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SPEAKERS

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ANALYSTS

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Akshay Duvale - Jefferies LLC
Jonathan Feeney - Consumer Edge Research LLC
Brian Rafn - Morgan Dempsey Capital Management
Jon Andersen - William Blair & Company

PRESENTATION

Operator: Welcome to the J & J Snack Foods' Fourth Quarter Earnings Conference Call. My name is Sylvia 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 now turn the call over to Gerry Shreiber. Mr. Shreiber, you may begin.

Gerald Shreiber: Thank you, Sylvia and welcome to the J & J Quarterly Conference Call. Let me begin by advising the forward-looking statements. 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 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 21% for the quarter and 9% for the year. Let me just repeat that for emphasis: net sales increased 21% for the quarter and 9% for the year. This year's fourth quarter had 14 weeks compared to 13 weeks last year and the year had 53 weeks compared to 52 last year. This is a normal one-time every seven-year event when the extra week heads in. The additional week added about 9% to sales for the quarter and 2% for the year.

Excluding sales from the extra week, in 2017 sales increased approximately 12% for the fourth quarter and 7% for the year. Excluding sales from Hill & Valley, acquired in January 2017, and an ICEE distributor located in the Southeast acquired in June 2017, and Labriola Bakery, which was acquired in August 2017, sales increased approximately 6% for the quarter and 3% for the year.

Our EBITDA, that's earnings before interest, taxes, depreciation and amortization, for the past 12 months was $164.8 million, once again establishing a new record. Food service, without the extra week and without Hill & Valley and Labriola, sales were up 11% for the quarter and 5% for the year.

Sales to food service customers increased 30% for the quarter and our sales increase of 19% without Hill & Valley and Labriola was due to increased sales of soft pretzels, which were up double-digits, handhelds which were up 81%, churros up 16%, bakery products up 20%, frozen juice bars and ices up 15%, and funnel cake up 33%. We had an exciting year in food service.

For the year, food service sales were up 13%, and without Hill & Valley and Labriola were up 7%, with increased sales of soft pretzel up 5%, churros up 10%, handhelds up 35%, bakery products and funnel cake up 7% and 4%, respectively. Sales of frozen juice bars and ices were down 4% for the year.

Retail grocery and supermarkets. Sales of products to retail supermarkets were up 4% for the quarter and 1% for the year. Soft pretzel sales were up 23% for the quarter and 5% for the year, and sales of frozen juice bars and Italian ices were flat in the quarter and up 3% for the year. Handheld sales were up 7% for the quarter. Frozen beverages which includes ICEE, Arctic Blast and Slush Puppie, frozen beverage and related products sales were up 8% in the quarter and 4% for the year, 6% and 3%, respectively without the sales of the acquired ICEE distributor.

Drink sales or beverage related sales alone were up 9% in the quarter and 7% for the year with gallon sales up 8% and 6% in our base ICEE business both in the quarter and the year. Service revenue, which has been growing over the last decade, was up 12% and 5%.

Consolidated gross profit as a percentage of sales in the quarter increased to 30.8% from 30.43%, that's 37 basis points. Gross profit decreased from 30.67% to 30.53% for the year. Gross profit margin in the quarter and the year was impacted by the lower gross profit margin of our Hill & Valley business. But an overall improvement in our business led to the increased profit margin in the quarter.

Total operating expense as a percentage of sales was 19.2% in the fourth quarter, up from last year's 18.7%. For the year, the percentage increased to 19.6% from 19.3%. The increase in these costs in both periods was primarily in our distribution cost due to higher shipping cost and customer requirements.

Our cash and investment securities balance of $241 million was up $2 million from our June quarter. We continue to look for acquisitions as the use of our cash, $114 million of our investments are in corporate bonds with a yield to maturity of 2.1%.

Our capital spending was $15 million in the quarter, as we continue to invest in plant efficiencies and growing our business. Our spending for the year was $23 million higher this year than last as we invested in several one-time manufacturing projects and overall improvements to our manufacturing facilities.

A cash dividend of $0.42 a share was declared by our Board of Directors and paid on October 4. That computes to $1.68 a year, and I'm happy to say that since we started initiating a dividend we have gone 40 plus quarters. We bought back 116,735 shares of our stock during the quarter at a cost of $14.9 million, or an average price of $127 of share. We recently announced a new buyback authorization of 500,000 shares, which we would expect to take place over several years.

Commentary. Sales of our food service products improved this quarter, with significant sales of churros in restaurants and warehouse club stores, funnel cakes in schools, and handhelds to a handful of customers. Overall sales of frozen juice bars and ices were up this quarter because of higher sales to one warehouse club store that was a result of the timing of a program, which moves sales to our fourth quarter this year from our third quarter last year.

Bakery sales, notwithstanding Hill & Valley, were up this quarter a very strong 20%, led by private-label business. Soft pretzel sales were up 14%, including Labriola sales and sales of our specialty Pub Pretzel, our new Brauhaus Pretzel.

Handheld sales were up very a strong 81% for the quarter and 35% for the year, as we have had strong increases to a handful of customers, both existing and new. Overall food service sales to schools, up 8% and to restaurant chains, up 4%, have been strong this year.

Hill & Valley sales were $36 million since acquired in our fiscal January, but has had only modest operating income. We expect significantly higher operating income from Hill & Valley in the coming quarters.

Sales in our Grocery and Retail Supermarket segment were down slightly for the year and quarter, backing off the extra week, although soft pretzels sales were strong in both periods, primarily because of sales of the recently licensed Auntie Anne's pretzels that was acquired a few months back. Why? We believe we just do that better.

Sales in our Frozen Beverages segment were up slightly for the year and down slightly for the quarter. Service revenue was up stronger in the quarter, but machine sales have been down significantly this year, 10% in the quarter and 13% for the year, contributing to lower operating income for the year, although operating income in the fourth quarter was up 6% over last year as we benefited from the improved service revenue and the ICEE acquisition made in June.

Overall, consolidated operating income in the quarter increased $6.0 million from a year ago, that's a 20% increase, although in all fairness and not to slight our improved performance in this year's quarter, our operating income in last year's fourth quarter was down $2.9 million, or 9% from the previous year.

Our income tax rate of 35.6% this year and 35.0% from last year and 35.2% and 35.0% for the year. We are estimating a taxable rate of about 36% in fiscal year 2018. Just as a side note, we continue to grow and expand our niches, our business is fertile and growing, we enjoy what we're doing and we are excited to measure our performance each and every quarter.

I thank you for your continued interest. Now I will turn it back to the listeners for any questions, or preguntas, and I have my team with me, which I will introduce to you as we get these questions. Thank you.

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions]. And our first question comes from Francisco Pellegrino.

Gerald Shreiber: Hello. How are you?

Francisco Pellegrino: Pretty good. How it's going, Gerry?

Gerald Shreiber: It's going well.

Francisco Pellegrino: So this is a nice quarter. I was just wondering, just because we're dealing with the extra week, we're layering in the acquisition, just sort of backing into some of the math, can you provide us with what the organic growth rate was for the acquired businesses, because I thought those businesses should have been contributing about $11 million on a quarterly basis in revenue?

Gerald Shreiber: I think $11 million would be high. Keep in mind that there were three small acquisitions, the ICEE distributor, the Auntie Anne's license, which we didn't make a big deal of, or we announced it out in the stores and the Labriola Baking, I would expect that probably less than half, Dennis?

Dennis Moore: Well, let me make sure we understand the question. You're saying what are the annualized rate of sales of the acquired businesses?

Francisco Pellegrino: Okay. Let me rephrase the question. Your bakery product sales did $103 million of revenue. The year-ago period it did $73 million. This year, we have the extra week in the fourth quarter as well as layering in the two acquisitions for the Bakery segment. It looked as if the Bakery segment – I'm not sure if the legacy business got growth or if the new business you've been able to expand to a greater degree?

Dennis Moore: Sales with Hill & Valley were about $15 million in the quarter, but the bakery sales without Hill & Valley were up about 20% in the quarter.

Francisco Pellegrino: Okay. That makes sense. On the last conference call, I was asking about the operating margins for Hill & Valley, and I guess at the time it was operating with an operating loss. It looks as if you were able to marginally turn the business profitable during the quarter, and it looks like Hill & Valley had a 3% operating margin. What's the ceiling for this business?

Gerald Shreiber: It is a nice complementary business to our other products, and for the longest period of time sugar-free cookies were at the top of the ladder of everybody's head, and it has left. It has dimmed a little bit in there, but the business itself is improving.

Francisco Pellegrino: Okay. And I guess we were talking about just some of the commentary from the prior conference call, I guess one of the things that you were going to provide us with in regards to incremental insight, is you guys have been spending a lot of money on capex this year and there have been some geographical manufacturing inefficiencies, just given a strong consolidation of pretzel manufacturing in the Northeast and there looks like there could be the potential for maybe consolidation amongst this product line. I was hoping to get a little bit more incremental detailed color what you guys are thinking about that product line and maybe investing in greater capex or reducing capex to get greater operating leverage for that business.

Gerald Shreiber: It's probably a combination of both. We have always over-invested in our manufacturing business and sometimes we have gotten caught as far as logistically in servicing, but we're looking at both of these things. As a matter of fact, we have Gerry Law on our conference call, he's in the Midwest and that's one of his assignments for this thing is to make sure that we push and pull through faster and more efficiently right, Ger?

Gerard Law: Correct.

Francisco Pellegrino: When you start looking at consolidation, is it going to be a little bit more difficult now, only because this quarter you've got some impressive growth in the soft pretzels line. So, as you start getting more growth in the product line and you start thinking about consolidating facilities, when I look at what was happening in the fourth quarter of 2016 through the third quarter of 2017 that business was flat, and that would have been the ideal time to really probably consolidate those facilities. So, there's a lot of dynamics and I'm just wondering what the timeline would be for when you would probably start pulling the trigger on this manufacturing consolidation.

Gerald Shreiber: The timeline is a little bit advanced, but we're doing some things that should bear fruition, certainly in fiscal year 2018, and maybe as soon as the next six months. But look for us to improve in both of these areas.

Francisco Pellegrino: And then my last question would be, given that these changes would be occurring in the first half of 2018, is there any way to quantify what the margin lift could be from these changes?

Gerald Shreiber: Not at this point. We have to put the lines in place, make sure they run, de-bug them, and all the while maintain the revenue and profitability of our business while picking up incremental points from sales and manufacturing.

Francisco Pellegrino: Okay. That makes sense. Thanks again, Gerry.

Gerald Shreiber: Thank you.

Operator: Our following question comes from Akshay Jagdale.

Akshay Duvale: Good morning.

Gerald Shreiber: Akshay, how are you?

Akshay Duvale: Good. How are you, Gerry? I hope you're well. So I wanted to ask about the M&A environment, obviously, you might have noticed that in the public markets valuations in the food space have come under significant pressure and I would say more than normalized. What are you seeing out there in the M&A space? I know you're pretty active there. Obviously, you haven't done anything, I would say, of size, but I'm just curious to see if there's anything that's changed recently because it looks like valuations have been one of the main reasons why you probably have passed on a few things. So has anything changed, are you seeing anything change with the public markets having corrected?

Gerald Shreiber: Well, I wouldn't say corrected, all right, but maybe they're coming back into knee deep water instead of over your head. So, we continue to look at things and be presented with things, and as you know, you've been following us a long time, we're able to spot and connect and catch some of these smaller acquisitions and integrate them into our system. That's a talent that we have and that's a talent that we're going to continue, I believe, to demonstrate. Gerry Law, who is on this now, he helped assist in a couple of acquisitions, and there's always a one down and last to go, there are a couple of ICEE distributors that are still out there, and I think sooner, or perhaps later than sooner, or sooner than later, we will be bringing them all into our fold.

Akshay Duvale: Okay. My next question is not related to the quarter at all, it's just overall about the strategy of the Company as it relates to margins specifically. So obviously, Gerry, this company has been your baby and it's been an amazing company from an investment perspective and you got great results, but as you've taken a step back a little bit, is there a culture that's changing a little? Do you need to do anything differently now in this environment where consumers are asking for different things, and more things it seems like?

Really, what I'm trying to get at is your top line results have done really well, right? So, you're back to your top line growth trajectory that you used to have, and maybe even exceeding that in the current quarter, but the bottom line you've lost momentum. And what you've seen across the space is a lot of tightening of the belt, even from companies that are well managed like yourself. So is there a need for that at J & J Snack Foods? Are you already doing something in that regard behind the surface, if I may? And if not, why not take deeper look, because it seems like to me the momentum on the margin side is somewhat lost here right and I feel like something needs to happen there for investors to get more excited.

Gerald Shreiber: I appreciate the critique. And my team is on this call, Dan Fachner; Gerry Law, who is my assistant , Bob Pape, who is in charge of sales, Bo Powell, who is Vice President of Food Service, and all of these guys have been integral with our success over the years. And we've added some staff recently both in Sales and in Accounting, and Analysis, and Information Systems to assist them.

If you look at our earnings over the past five years, eight years, ten years, our sales have doubled. Our earnings have tripled. Our EPS has tripled. I'm not reading from a book or a magazine, but there's a constant attention to not only establishing the right margins, but maintaining them, and I think we will continue to do that. And where something changes or rears its ugly head, we will be able to attack it, maybe with a vengeance, and get it corrected. But we're still involved with niche products, very niche products, and we kind of dominate in market share, and we are a low cost producer, and every effort will be to both maintain that and improve that in not just quarters to come, but in years to come.

Akshay Duvale: Perfect. One last one for me. It again goes back to a little bit of the question on margins, but if you look at the mix of your sales growth and sales this year, a lot of the growth, if I may, has come from the bakery products division or bakery products in general. And those are lower margins, right, and you've also acquired some businesses that are lower margins that are now turning around, at least on the top line, including handhelds. So, is there a greater focus on mix management, such that the margins again or the profit growth follows or even starts to exceed the top line growth?

Gerald Shreiber: That could happen. And with me in this room, to my left is Bo Powell. He is in charge of Food Service General. Steve Taylor, who's been a loyalist and is our Vice President of National Accounts, his role switched a few years ago and he only calls on chains and national accounts, and we’ve built up a business there which is now probably $60 million overall. It takes a little bit longer to secure that business and we have R&D support throughout the country that helps to assist that.

Bob Pape is our Senior Vice President of Sales. He has under his umbrella both Food Service and Retail. We all know what’s been happening in Grocery and Retail, it's not like we're getting thrown out of stores or whatnot, we still have our presence, but there are less of these stores.

So I'm satisfied with my team, and we recently added this last April or so, four or five other people in the team to help us drive to our goal.

Akshay Duvale: Perfect. Thank you, and congrats on a good quarter.

Gerald Shreiber: Thank you.

Dennis Moore: Thank you, Akshay.

Operator: Next question comes from Jonathan Feeney.

Gerald Shreiber: Hi, Jonathan. How are you?

Jonathan Feeney: Hi. Never better. How are you? Good results. One question for Gerry, one question for Dennis. Obviously, valuations have corrected quite a bit, and I know you get into this a little bit, but what's going on with interest rates and particularly food company valuations, has it bled from large companies into smaller companies as far as the kind of deals you're looking at, have the valuations come down maybe a little bit more reasonable? It seems like the disruption is the kind of thing that could shake loose more assets, so just your commentary on that line of thought and maybe increased likelihood for more things to join the happy J & J Snack Foods family.

And for Dennis, I know we communicated a little bit about this, but if you could briefly just shed light on what I missed on organic sales for the quarter. It might be something very simple, but I messed it up in my note and I think it’s a point worth making more generally. Thank you.

Gerald Shreiber: Okay. Let me just at least reply to your overall question for me. We look at things, and sometimes we look at some of them very seriously and we're ready to jump in with at least with one foot, if not both. But I'm not going to do anything that's going to fundamentally change our focus and our direction. We can certainly acquire something in the several hundred million dollar revenue category and we wouldn't have to go to the banks to borrow from this.

We want to continue to look. We want to make sure it's at least a structural fit. We want to value the risk and continue to grow 5% to 6% to 7% a year with what we have now. And if something comes along that can bring a couple hundred million dollars in sales that's fitting in what we're doing, we're going to look at that more closely.

Jonathan Feeney: Okay. But the valuations are not really a very big part of it, is what you're telling me?

Gerald Shreiber: It hasn't been so far to us. When something is real crazy, we'll say thank you and we'll get back to you later. Dennis?

Jonathan Feeney: Okay. I'm giving you a chance to yell at me, Dennis.

Dennis Moore: In terms of the organic growth in the quarter, as Gerry had said, in food service our sales were up about 11% if you back out the acquisition, the extra week. And overall, organic sales were up 6% for the quarter.

Gerald Shreiber: This is Gerry. I'll take that every quarter for the next five to ten years.

Jonathan Feeney: Yes, me too. Okay. As long as there's nothing unusual about that 53rd week. Is the extra week a heavy shipping week or anything like that, or are we just literally talking about 2017 over 2016?

Gerald Shreiber: No. And actually you're talking 53 over 52, and that puts it in more perspective.

Jonathan Feeney: For the year, right. Got you. Okay. We can follow-up offline on that. Thank you very much, guys.

Operator: And our next question comes from Brian Rafn.

Brian Rafn: Good morning, Gerry.

Gerald Shreiber: Hi, Brian. How are you?

Brian Rafn: I'm very, very good. Good morning, Dennis. I don't want to miss you. Maybe one question for Dennis, as you look out in the 2018, are you seeing any commodity food ingredient inflation; sugar, flour, cocoa, eggs, shortening kind of the whole gamut?

Dennis Moore: So it's relatively flattish at this point, is what we see.

Brian Rafn: Okay. Let me ask you, Gerry, on some of the recent niche tuck-in acquisitions you made, I'm just wondering what your sense is on your organic ability to build. I'm thinking New York Pretzel and Philly Swirl, you were very successful with Daddy Ray's, some of the niche-y ones that you bought in the last, say, three years, what's been your level of what you think has been the success of the plan?

Gerald Shreiber: Well, some of the results are not in yet, but I can tell you that we have the Labriola acquisition. I tried to buy that about five years or six years ago and, quite frankly, we put in a bid and we were outbid, it went for something significantly more than we wanted to pay at that time. That investment group got in trouble, they gave it to one of you guys to sell it, and we were able to buy it at a fraction of what it was originally. We've been out there a couple times. As a matter of fact, Gerry Law is out there now, and we think that that's going to be perhaps a shining star for us in the future. They make a terrific product both on a soft pretzel standpoint and some specialty [audio disruption], and that's going to do well.

The southern ICEE acquisition, Dan has already integrated that, and that will be a plus performer for us. Obviously, the cookie acquisitions that we've made in the past year or two complement our business, but they're not quite pretzels. And we have enough, I believe, of the pretzel market that we will continue to grow that, perhaps in mid-single digits in there, and we will increase the profitability by something even more because of our strong position in that market. And hopefully, we will find other things that were either left in the dust or that nobody noticed, and we'll be able to add them to our portfolio over the next couple of years.

Brian Rafn: Okay. Now that the Obamas are out of the White House and the Trumps are in, there's been a lot of played on deregulation. Have you guys seen any retardant in the whole nutritional thing from the food service in the schools and the cafeterias relative to the old broccoli on a stick? You guys really had to change some recipes, make things much healthier, pull out fat and sugar, does that get any easier, or is that really something that's designed at the local level?

Gerald Shreiber: That's to be determined. We did have to go through some of the reformulations and submissions and this, and it took a long time. As a matter of fact, our school food service business K-12, probably took somewhere between a double-digit hit for a year or two. We have gone through heavy lifting with that, and the schools, the cafeterias are happy with our products. They taste good. They know that they can depend on us to be on trend.

But to try and project what's going to happen with this administration, or any new administration, we just want to remain both steadfast and equal to the course. And our people have done a good job with the R&D group, who report to Gerry Law, and [audio disruption] our products into compliance.

Brian Rafn: Okay. Let me ask Gerry a little different question on that. With Amazon buying Whole Foods and the big drive with organic foods in that in the last five years to ten years, is there a niche organic food area for the snack food area that you are in, and is there any interest in formulating recipes for that area?

Gerald Shreiber: Well, let me defer to Bob Pape, who’s sitting here, and Gerry Law, who’s on the call because this would be something that I would lean heavily on them for advice.

Bob Pape: We’re looking at several executions of products that address needs relative to organic products as well as non—

Gerald Shreiber: We’re going to be along this. We’re not going to be just horsing around.

Brian Rafn: Right. Let me ask you too, Gerry when I was a kid Oreo’s came in one size, now they come in double stuff, triple stuff, peanut butter and there’s also, in the last few years, more of a seasonality, you get Oreo cookies for Easter, Oreo cookies for Christmas colors, Oreo cookies for Halloween. Are there seasonal recipes that impact your snack food area? There seems to be an awful lot of differentiation in that snack area.

Gerald Shreiber: The Oreo, I would call that TMM, too much marketing.

Brian Rafn: Okay. All right.

Gerald Shreiber: [Audio disruption] and a little bit less in churros. But our pretzels, we are the category leader, so every once in a while we can paint the edges and whatnot, but we're not re-painting the total houses.   And you're right, Oreo does have something in different colors and different sizes for almost every event.

Brian Rafn: Right, I got it. Let me ask anything, on the dollar stores, any new products, any new initiatives?

Gerald Shreiber: Yes, and we're doing well with the dollar stores and we've been putting in ICEE in there, we've been putting in some of our fig and fruit bars, and we've got some other products going there according to what the [audio disruption].

Brian Rafn: Okay. And how many ICEE distributors would there be left for you to purchase, either numbers or geographic proximity?

Gerald Shreiber: Well, there's just, say, a couple of states and less than, I'll say, just a few people.

Brian Rafn: Okay. Then on Hill & Valley bakery Gerry, are there things that you can do to expand their recipes? Is it about leveraging commodity costs with them? Is there SKU rationalization? Is there new plant equipment? Is there anything you can do to continue your management of that from where they were?

Gerald Shreiber: They are in a new plant, and that was one of the criteria that we looked at before we acquired them about six months or eight months ago, and they have plenty of space. They have plenty of talented people and we expect improvement for them for this year and beyond.

Brian Rafn: Then I'll just ask, is anything going on in the private label area? Maybe talk a little bit how competitive, slotting in shelf spaces in the supermarket area for you guys.

Gerald Shreiber: Gerry Law, you want to talk about private label because I know you and your group are doing things for them all the time.

Gerard Law: Yes, we continue to evolve and put product in the private label that are an expansion of our manufacturing capabilities, where we might not have a brand against it. And the slotted piece is still there, slotting is competitive, we're in competitive categories, and we compete well there.

Brian Rafn: Okay, guys. Thanks so much. Good year.

Gerald Shreiber: Thank you.

Operator: Our next question comes from Francisco Pellegrino.

Francisco Pellegrino: Hi, back again. One question that I want to ask, and it's been a little bit puzzling just when I see your commentary on the rest of the space, and I know it's not a big percentage of your overall sales, but your Retail segment has been performing really well. I was wondering if you could just give us a little bit of commentary in regards to maybe just why you are able to have strong performance in this segment because we haven't been seeing a lot of acquisitions rolling up into retail in the past couple of years.

Gerald Shreiber: Are you talking grocery and supermarkets?

Francisco Pellegrino: Yes.

Gerald Shreiber: As we are last name and middle initial when it comes to soft pretzels, we also are the number one selling ice, so we continue to use these products, as well as some new products, including private label, but our retail business is growing okay. It's dealing with its challenges, pretty much with store closings and whatnot and consolidation, but we're satisfied with our grocery business. I wish it could grow more.

Francisco Pellegrino: Well, given all the headwinds that you mentioned, I think it's performing pretty well. One of the things that I want to ask is, don't you have a lot of SKUs in this segment relative to what its contribution or what the nominal figure is on an annual basis?

Gerald Shreiber: Let me just say this, some of these SKUs are similar as far as form, body and function. It's only the packaging which is different which gets them into that segment. I don't necessarily think that we have too many SKUs, and exception of the frozen novelties, which we're competing with people who have much larger resources, but what do we have, Bob, do we have two dozen SKUs total?

Bob Pape: Probably a little bit more than that.

Francisco Pellegrino: Two dozen SKUs total in the frozen, or for the entire Retail Supermarket segment?

Gerald Shreiber: Frozen, it would be a lot more—

Francisco Pellegrino: Okay. Yes. Is there a way to sort of quantify in regards to, for example, if SKUs account for ex-percent of gross sales, just to see if maybe there's some imbalance or there's some sort of SKU towards a specific product line within the segment?

Gerald Shreiber: That's it an interesting question. Very seldom do we want to turn our back on sales unless there's a compelling economic reason, so it's something that we'll consider and look at. And I just pointed to the person that's going to look at that.

Francisco Pellegrino: Okay. The only reason why I ask is we're seeing a lot of peers in the category focusing in on SKU rationalization. Obviously, retail supermarket shelf space is highly competitive and I was wondering if investing amongst a broad SKU base, if it might be a little bit more efficient to invest marketing and trade spending behind a reduction or a reduced number of SKUs?

Gerald Shreiber: You've raised an interesting comment and we'll take a look at it.

Francisco Pellegrino: Well if you're looking to hire for a position, I guess we can speak about that offline then. Thanks again.

Gerald Shreiber: Thank you.

Operator: Our next question comes from Jon Andersen.

Gerald Shreiber: Hi, Jon.

Jon Andersen: Hi. Good morning, everybody. Congratulations. So I know you've been investing in some of your, I guess, new or emerging channels with more of a concerted sales and marketing focus. I think that you've called out convenience stores, maybe healthcare, education channels. Are you in a position to talk a little bit about maybe your progress along some of those channels?

Gerald Shreiber: Well, yes, we are and it's still early in the progress. Healthcare is still small, although we have a person dedicated to that. But we've been doing really, really well of course, certainly with ICEE and some of the new pretzel and other [audio disruption]. What else, Jon?

Jon Andersen: Hello?

Robert Pape: Do you have another question, Jon?

Jon Andersen: Yes. On pricing, the pricing across the board, I guess for the business has been relatively flat for the past several quarters, if you go back several years it used to be a positive contributor overall to the top line. Can you talk about just the general tenor of the pricing environment both in food service and retail and your expectations for that going forward? Thanks.

Robert Pape: We are working to try and execute pricing where we can, as you know. But we have other costs associated and are trying to recoup those costs.

Gerald Shreiber: Actually we're looking at our pricing and planning on a price increase this year yet, that would be 2018. We're all a bit sensitive to going out with increasing cost [audio disruption] formulation, and I'm not sure that increased prices [audio disruption] sales, and the buyers, and they've always been sharp and smart, but now they can look at the commodities and they can look at this. And one of the things we hear is nobody else is increasing pricing, and we can show them other people are, starting next week, every year for the past 15 years we know a major beverage company increases their price by 3% to 5% every year. And then one of the other major beverage companies will follow suit two weeks later.

So, we're armed with that information and when we have to deal with these senior buyers in there, we could show them the same thing. Now our costs relatively the commodity, maybe fall in the median balance, but we're still paying healthcare. We're still paying wages. We're still paying specialty transportation costs. So we're impacted by all these things too and our people have to be aware of it so they can explain to the Johnson’s when they're dealing with them.

Jon Andersen: Great. Thank you very much.

Operator: Brian Rafn with the question.

Brian Rafn: A question for Gerry, I think you said that without an acquisition you might be 5% to 7% in that range or organic growth. Am I to take that, Gerry, that’s probably biased to mostly unit volume growth, not so much price inflation?

Gerald Shreiber: I wouldn’t say that. I said that's our goal to begin with. And it's really going to be in dollars.

Brian Rafn: Okay, all right. Let me ask maybe a question for Bob. You see in the grocery stores on the front end by the cashiering area, there is kind of a speed rack for lunches, single beverages, pre-made sandwiches, single chips, maybe cut fruit. Is there any way to sneak in bakery or brownies or something like that in that area, and those areas seem to be getting larger.

Bob Pape: I think there are opportunities. We will work with each customer individually. Again, we have premium rolls, pretzels rolls and products that could be used for sandwiches, which we explore--

Gerald Shreiber: Yes. But he's talking about, I think specialty rack where there will be single serve supplies. I've noticed how well they're doing.

Brian Rafn: Well, if you need some rolls that's good too. So I mean that kind of addresses that. Let me ask you another question Bob on that. How much tougher on the retail side relative to slotting in that maybe private label, is it to go against the Kroger's, the Safeway and Walmarts versus some of the regional players like maybe a Weis Markets or Wegman's or Roundy's?

Gerard Law: They're all very intelligent, smart people, our customers, and they see a value in the services they provide by having them to stock our products. And we negotiate with all these customers in one shape or form to be able to get our products available to our consumers.

Brian Rafn: Okay. All right, guys. You guys have a good Thanksgiving.

Gerald Shreiber: You too and a healthy one.

Operator: We have no further questions at this time.

Gerald Shreiber; I want to thank everybody for participating, and we look forward to talking to you again for our next quarter. I will disengage.

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