Final Transcript

Customer: J & J Snack Foods
Call Title: First Quarter Earnings
Confirmation Number: 44159740
Host: Dennis Moore
Date: January 24, 2017
Time/Time Zone: 9:00 am Central Time

SPEAKERS

Gerry Shreiber - President and Chief Executive Officer
Dennis Moore - Chief Financial Officer
Bob Radano - Senior Vice President and Chief Operating Officer
Bob Pape - Vice President, Sales
Marjorie Roshkoff Shreiber - In-House Counsel

ANALYSTS

Francesco Pellegrino - Sidoti & Company
Akshay Jagdale - Jefferies & Company
Eric Gottlieb - D.A. Davidson & Co.
Jon Andersen - William Blair
Brian Rafn - Morgan Dempsey
David Mandel - Consumer Edge Research
Bob Costello - Costello Asset Management

PRESENTATION

Operator: Welcome to the J&J Snack Foods First Quarter Earnings Conference Call. My name is Jason and I will be your operator. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. And please note this conference is being recorded.

I will now turn the call over to Gerry Shreiber. You may begin, sir.

Gerry Shreiber: Good morning, everyone and welcome to our first quarter's conference call. With me today is Dennis Moore, our CFO; Bob Radano, our Senior Vice President and COO; Bob Pape, Vice President of Sales; and Marjorie Roshkoff Shreiber, our In-House Counsel.

Let me 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 1% for the quarter, and our net earnings increased by 4% to $13.5 million or $0.72 a share from $13.0 million or $0.69 a share a year ago. Our EBITDA, that's earnings before interest, taxes, depreciation and amortization, for the past 12 months was $158.4 million, again, establishing a new record.

Food service: Sales to food service customers were up 2% for the quarter, but with increased sales of soft pretzels, up 7%; churros, up 4%; funnel cake, up 42%; and handhelds, up 22%, leading the way. Sales of frozen juice bars and ices were down 10%, and bakery sales were down 2%.

Retail and grocery supermarkets: Sales of products to retail supermarkets were up 2% for the quarter, soft pretzel sales were up 2% for the quarter, and sales of frozen juice and Italian ices were up 9%. Handheld sales were down 11% in the quarter to $3.5 million.

ICEE and frozen beverages: ICEE, which includes Arctic Blast and Slush Puppie frozen beverages and related product sales were down 2%. Beverage-related sales alone were up 1% in the quarter, with gallons pretty much flat in our base ICEE business. Service revenue for others was up 2% in the quarter.

Consolidated: Gross profit as a percentage of sales in the quarter increased to 29.2% from 28.6% last year. The gross profit percentage in this year's quarter compared to last year was helped by increased sales in our food service business and lower ingredient costs and improved operating efficiencies. Total operating expense as a percentage of sales increased from 20.4% to 20.6%, with the increase mainly attributable to higher marketing spending in our retail supermarket business and a relatively small overall increase in sales of 1%.

Capital spending and cash flow: Our cash and investment securities balance increased $8 million in the quarter to $282.4 million as we continue to generate cash in excess to our needs. We continue to look for acquisitions as a use of our cash. Our capital spending was $11.4 million in the quarter as we continue to invest in plant efficiencies and growing our business. We are presently estimating capital spending for 2017 to be $50 million or so, about the same as last year. We are refocusing our efforts to take costs out of manufacturing through improved efficiencies and improved controls. A cash dividend of $0.42 a share was declared by our board of directors and paid on January 11th. We did not purchase any shares for retirement of our common stock in the first quarter.

Commentary: Food service sales of soft pretzels, churros, funnel cake and handhelds were strong this quarter with increases in the restaurant, C stores and school food service channels. Sales to restaurant chains were up about 10% for the quarter. Frozen juice and ice sales in food service were down 10% in the quarter, with half of the decrease being lower sales to one school district, which we expect to come back online in the second quarter or the spring.

Handheld sales in food service continue to be strong, led by sales to three customers. Our whole grain funnel cake product has been well-received in schools and continues to contribute significantly to our sales growth of funnel cake products. For the quarter, bakery sales were down 2% as sales were up and down for a wide range of customers. Sales to three customers were down $5.5 million for the quarter.

We expect sales to two of these customers who were down $2.9 million to flatten out and perhaps begin to increase in sales starting in the second quarter. But the other customer may continue to be down in sales roughly about $1 million a month for the next nine months.

Sales of soft pretzels in our retail supermarket segment improved, benefiting from increased couponing. Frozen juice bars and ices were up 9% for the quarter, with strong performances across our product lines. Handheld sales in retail supermarket continued to decline due to decreased volume, although sales of our licensed Pillsbury mini dessert pies were relatively good this quarter. We also had significant sales in the quarter of our licensed Oreo churros.

In ICEE and frozen beverages, sales were down overall 2%, primarily because of lower machine sales. Also, be aware that this business had been running up significantly and was up 17% in the year-ago quarter.

Operating income in the quarter was up $1 million from a year ago, a 5% increase. Our estimated income tax rate was 34% this year and 33.4% last year for the quarter. Both years' rates benefited from unusually high tax benefit on share-based compensation. We are estimating a rate of about 35.5% in fiscal year 2017, which compares to a full year rate of 35.0% in 2016.

On January 3, 2017, we acquired the business of Hill & Valley Inc., a premium bakery located in Rock Island, Illinois, for approximately $31 million. Hill & Valley, with sales of over $45 million annually is the manufacturer of a variety of prebaked cookies, cakes, pies, muffins and other desserts to in-store bakeries in the retail supermarket segment. Hill & Valley is the leading brand of sugar-free and no-sugar-added prebaked in-store bakery items. Additionally, Hill & Valley sustains strategic private labeling partnerships with major retailers nationwide. We are comfortable with the Hill & Valley management, and we expect the president to remain on with us for several years. We expect this business to add about $0.10 to earnings per share its first year.

I thank you for your continued interest, and now I will turn it back to the listening audience for any questions or comments.

Operator: Thank you. We will now begin the question-and-answer session. [Operator instructions]. And our first question comes from Francesco Pellegrino. Your line is open.

Francesco Pellegrino: Good morning, Gerry.

Gerry Shreiber: Good morning, Francesco.

Francesco Pellegrino: How is it going?

Gerry Shreiber: It's going well. Thank you, except for the weather.

Francesco Pellegrino: Yes. Well, every time I seem to meet with you, it's sort of down-pouring, isn't it?

Gerry Shreiber: So you're the cause of us kind of like tramping through a quarter.

Francesco Pellegrino: Tramping through, when I look at your Page 1 and I always appreciate the commentary that you give, just it's very simplistic and usually it's very forward-looking, it's positive, but for this quarter, you're quoted as saying overall, we're satisfied with our results for the quarter. I'm looking at the quarter, you have revenue up 1% year-over-year, you have EPS growth of 4%. And then sometimes when I look back at some of your commentaries, on some prior press releases like, for example, I hold up

2Q fiscal ‘16 where you had 2% revenue growth, but you had 7% EPS growth and you’re encouraged. Could you maybe just talk about why you’re satisfied for this quarter just given what just appears to be, I don’t know, a lackluster quarter?

Gerry Shreiber: Well, anytime you can grow the core business by decent single-digits and grow the earnings even better, I’d have to say that I’m reasonably satisfied. Am I thrilled? We’ve had much stronger quarters before in the past. But given the economic uncertainty, and given the competitive nature of the markets, 4% earnings growth on modest sales increases is not too bad.

Francesco Pellegrino: I understand that, and I know you always set the bar high. And when I think about just you setting the bar high, I think about you setting the bar high when it comes to manufacturing costs and you being a low-cost producer. When I revisit the company’s fourth quarter conference call from early November, there seemed to be a significant concern about higher manufacturing costs in the fourth quarter persisting into the first quarter, and it was something that you really drove home on the call. And to be honest with you, when I look at the food service segment operating margin in the fourth quarter and then I compare to what happened in the first quarter, like this was a really great quarter for food service and I’m just not sure if maybe when you had the fourth quarter conference call, if October was looking really bad and then there was a turnaround—

Gerry Shreiber: Let me interrupt and I apologize for that. We had some challenges in the fourth quarter. We addressed them head on, but nothing showed in October, and then taking a conservative view, we kind of echoed that in the call. However, our efforts and changes and fixes, it’s like a football team can go up and down the field and then use up six minutes, but we got up and down the field in about three minutes and we see the benefits of it now.

Francesco Pellegrino: So are you saying that there was no elevated manufacturing cost at all during the quarter within food service?

Gerry Shreiber: No.

Dennis Moore: No, this is Dennis. Last year in the first quarter, we put in a new manufacturing line in one of our New Jersey plants. And there were significantly start-up costs because of that. So this year those costs, we did not have those costs. So that would be the biggest reason to compare year-to-year for the benefit this year compared to last year.

Francesco Pellegrino: I get the benefit from the year-ago period and how you're benefiting from not having a certain cost in the yea- ago period, but what I'm trying to get at is maybe that there were a lot of favorable things that occurred during the first quarter that might have offset some elevated manufacturing costs that you guys were touching on during the fourth quarter that's sort of being masked by maybe just an improvement in the operating—some operating leverage that you guys have gotten from investments in CapEx over the years. And I'm not sure if we're able to quantify it, because going forward, if there were elevated manufacturing expenses during the first quarter and we don't have that going forward, then I would think that your food service segment could really benefit from higher margins going forward, and this is just the beginning of maybe a higher performing segment?

Gerry Shreiber: Well, hopefully you're right. We'll see.

Francesco Pellegrino: Okay. And then just the last thing I wanted to ask about was the bakery acquisition, it looks as if you acquired it for $31 million, I'm assuming when I look at peers in this space, you probably acquired it for like 6x EBITDA?

Gerry Shreiber: You're right on—

Francesco Pellegrino: This is an acquisition that like sort of it's not really the type of acquisition you guys have done in the past. When you guys do an acquisition, you do an acquisition of a company that has a niche product, that has a large market share within that niche product. For example, pretzels, you guys do Soft pretzels well, you went out, you acquired Kim & Scott's which has a gluten-free pretzel, and I get it, because it's something that rolls up well into an industry that you dominate, but just to be doing acquisitions in the bakery space, I would think there is a lot of competition in that space and I'm just wondering if you're maybe getting away from something that you've done well.

Gerry Shreiber: We look at this acquisition very carefully. Jerry Law and I and some others visited the plant. We met with management. We hosted management here. We thought that they have a special niche in the sugar-free in-store bakery. We kind of like reviewed that niche. We're pleased with what we found and this was part of a private equity who was group that was selling it. We got into the process and we acquired it. We're very comfortable with the acquisition and its future. Anytime we can acquire something that fits in our overall portfolio, and we're not talking about something 10 or 12 times earnings, you're talking about something 6 times earnings and it's a nice fit. We think we're going to benefit from it. And our regular in-store bakery and cookie business will also share in some of the benefits.

Francesco Pellegrino: Alright, perfect. Thanks so much for your time, guys.

Operator: Our next question comes from Akshay Jagdale. Your line is open.

Gerry Shreiber: Good morning, Akshay.

Akshay Jagdale: Good morning, how are you?

Gerry Shreiber: I am good, how are you? You're out on the West Coast now?

Akshay Jagdale: Good. Actually, I am in New York, but Lubi is in the West Coast. So I'm enjoying the perfect weather here in the East Coast.

Gerry Shreiber: Good.

Akshay Jagdale: So I wanted to ask about the acquisition too. Sugar-free cookies, how do they taste? I've never tried one. Is that a market that you think has "legs"? I mean we all love cookies for sugar.

Gerry Shreiber: We think these sugar-free cookies taste better than its competitors'. And as a result, it has made significant inroads into the in-store bakeries, particularly the last three year or four years.

Akshay Jagdale: Okay, that's helpful. And the $0.10 this year, so on an annualized basis, can we just gross that up for an additional quarter or is there something unique there? I mean, it's just simple math, right? It's three quarters, $0.10, four quarters, should be more than that, correct?

Gerry Shreiber: Well, I'm trying to make sure I understand your question. We're saying $0.10 for the year, not $0.10 for the quarter.

Akshay Jagdale: Yes. No, you're saying $0.10 for this fiscal year or $0.10 for its first full year?

Gerry Shreiber: First full year.

Akshay Jagdale: Got it, my bad on that. And can you just update us a little bit on the M&A environment? Obviously this seems like one of those deals that you are very good at finding and executing on, so it looks like it's right in your wheelhouse, but you still have a lot of dry powder. Can you talk to larger sized deals and your appetite for it, then sort of what's out there and why?

Gerry Shreiber: Well, we have an appetite, but we're not going to eat crazy and get filled up with too much fat, alright? So we continue to look at these acquisitions with a careful eye, and we want to be reasonable, liberal and evaluate them, but certainly continue to be conservative in our discipline.

Akshay Jagdale: Okay. And back to sales growth, there was quite a few positives in, obviously, in the food service segment. So, I thought that was a pretty good performance, but there are always some puts and takes. And more recently, there has been more that fall into a sort of leaky bucket area. And as a result, you've gone from a company that's doing mid-single sales growth to low single-digits for several quarters now. I know you have several initiatives in place and you're working on accelerating the growth. But when you look at the next 12 months, what would you say are the three biggest opportunities in terms of sales growth for your company?

Gerry Shreiber: Well, obviously, we're looking to grow the company in all of its products, particularly its core products. We've had some challenges in the bakery business in the past year, and I may have mentioned a portion of the business that we lost with a major wholesale club. There were some other issues, but we are looking to grow our base business in the low single-digits. Then again, that would be complemented by any possible acquisitions.

Akshay Jagdale: The low single-digit target, should I consider that a change in your overall, the way you're managing the business? Because historically, you try to grow it mid single-digits. So, is that just because the environment is tough or is that how we should think about the growth algorithm going forward?

Gerry Shreiber: We have several initiatives in our R&D area to help drive this growth better, but we're looking at a lower annualized growth of these products. And combined with the other products in our portfolio, it looks like to be a little bit more conservative. That low single growth can be 3% to 5%. And certainly, we're hopeful of doing better than 1% to 2%, which we've been in that thicket the last couple of quarters.

Akshay Jagdale: Okay, I'll get back in line. Thank you.

Operator: Our next question comes from Eric Gottlieb. Your line is open.

Eric Gottlieb: Yes, hi, Gerry. Thanks for taking my questions. I want to touch on the acquisition a little bit more. So, this was a little bit lower margin than your overall company margin. I'm wondering the strategy here. Are we looking to bring margins higher, bring it under your system gross sales across marketing opportunities? Does it get you in additional doors? Like what's the real rationale for making the acquisition?

Gerry Shreiber: Good company, well-managed, opportunities for growth. They have been growing. And we think it complements what is our basic stationary line.

Eric Gottlieb: Do think you can get your margins, or their margins closer or in line with your overall margins or this is just the lower margin business and they're not—?

Gerry Shreiber: Overall, bakery is a lower margin business, but there's a lot of connecting points between the business that you can benefit from.

Eric Gottlieb: Got it. Okay. Touching on the school, why did they not take product and why did they resume? Like what happened there, for frozen juices?

Gerry Shreiber: This was out in California, LA Unified. And without fully understanding all the reasons, there was some interruption to start the school year, and a school year for us starts in, I guess, July or August. But from what I understand, they're back on track now, meaning like mid-January and it should be better the rest of the year.

Eric Gottlieb: Got it, okay. The three customers that added $3.8 million, are they new or is this additional sales for existing customers? Is this a short-term thing or like they just had an increase for this quarter or we can expect a bump in the second quarter when we start lapping that 2.9 of lost business?

Gerry Shreiber: Bob Pape? Eric, help me with this.

Eric Gottlieb: That's okay. I could ask it offline. That's fine. New product sales, I noticed they were down. Did something lap or did we experience a slowdown there?

Marjorie Roshkoff Shreiber: What are you referring to?

Gerry Shreiber: He doesn't have the script.

Marjorie Roshkoff Shreiber: Well, but there was a segment in handheld sales and food service continued to be strong led by sales to three customers. Is that your question?

Eric Gottlieb: Yes. I could ask it offline, but essentially, three customers added $3.8 million. I'm curious if those are existing customers that just upped their sales or are they new customers, that kind of thing?

Dennis Moore: Well, it's both, Eric.

Eric Gottlieb: Okay.

Dennis Moore: It's one customer that just has new product.

Eric Gottlieb: Alright. And then my question on the new product, I've noticed they're down from previous quarters, sales of new product. Did we lap something that rolled off to 12-month period or are we experiencing some slowdowns?

Gerry Shreiber: We're not experiencing a slowdown, but part of this is timing. And with our restaurant and fast food segment was up strong 10%. That's almost like in a funnel, I like this, I like this, I want this, but this is going to be pushed back.

Eric Gottlieb: Okay. Moving on to lower ingredient costs, the tailwind, which ones specifically are providing the most benefit and how long will those stay on for?

Gerry Shreiber: Hopefully a long time, alright, but Dennis, we're looking at—

Dennis Moore: The question had to do with ingredient costs. Egg costs are providing the most benefit, but other ingredients as well. And we would expect the tailwind to continue for several quarters but to begin to diminish this quarter.

Eric Gottlieb: Okay. Did that coincide with the increased marketing and couponing? Are you just taking the benefit and trying to increase sales with it or are those events just unrelated?

Dennis Moore: I think they're unrelated.

Eric Gottlieb: Okay. Then let's talk about that marketing and couponing strategy. Is this ongoing? And how would you rate the success of the program so far? Is it going to be restricted to this quarter or this is a new take on attacking the retail segment?

Bob Pape: Again, that supports the brands, especially our core brands, and we feel that it's a good complement to our trade promotion to be able to continue to both look at consumer couponing as well as social media and opportunities to coupon online. So those are the things that we're doing right now to help support the business in different facets.

Eric Gottlieb: Okay. Is that going to continue into future quarters or is that just something you wanted to do this first quarter?

Gerry Shreiber: No, as we do this, we're looking to see what's the results, and the results could be early results as well as ongoing results. We will tend to look at the couponing and promotion more favorably.

Eric Gottlieb: Got it. Alright, I think that's all I have for you. Thanks for the additional color.

Gerry Shreiber: Well, thank you.

Eric Gottlieb: Thanks.

Operator: Thank you. Our next question comes from Jon Andersen. Your line is open.

Jon Andersen: Hey, good morning everybody. Gerry, could I ask about the restaurant business? It was quite strong in the quarter, and I'm just wondering if you can talk a little bit about the strength there. Is this whole new customers coming online, is it some new products that you're launching into that segment and how you're thinking about kind of the sustainability of the growth in that restaurant business going forward?

Gerry Shreiber: It's just a combination of all of that, Jon. We have a team, a small team, dedicated to nurturing and growing that. And you will recall that whole industry was like a blank canvas to us five years ago, and we jumped on and we have got to $40 million-plus. And then we went through some cutbacks, not cutbacks, but we went through some declining sales. And now it appears to be being driven again by the industry and our continued efforts to add new products to them. Original, new products started out with pretzel rolls and pretzel buns, and now there are special twist pretzels and churros. We have a litany of new products offerings. And our teams are like really up to speed, anxious to put these things forth. But we have to make sure that we don't crowd the offerings in there that it gets lost in their initial exposure.

Jon Andersen: So are you viewing these—the new products that are driving the growth, are you viewing those as more kind of permanent placements versus LTO or limited time only?

Gerry Shreiber: Everything starts with an LTO, and then you can get lucky, you can get good, I'd rather be both, but an LTO becomes permanent there, and then you can reap the benefits for a long time. But we have a handful of product offerings that are being developed as an LTO. And even the LTO volume and some of it we're working on a year in advance, so to speak. That can be quite, quite strong for a while.

Jon Andersen: Okay. Shifting gears to pricing, historically, you have been able to, I think get a couple of points of price every year. It seems the last three or four quarters pricing has been more neutral, I think overall. Could you talk about that? Is that just a reflection of lower commodity costs or is there something else going on here too that's just more competitive or harder to kind of get price in your principal channel?

Gerry Shreiber: You're right on both points, Jon. We're not looking for any price benefits in the near future.

Jon Andersen: Okay.

Gerry Shreiber: Well, it's a tougher environment. We've seen the adverse result of some of the pricing which is a decline in sales and units. And so I think where we're at right now, we're going to be at the same, particularly—we don't see any type of price initiatives in the near future.

Jon Andersen: Okay. Going back to the manufacturing side, I think you had some inefficiencies in the fiscal fourth quarter in bakery, maybe an Atlanta facility. Where do you stand in terms of getting that kind of optimized, and are you finding more opportunities at present, kind of what inning are you in?

Gerry Shreiber: We're ahead of schedule with respect to our improvement schedule.

Jon Andersen: Okay. Last one for me, on Hill & Valley, are there any acquisition or integration costs that you're going to incur that we should be aware of going forward?

Gerry Shreiber: No, we're well into it. Our sales and marketing people are going to be out there next week, integrating thoughts, idea and strategy. We're very, very comfortable with their management team, and we're excited.

Jon Andersen: Okay. Thank you, guys. Good luck.

Operator: Our next question comes from Brian Rafn. Your line is open.

Brian Rafn: Good morning, Gerry.

Gerry Shreiber: Good morning, Brian.

Brian Rafn: Hi Dennis. Hello. How are you doing? Question for you Dennis. Off the open, you spoke a little bit about ingredient and commodity costs, saying they were going to diminish. Are you doing anything as you kind of go sequentially in quarters forward to do any longer term forward buying?

Dennis Moore: Not any more than usual.

Brian Rafn: Okay.

Dennis Moore: We go out six months to a year on most of the larger items. And some items, we go out more than that, but we're not doing anything unusual.

Brian Rafn: Okay, fair enough. On the Hill & Valley, the premium bakery, how large and what type of delta growth organically is in that, no sugar, sugar-free, you can't swing a dead cat, but you have a diabetes ad on television, how big is it that category, the total bakery cookies in some of the areas and how fast is that growing?

Gerry Shreiber: Well, first of all, I don't swing dead cats or dead animals. But we expect that business to grow. Now, it is the premium sugar-free product line that's out in the in-store supermarkets. And there is room for it to develop into—with sugar. And we're expecting a decent growth from that group this year. Like I said, they were roughly $45 million, $46 million when we bought them. And we're looking for perhaps as much as 10% growth this year from Hill & Valley.

Brian Rafn: Okay. Your overall, I think in your 10-K you talked about 85% to 90% penetration with supermarkets. When you look at your national distribution channels, are there any areas in supermarkets where Hill & Valley is not, and can you cross-sell those sugar-free and no sugar in maybe the institutional school district market?

Gerry Shreiber: We're looking to that as we speak, Brian, cross-selling.

Brian Rafn: Okay. Your sense, you said the management is going to stay. Plant and equipment, what's your assessment of their factory facilities?

Gerry Shreiber: It's a nice facility, it's relatively new, and Doug Davidson and his group of talented people are staying on. We're pleased with that. They're going to be running essentially autonomously, but with strategic goals from headquarters.

Brian Rafn: Okay. When you look at, in the past, you guys have done some co-branding. I'm thinking of Barq's and Minute Maid and the frozen juice, Oreo and churros. How important is that going forward with new product launches, kind of co-branding?

Gerry Shreiber: Well, Oreo and churros have certainly been a winner for us. And we're hopeful that our license from Pillsbury, which is starting to show some traction, will have similar success.

Brian Rafn: Alright. From the standpoint we talk about the impact of weather on some of the snack food categories you're in, if you see what the new deregulation, lower taxes, Trump, the pro-business, from your experience in the past, is there any leverage that your snack foods can garner with better economies, better consumer optimism?

Gerry Shreiber: The one thing about our business and it's been consistent for 45 years, we're fairly stable. I mean our business shifts from in the summer and in the winter with schools and leisure and theme parks. Our movie business in the off-season has been better as the snack bars have expanded. But we're basically and I hate to say this, but we're reasonably recession-free. And unless there would be something major, we expect to be able to continue to be that way.

Brian Rafn: Okay, that's fair enough. I think you mentioned, Dennis, $50 million in CapEx, how was that allocated across your factories in the U.S.? Are there any major projects maybe that you could single out?

Dennis Moore: No, I would not single out anything in this first quarter, no. And nor at this point, anything for the balance of the year. Generally along the lines of what we've done in the past.

Brian Rafn: Okay, alright. Gerry, if you look at some of the acquisitions you've made, just in the near recent, Philly Swirl and some of those, what has been your sense of your ability to take some of these niche, maybe local brands and take them nationally or regionally? Philly Swirl, what is your sense as the success over the last couple years of actually growing some of the acquisitions you made?

Gerry Shreiber: I'm sorry, can you repeat that?

Brian Rafn: Yes. I get a sense from the standpoint of the acquisitions that you've recently made like Philly Swirl, what has been your sense as the success once you integrate those in J&J, with your manufacturing and your national distribution, how successful would some of those near-term within the last say, three years, four, years in actually growing some of those acquisition target sales?

Gerry Shreiber: Well, we've had some mixed success, but overall, we believe in our strategy. We have niche products. We will grow the category, and we add specialty brands to it.

Brian Rafn: Okay. Well, final one for me, I think your K said you had about 119,000 dispensers in the ICEE, Arctic Blast, in that area. Is that a pretty saturated number or are there still geographic areas to penetrate?

Gerry Shreiber: Well, we grow it every year, alright? And that number includes both machines that are buying our syrup and other machines that we service. So with the exception of this quarter, which ICEE paused for this quarter, the ICEE business and the service end of the ICEE business has been growing quite well, and we're hopeful of that continuing.

Brian Rafn: Gerry, do you manufacture any of those machines or are those all OEM vendors, not J&J?

Gerry Shreiber: We rebuild, but we don't manufacture. Years ago, we did manufacture. And instead, we made the conscious decision and strategic decision to partner with a couple of the major producers, so that we would get the best of reliability, engineering and economy, but we do rebuild quite often.

Brian Rafn: Alright. Thanks, Gerry. Good luck, guys.

Gerry Shreiber: Thank you.

Operator: Thank you. [Operator instructions]. Our next question comes from Jonathan Feeney. Your line is open.

David Mandel: Hi. This is David Mandel in for Jonathan. Thank you for taking my questions. I have a couple of questions. The first one is about the brand new political regulatory environment. Do you guys see any tailwinds from the new political climate kind of around foods, school policy regulation kind of—

Dennis Moore: [Audio disruption] in terms of regulations that there won't be any new ones that we have to adhere to and a lot of it relating to us is a lot of paperwork, a lot of extra costs. So, we would think that a lot of that is going to be coming to an end, different labeling requirements, and so we hope for the best.

David Mandel: Hope for the best, but you're not expecting any rollback of current regulations, it's more of that it won't be a headwind going forward?

Dennis Moore: That's the case, but we hope there are some rollbacks.

David Mandel: Sure. And one last question, just a quick one on marketing spend. It looks like the increase in marketing spend from, if I'm not incorrect, was basically machine-supply driven on the food service side. What does that mean for the, I guess, the full year run rate?

Dennis Moore: Would you repeat that question?

David Mandel: Yes. It looks like marketing spends, the uptick was focused more on machine supply. Is that correct?

Dennis Moore: No, no. Uptick mostly related to spending in our supermarket business related to the additional couponing.

David Mandel: Thank you. Thank you. And what do you expect for, I guess, the full year cadence of marketing spend?

Dennis Moore: Well, we would expect the percentage of sales to be relatively the same as last year.

David Mandel: Thank you very much.

Operator: And our next question comes from Bob Costello. Your line is open.

Gerry Shreiber: Hi, Bob. How are you?

Bob Costello: Hi, how are you doing? Funnel cakes, you said you had 40% increase in the food service. Is that to existing customers or is that a new accounts that you brought?

Gerry Shreiber: Well, actually, Bob, funnel cake, that was a new customer and also schools after reviewing the regulations and us reformulating, schools increased significantly. So we're hopeful that trend will continue.

Bob Costello: And what about selling the funnel cakes in the bakery category?

Gerry Shreiber: You say the bakery category?

Bob Costello: In the in-store bakery. I mean, cross-selling it in other areas, I know you've done a lot trying to get in the food service, but in the other areas, I'm talking about in the supermarkets specifically. Is there any opportunity there with this new acquisition or—?

Gerry Shreiber: Well, it's something we can look at, because funnel cake is a lot more popular today than perhaps what it was 10 or 12 years ago. And it's something we can look at. But keep in mind, in the in-store bakeries they're generally prepping the evening before, letting the products slack [ph] out. And they're really not frying anything in that department. So this would be a different twist.

Bob Costello: Last questions, one on product and one on taxes, the first one on the product, is there any new product similar to last year since that you're introducing, not having to be specific here, but just in general that you will be introducing that should have a major push in the spring selling season starting?

Gerry Shreiber: Well, when you say major, there are new products that we're introducing all the time. There are new pretzel products. There are new bakery products. There are new frozen juice bar products. Will these products have a major impact in the spring? We're hopeful that they will be accepted widely enough so that we'll generate some sales and profits.

Bob Costello: Specifically to that, do you anticipate like what percentage do you budget that your goal is for new product on this total sales—1, 1.5? What's your general goal there that you try to shoot for?

Gerry Shreiber: Our general goal is roughly in that area as high as 2% or 2.5%, depending on the products. But keep in mind that new products need support both from the customer and the store. And we're are kind of like, with our marketing and with our R&D department, it's really a joint effort in there in getting some of these new products out there.

Bob Costello: Your new machines in the convenience store for ICEE look great with the four categories versus the older line too.

Gerry Shreiber: Thank you.

Bob Costello: Last question, the tax benefit that you mentioned on the share component, is that something that you would expect to continue in the near-term for the next couple quarters? Because your tax rate overall has trended down versus what it was, say, four or five years ago when it used to be 35%, 36%. And is that something in this range that we can expect in the near-term to stay that way?

Dennis Moore: This tax benefit resulted from a change in accounting policy overall, not just for us, but overall that took effect last year. We expect to continue to have that on a year-to-year, every year going forward for the next several years, at least. And it has to do with the options that we issue and their exercise. So that's the main reason why we have the drop in the rate compared to last year. We're not [audio disruption] compared to the year before.

Bob Costello: So the 34, 33.5 rate, is that something you expect to continue and not in the near-term?

Dennis Moore: Because of this new requirement on taking a credit for the tax benefit, there will be fluctuations from quarter-to-quarter. So for this year, we're expecting it'll be roughly in the 35.5% range.

Bob Costello: Okay, alright. Thank you very much.

Gerry Shreiber: Thank you.

Operator: Thank you. We have an additional question from Eric Gottlieb. Your line is open.

Eric Gottlieb: Yes. Just a housekeeping item, Hill & Valley, when you report, is it going to be bunched up with the bakery items in food service or are you going to create a new category in retail?

Gerry Shreiber: Yes, it will be. But we'll be glad to entertain any specific questions that you may have that would be directed at that.

Eric Gottlieb: Okay. So it'll be masked by the rest of it. Okay, that's it for me. Thank you.

Operator: We have an additional question from Brian Rafn. Your line is open.

Brian Rafn: Gerry, you mentioned a little bit back to ICEE with cinema and movie. Hollywood produces anywhere from 165 to 195 major pictures a year, spent a lot with stadium seating, large screens, Dolby Atmos speaker systems, recliners and on the menu side with pre-prepared steaks and things like with the Markets Corp. in Milwaukee. How much penetration has ICEE had in kind of the revolution at the cinema? Is at about the same? Have you had entrees? Is there additional business you've been able to capture?

Gerry Shreiber: Well, I'm a little bit of a skeptic with respect to the plus seating and restaurant part of the movie theater business, although we know it's there and our people are engaged. But ICEE had very good growth, dramatic growth. And ICEE is quick to react. They have good equipment, and they're almost in every single snack bar in every single movie theater chain. What drives the business is good movies, whether it's for children or adults, but particularly for the younger set. So to that end, we are hopeful and cautiously confident that will continue.

Brian Rafn: Okay, that's a good point. Let me ask one final one. When I was a kid, there was only one kind of Oreo. Now you get them chocolate covered, white vanilla, peanut butter, every flavor under. Do you get a sense that the lifespan of new products today is less because there is such an avalanche with the consumer, with iterations, formula extensions and that?

Gerry Shreiber: That's true. But Oreo cookies may have lots of colors and flavors, but there is only one Oreo churro, so we're going to build on that.

Brian Rafn: Alright. Thanks, Gerry.

Operator: Thank you. And we have no additional questions.

Gerry Shreiber: This is Gerry. Again, I want to thank everybody for participating. I look forward to talking to you again three months from now. Thank you and take care.

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