to some of what we call our challenges in this business segment both in C stores and the education system, opportunity channels. What does that mean, Bo?

But we’re adding people in there and we have full confidence that we can grow that 4% or 5% on a regular basis. I'll be pleased, and I think you guys will be pleased.

Francesco Pellegrino: I just want to talk about your manufacturing facilities because I get that a geographical footprint for manufacturing makes sense based upon where your customers are located, but there is a very high concentration in the Northeast for soft pretzel manufacturing. And when I look at the Northeast there's five different soft pretzel manufacturing facilities. Two of them strictly just do soft pretzels while the other three have a couple of different products that they also manufacture. Is there a potential to maybe consolidate some of these facilities? Because there's a very, very, very high concentration of soft pretzel manufacturing in the Northeast. And I would just wonder if maybe you could get a little bit more leverage if we consolidated these operations into—I'm not saying consolidated into one or two locations but—

Gerry Shreiber: You raise a very good point. You have good instincts and that's something that we’ll address further probably in the next quarter conference call because things are in the works.

Francesco Pellegrino: If things are in the works, is now the best time to do it just given the modest growth that we're getting in soft pretzels?

Gerry Shreiber: The savings and improvement in the manufacturing process combined with the logistics savings makes good sense.

Francesco Pellegrino: And my last question for you is, so I think last year in the year-ago period you generated a really impressive operating margin in food service. It was 14.5%; you reported yesterday at 12.8%. That was enhanced by that insurance recovery. We're probably looking closer to like 11% operating margin. Given today's product mix, where do you think if we put manufacturing inefficiencies aside, today's product mix, what type of operating margin can food service generate under the best case scenario?

Gerry Shreiber: A long time ago when we were in single digits, I remember saying we're going to get to 10% plus, and my Vice President, Controller looked at me with glaring eyes, he thought it was too high. I would like to think that at some point we can get into the lower double digits 13%, 14% again. And everything we're doing within the plants to streamline production, to reduce labor, to improve engineering can add points to that.

Francesco Pellegrino: If you can just turn Hill & Valley around, it seems as if it's definitely doable, so thanks again for your time, Gerry and guys.

Operator: And our next question comes from Jonathan Feeney. You may begin.

Jonathan Feeney: I was disappointed in all that discussion to have no puns about Hill or Valley, being in a valley and wanted to be on the hill or anything like that. But I have questions that don't relate to Hill &

Valley. I would like to start if you could, if you could maybe talk—I'm sorry if I missed this, why the 29% decline in machine sales, and as part of that does that broadly relate at all to some of the weakness in the convenience store channel I've seen with some of my other food companies?

Gerry Shreiber: You know what, it might. Equipment sales for us we have never had a geographic or a—it comes and it goes, it follows no specific pattern. As the convenience stores remodel or build new stores, we have an opportunity to provide new equipment which leads to new sales, but it's the last I guess six to nine months, it's been a little bit off from what it was. And just like we had surprises maybe two years ago where we add a sudden influx and WaWa bought a bunch of machines for new stores in Florida, the last two quarters have been soft.

Jonathan Feeney: It may have something to do with becoming a star channel. Let me ask it this way, do you see in any of your other businesses—I don't know what the mix is of the different businesses. I know you have some of your businesses have like soft pretzel have a pretty big convenience store bend. Did you see any weakness in convenience stores particularly in the quarter?

Gerry Shreiber: Actually with soft pretzels, there is more of an effort and a plan by design to sell more soft pretzels and other products to them. ICEE does a great job already with convenience stores, but ICEE was up against, and it's to their credit that they were able to have plus numbers on beverage sales when they've lost again 300 more Kmarts in combination of Sears, Target has closed and remodeled a bunch of stores. So ICEE has been not back on its heels, but has had to rally against some of the things that suddenly come out that are testy.

Jonathan Feeney: It's apparent on you the math what maybe the gross margin effect was of Hill & Valley, but I'm concerned about the gross margin more broadly on an apples-to-apples basis. On the quarter is it a struggle where there is commodity cost increases or even distribution cost increases, were there places where you tried to take pricing and you weren't able to get it or was this always the plan to just the natural flow of the business?

Gerry Shreiber: Let me just say that pricing in today’s economy is difficult. And Dennis, you want to have a comment on that?

Dennis Moore: Well, we haven't had any pricing to speak of in the past year or so. And it’s very tough as Gerry said because when there’s headlines out there about commodity costs going up and all that, it’s not easy, but the customers are more receptive to taking pricing. With commodities flat or some cases down, they just can't get it through. So we're not anticipating that we’re going to have any pricing going forward or in the near future.

In terms of expenses, the ratio of expenses to sales goes up as long as, if our organic sales are in the very low-single digit increase as they have been, then it's very, very tough to keep those expenses as a percent of sales from going up because you've got your cost increases, your payroll cost increases, your group insurance cost increases, all kinds of cost increases naturally and you really have a tough time.

Jonathan Feeney: Understood. Gerry, just a clarification and a question too. You motioned $9 million in sales for the Auntie Anne’s retail business. That seems awfully small. Would you anticipate an ability to grow that? I mean what has been the constraints on that business in the past? Is it a very regional brand? I seem to see it everywhere in the Mid-Atlantic. Can you move that geographically, can you get better placement for that? Can you talk about how big that could be?

Gerry Shreiber: Yes, yes, and yes. And not [audio disruption] were right there in the same set alongside of [audio disruption]. There’s always an advantage real or perceived when you can in essence [audio disruption] the level of competition.

Jonathan Feeney: I'm sorry, there are competitors in the—who would be the big competitors in that category? It seems like kind of a niche item.

Gerry Shreiber: Competitors in that category, in grocery?

Jonathan Feeney: No, you're talking about wrapped hotdogs and a sandwich and—

Gerry Shreiber: Anybody that's selling alongside of us, but particularly if it comes to soft pretzels, that was a natural fit, was it not? Auntie Anne's [audio disruption] soft pretzel business, I believe for about five years, and they had a good name. They were building a business that had some potential. We think we can do it quicker, and we can have better results.

Jonathan Feeney: Do you have some experience—I think you do with some of the brand awareness that comes, translating the brand awareness that comes with the food service brand. You mentioned the mall business, translating that to retail sales, how you go about doing that and how good of an indicator brand awareness, how well that translates over? I guess you mentioned, you were pretty quick to mention you didn't take the mall business. Did you look at it? I mean, was that something you thought about?

Gerry Shreiber: Not often. It's a different business, it's a franchise business, and given the general overall condition of the malls with more closing and certainly that are very few opening, it's not a business because of [audio disruption] that we want to be exactly in.

Jonathan Feeney: Okay. Let me ask you then one final question. Interest rates and borrowing costs have never been lower really. I mean as far as the combination of depth of the credit market and what it costs to borrow. It would seem to me, like you just saw McCormick borrow, a company that in my memory has never gone over three times debt to EBITDA, go to five times debt to EBITDA for a deal. Does that drive your sense of urgency at all to make larger acquisitions or maybe go further afield from where you've gone historically to take advantage of that?

Gerry Shreiber: It kind of spurs our senses, but we've always had a defined strategy of niche products, being the low cost producer and dominating the marketing and distribution channels. McCormick is a terrific company. They're in the spices and this. I think it was French's.

Jonathan Feeney: French's and Frank's Hot Sauce, all the sauce businesses of Reckitt Benckiser.

Gerry Shreiber: That was an interesting acquisition, and I don't know whether or not given similar circumstances that we could or would pay that kind of multiple for something.

Jonathan Feeney: And so, I guess does that mean you're seeing a lot of deals where their multiples are too high?

Gerry Shreiber: We're seeing some that are too high, but again, like I mentioned in the last quarter and the quarter before that, we're looking to make bigger acquisitions. We're looking to make acquisitions that have more meat, but don't take meat as the word. They're not in the meat category, and we're looking to make acquisitions that are bigger and hopefully have management team and growth. So it's not for lack of looking or effort.

Operator: And our next question comes from Akshay Jagdale. You may begin.

Lubi: I think that was meant for Akshay. This is actually Luvi [ph] on for Akshay. I wanted to ask a question on some of the products that you guys have launched fairly recently. The ones that come to mind are, there was a Pillsbury handheld item, OREO Churros. How are those products doing, maybe in terms of distribution and what are consumption trends looking like?

Gerry Shreiber: OREO Churros are still out there, and we had some good hits last year in Walmart with some facings. Overall, with the Pillsbury handhelds, we've been less than satisfied with the sales growth there. We'll give a comment from the Bull as well.

Robert Pape: I think within the category, we have made the entry into the dessert category. The products are different, and we think that's a bake-at-home product that can appeal to consumers. We got through our first year. There are some headwinds in the category, but we still feel given some of our capabilities manufacturing wise that we can offer the consumers a very high quality product and give them the ability to also have a bake-at-home product. So we see some potential in the Pillsbury. It's a great brand, and the products are of high quality. We think that will continue to move forward for us.

Gerry Shreiber: So, and Lubi, if you can't tell, it has been less than stellar, but it has not been terrible, and we're not giving up anything yet. Our investment in this was very, very small and made a lot of sense.

Robert Pape: And the velocities in desserts are just less than snack and appetizer.

Lubi: Got it. And then so along those lines, are there any other new products or maybe licensing agreements that you guys are working on to the extent that you can share any of that with us that you're excited about?

Gerry Shreiber: There are always things that we're working on and looking at, but there's nothing that we can share at this time.

Lubi: Got it. Okay. And then going back to Hill & Valley, could you elaborate a little bit on what's really driving the confidence that results are going to get significantly better in the upcoming quarter? I mean, I'm sure there are a number of things that you guys are working on, but it does sound at least like you're calling for a pretty significant turnaround in a short order of time. So I'm just wondering if there are some specific factors that you have good visibility on that might be driving some of that optimism.

Gerry Shreiber: One of it, we have, I guess it's commitments, if not contracts on hand, which could go all the way out until September, October and through Christmas. So that we can visually see, and knowing what our costs are and what our production has been, and we have some product in storage, so that's helping us have visibility to determine the profitability. Beyond that, we're just relying at this point on the talent of our management there and their budgeting factor, and certainly they have performed well in the two years leading up to our acquisition. So we had a natural comfort level with them.

Lubi: Okay. And then if I could just ask one last one, so just speaking more broadly in terms of the level of sales growth, I think organic sales growth has probably been in sort of that 2% range for a number of quarters now, whereas historically, this was more of a mid-single digit type organic growth business. I'm just wondering as you look longer-term down the road, do you see a pathway back to that mid-single digit range or do you think this low single digit is kind of the new normal, just given sort of the macro trends that we're seeing out there?

Gerry Shreiber: Well, we believe that we can get back to that mid-single digit level of growth. And that may be something between 4% and 6% without acquisitions. We've hired some people, recently in April, some people that have been assigned certain developments, certain targets, which include the education channel, which include C store and healthcare. Now, it's early on. They've only been, they're on for less than six months, which is 180 days, but they're starting to make some progress. As a matter of fact, we had some meetings going on last week and this week with this team to see how we can accelerate the process and what we really have in the bag coming into maturity for next year.

Operator: And our next question comes from Jon Andersen. You may begin.

Jon Andersen: I'll tell you, almost all my questions have been asked, but I'll lob a couple more in. Could you talk a little bit about the—if you take out the insurance recovery, the operating income in the food service business as you pointed out was down about 4 million, a little more than 4 million year-over-year. I guess I'm still trying to get a sense for how we should think about that, because you've called out a number of I guess things that can be considered more transitory, the pipeline shipments, I guess the funnel cakes last year, the push out of the, I think, you mentioned club store business in to the fourth quarter versus third quarter this year. Can you give us a sense—I mean is that the right way to think about it, that year-over-year decline is more comp related and temporary in nature or are there more structural things going on?

Gerry Shreiber: There's nothing structural or fundamentally different. Bob, do you have a comment?

Bob Radano: I think there were events that took place last third quarter, and that provided a challenge for this quarter. But we don't see that as a long-term or product situation.

Jon Andersen: Okay. And Gerry, I think you said in your prepared comments that we should start to see operational benefits beginning in the fourth quarter, which does imply recovery, I suppose, in the margin profile of the business in aggregate and maybe food service more specifically.

Gerry Shreiber: End of fourth quarter. We're a full month into it now.

Jon Andersen: Okay. Can you talk a little more specifically, when you talk about operational benefits, are these manufacturing changes you've made to improve throughput and yield? What are the more specific operational benefits we should be looking for?

Gerry Law: Exactly. We've completed several large projects now and put them in service, and they work. We've had a little startup blues on them. So we should start to see the benefits, particularly in yield and efficiency from these projects coming online in a couple of the plants right now.

Jon Andersen: Okay. And just the last one for me, it's on more of the customer channel orientation. So restaurants, I think historically you've talked about how you've built that business to $50 million to $60 million, could potentially double that over time. Is that still your expectation sitting here today? And then the second part of that question is with the hiring that you've done to pinpoint opportunities in C-stores and healthcare and the educational channel, what kind of opportunity, how big could that kind of be over time when you think about those pieces of business that you're going after? Thanks.

Gerry Shreiber: When you say with the hiring of the people, we think it's going to get us to this 5% to 6% growth in our overall food service category. One of the issues we're also fighting when it comes to club stores is that one of our major clubs, BJ's, has closed down their restaurant unit, which was selling our pretzels and some other products in favor of leasing it to a restaurant chain. We go through these things now and then. Sometimes, we're able to recover, and sometimes, it lasts a lot longer than what we think. We're also going through a little bit of that with Target, which is going through both a re-modeling and a shifting of their Target Café, and they are leasing it to other restaurant operators, but how we get hurt, we have a cookie and a pretzel in there and most cases an ICEE machine. ICEE has been able to soften their loss by opening up a special fountain stand within the Target stores.

But we truly believe adding these people and having them concentrate the efforts that we believe there are growth in will help the business and will get us back to our numbers. I read an interesting article just the other day on malls, malls in America and how they use to be where we or our kids grew up, hanging out. That was the social life. They went there, and they went there all day. Now that has changed. It has changed not just significantly, dramatically in there.

I guess 20 years ago, perhaps 25% of our business was in the malls. Now, it would not even be a weak 2% of our business. Where are they going now? Well, we're looking at ways to sell online. We're looking at ways to sell in these little village and small shops. We're looking at ways to get into more convenience stores, and we're certainly looking for ways, because the biggest restaurants in any city of every city in the country is schools. We have a decent school business, and now we're trying to make it even more decent. So we are exploring all or most of the opportunities to get our products in and everywhere.

Operator: And our next question comes from Brian Rafn. You may begin.

Brian Rafn: Let me ask, Gerry, from the standpoint of your experience, just in, you go back over the last 10, 15, 20 years, if you look at some of the recent acquisitions, Gerry, how have they met kind of your expectation for sales growth? If you look at, forget about Hill & Valley, but like New York Pretzel, Philly Swirl versus some of the things overtime that you had, ICEE, Daddy Ray’s and that, what's been kind of your expectation or what's been versus plan?

Gerry Shreiber: Well, we’re pleased, essentially we're pleased. The jury's still out on Hill & Valley. Obviously we've made acquisitions in the beverage line and ICEE, and all of them have worked out. Some have worked out better than others, and we've made acquisitions in the pretzel group and we've rolled it into a category. The only area that we made an acquisition was when we went into the retail business, we made an acquisition of something called Bavarian Pretzel Shops/Factories. It was about 60 stores. I expanded it to 80, never quite got my arms around it, we, as a company. Different kind of business, different kind of traffic patterns, constantly changing, remodeling in there, and ultimately we drew a line and we are now down to a couple stores. And we're no longer in that business, which is why I have a great hesitancy about expanding into that type of business today.

Brian Rafn: Okay. No, I would certainly remember that from back. Let me ask you relative to the pretzel business, the challenges, you have a mature market share in that. Is it your thought that the growth in soft pretzels and that, the standalone pretzel itself really needs some of the line extension, iterations of fills and flavors and seasonings, or can you just still sell a raw pretzel, but in a different channel somewhere?

Gerry Shreiber: You're exactly right. We have all the line extensions. We fill them with cheese. We wrap them around a hotdog, we put caramel in them. We put Jughead [ph] fills in them. We put all these things in the pretzel and we still sell some raw product in there. Just the other day, I was in our Bellmawr plant which is our main R&D center, and they're working on some product. What was the hot stuff I tasted? Jalapeno. No, I go through it, R&D, I talk to people, I pick up something and man, I took a bite into a little hot roll jalapeno bite, and I lifted up off my feet.

I'm told this particular costumer and it's the chain, and it's way out in the West, they have a critical mass. They love it. So we're going to see, we're going to get that, we're going to do—but we are doing all these things. We can go from concept. This is our people with them taking something in a lab in almost record time. Customers love that, and that's been a factor in our restaurant, in quick service restaurant growth. Our people are good at it.

Brian Rafn: Let me ask you, Gerry, from that cycle time between a laboratory concept, flavorings, ingredients, recipes to actually production, how, if you go back 10, 15 years, how much is that cycle compressed? How much faster have you been able to drive that?

Gerry Shreiber: It's like non-comparable. Something that would take a year before is done in a month to six weeks. I mean we get on our horse and we're moving.

Brian Rafn: Awesome. Let me ask you, in the supermarket channel, the old battle between shelf space national brands versus private label, and what is the appetite for supermarket grocery stores coming to you for more private label recipes in that? What's your take on that here in 2017?

Gerry Shreiber: We do a fair amount of private label business. Some of our private label business we're in partnership with people like Walmart. So we're partners with the grocers. We also make sure that our brands are the preferred brand of pretzels, the preferred brand of Italian ice, the preferred brand of churros and all those things, we have established and maintained a leadership quality.

At Mondelez, we're doing two or three items for Mondelez on an either controlled brand or in their brand. So we have a fair amount of business that is what we call private label, and mostly we have it because we're good producers and we've earned their confidence and their respect. Our Daddy Ray's plant in Missouri, which we've only had for about eight years, ten years, we've expanded that a couple of times, and the last couple of expansions have been in partnership with Mondelez.

Brian Rafn: Okay. I would imagine in this kind of low growth unit, volume-driven market that couponing and promotional and shelf-slotting and that, still very intensive.

Gerry Shreiber: Yes. It's intense.

Brian Rafn: Okay. Do you guys—maybe a question for Dennis, do you guys break out or discuss—I've not seen it in your press releases—what new product sales are, say, for the quarter or trailing 12 months from things launched in the last two or three years, or is that something that's difficult because you have differences in the life span between one ingredient launch versus another, flavors or that?

Gerry Shreiber: It is in the Q, and I'm not sure—

Dennis Moore: And it's in the press release as well.

Brian Rafn: Okay. I'll go back and check. Maybe a little bit forward asking, anything spring, early summer here, weather impacting, obviously heat and that type of thing drives ICEE, it drives your frozen food. What is your sense here, this year 2017 versus what you experienced 2016?

Gerry Shreiber: Last year, weather was terrific. I don't like to depend or blame weather, whether it's good or bad. I know our third quarter April to June was tough on us for weather. I talk to Dan Fachner at least three four times a week. Dan is out in California when he's not flying around the country, but one of the things I've always done. Hey, Dan, we've got great weather. It's hotter than hell here. Good, it's good for ICEE. Conversely, when it's too hot, it affects a little bit our regular food products sales. But in any event, it's a nice balance. Seasonals are a nice balance, and we're gearing up right for schools. Our school business has been growing significantly, and we expect to have another banner year for schools this year.

Brian Rafn: Let me ask you on that, you guys have talked, you've had certainly major challenges in sugar content, saturated fats. The Obamas wanted broccoli on a stick. Kids don't like that. How has that market for you matured? Are you getting little better? Because there is kind of like a fine line between healthy and something a teenager is going to eat.

Gerry Shreiber: Right. And it has to taste good, and we seem to have unlocked some of the secrets into complying and getting sugars out and getting trans fats out, but keeping the flavor in. The key, it has to taste good, and we're good at developing taste good.

Brian Rafn: Okay. You talked a little bit about, someone made a comment about several projects, yield and efficiency and that. The 60 million to 65 million, what specifically is that targeted all over the manufacturing footprint? Is there a little more or less to one product line or a little more emphasis to pretzels versus frozen beverage or where is that kind of going?

Gerry Shreiber: Well, our main plant in Pennsauken, Bellmawr, and these are the heavy pretzel plants. There may be one plant that we're going to be closing and shifting it in there, and our Uptown plant, which is primarily dedicated to WaWa, is growing significantly every year. So it's primarily there.

We've also made investments in our North Carolina plant and our Oregon plant. These are the two USDA plants that we acquired in the ConAgra deal some six years ago, and although originally, we were concerned that we had not enough volume there, we put some pretzel products in there. We had a new product that we've developed called Brauhaus that's been made out there and shipped around. So we have a lot of good things happening, and that's why we mentioned that some of the manufacturing improvements will yield not only the direct manufacturing improvements within the plant, but also benefit logistically because we'll be able to distribute them [audio disruption], not the old way of horse and buggy.

Brian Rafn: Let me just ask one more, Gerry. ICEE has been such a homerun over the years. I mean, you guys have just done such a fabulous job of that. A little more niche has been certainly Slush Puppie, Arctic Blast and Parrot Ice. What's kind of the organic story there? Are they just kind of niche fill-ins or I mean obviously they're not ICEE?

Gerry Shreiber; You have to go back and look at the history. Originally, we had ICEE for the West Coast and Mexico when Mexico wasn't worth two pesos. Over the years, we've acquired a couple ICEE distributors, and then when we had to, let's say, compete with them, we developed a brand, Arctic Blast, and we moved into the territories and they competed until we kissed and made up and then bought them. Slush Puppie was an independent distributor, originally owned by—Dan, what was his name?

Dan Fachner: Will Radcliff.

Gerry Shreiber: Radcliff, who did a great job getting it out. It's a little bit different. It's not a carbonated product, and they have distributors. And then Dr. Pepper bought it. We bought it, and we integrated it in. The last one you mentioned was the Parrot Ice, which has not done well for us. It's a bar mix. It was a company in Texas that was—they had big aspirations. We talked to them a couple of times. We couldn't get a fix on their numbers. It was worse than an episode on *Shark Tank*. Finally they went bankrupt, we bought the assets, and we added it into our portfolio. Our people have done a reasonable and adequate job with it, but it's just tough to compete with the thousands upon thousands of little van trucks delivering many brands.

Operator: And we have no further questions at this time.

Gerry Shreiber: Well, I want to thank you all very much for participating. We're not happy with the results of the quarter. I can boldly predict we're going to be a lot happier next quarter. Bye now.

Operator: Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.