

J & J Snack Foods First Quarter Earnings
J & J Snack Foods
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Dennis Moore
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Operator: Good morning, ladies and gentlemen, and welcome to the J & J Snack Foods First Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.

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

Gerald B. Shreiber: Good morning, everyone, and thank you for attending the J & J First Quarter Conference Call.

I'd like to begin with the opening obligatory statement, and I'll read this, and then I'll get into the meat or the substance. The forward-looking statements contained herein are subject to certain risk and uncertainties that could cause actual results to differ materially from these - - 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 the date hereof. We undertake no obligation to publicly reverse or update these forward-looking statements to reflect events or circumstances that arise after the date hereof.

Results of Operations. We had a good quarter, a very good quarter. Net sales increased 6% for the quarter, representing the 153rd consecutive quarter of sales increases. Approximately 3.1 million, or 40%, of the increase sales was a new

product, sales of funnel cake fries to one customer - Burger King. For the quarter, our net earnings increased by 64% to \$7.1 million, or \$0.38 a share, from \$4.3 million, or \$0.23 a share, one year ago. Our EBITDA for the past 12 months was over \$101 million.

Food service. Sales to Food Service customers increased 4% for the quarter. Without the sales to Burger King, sales increased less than 1%. Soft pretzel sales were up less than 1% in the quarter. Italian ice and frozen juice and desert sales decreased 7% for the quarter. Churro sales were down 8% for the quarter, but they were up against a 33% increase a year ago. All of this was attributable to lower sales to one or two customers. Bakery sales, excluding biscuit and dumpling sales and fruit and fig bar sales, were up 3% in the quarter. MARY B's biscuit and dumpling sales were up less than 1% in the quarter, and fruit and fig bar sales were essentially unchanged.

Retail Supermarkets and Grocery. Sales of products to Retail Supermarkets were up sharply, 26% for the quarter. Perhaps this is reflective of more people eating at home in today's economy; and I think it behooves us to state that with our portfolio of products, we are very, very well balanced for consumption at home, consumption at ballgames, consumption at school, consumption at Piggy Wiggly's*, consumption at shopping centers and malls. Soft pretzel sales were up 13% on a case volume increase of 8%. Sales of our frozen juice and Italian ices were up 54% on case volume increase of 52%. And again, we believe this is reflective of perhaps more snacking at home in today's economy.

ICEE and Frozen Beverages. Our ICEE and Frozen Beverage and related product sales were up 5% in the quarter. This includes ICEE, ARTIC BLAST,

and SLUSH PUPPIE. Beverage sales alone were up 12%. Gallon sales were up 6% in our base ICEE business in the quarter. Two new customers accounted for approximately 80% of the gallon increase. Service revenue for others was down 6% in the quarter; however, it was up against a 30% increase a year ago. Sales of frozen carbonated beverage and drink machines were essentially unchanged in the quarter.

Consolidated. Gross profit as a percentage of sales in the quarter increased by over two points from 28.8 to 30.9. We benefited by over \$3.5 million of lower ingredient and packaging cost in the quarter. We expect the benefit of lower ingredient and packaging costs compared to the prior year to decrease going forward. Total operating expense as a percentage of sales was 0.8 percentage points lower in the quarter, primarily due to higher sales volume.

Capital Spending and Cash Flow. Our cash and investment securities balance increased \$648,000 in the quarter to \$119.6 million. We bought back/purchased \$5.9 million of our stock in the quarter. Our capital spending was \$7.5 million in the quarter, and we estimate that capital spending for the year will be in the \$25 million range. Higher spending in this year's first quarter primarily related to the purchase of FCB machines. A cash dividend of \$0.1075 a share was declared by our Board of Directors and paid on January 6, 2010. Our Board of Directors have previously authorized a million share buyback in February of 2008. We have since bought back and retired 739,000 shares through the end of December. Our sales growth of 6% this quarter resulted primarily from unit volume increases and decreases. Sales of bakery products and funnel cake showed good growth. Unit sales of soft pretzels in our Retail Supermarket segment were up 8% in the quarter, and case sales of frozen ices and juice bars

were up 52% in the quarter. This marks the fourth consecutive quarter of strong volume increases of frozen ices and juice bars and the third consecutive quarter in a row for soft pretzel increases. Our frozen beverage segment had strong gallon - - had strong sales growth in our base ICEE business primarily because of new customers. Our service revenue to others dropped this quarter, down 6% in the quarter following a 30% increase for last year, but we're optimistic we will continue to grow this niche service business from this niche business of ours going forward. We expect our investment income will continue to be lower over a short-term, even though our balance of investment securities and cash equivalent is higher than a year ago as yields on short-term safe investments are pretty sparse. Our estimated income tax rate is at 40% for this year, down from 41% last year. We're estimating a tax rate of 40% for the full year.

I want to thank you for your continued interest, and it's a pleasure for me to report this positive news to everyone. And I know, Sarah, you had asked, you wanted to have a question earlier first so you don't get backed up too much on that famous Mr. Pinherro's book of questions. So, Sarah, if you're online.

Operator:

If you would like to ask a question, please press star/one on your touchtone phone. If you wish to be removed from the question queue, please press the pound sign or the hash key. And if you are using a speakerphone, you may need to pick up the handset first before pressing the numbers.

Our first question comes from Robert Costello.

Robert Costello:

Hello.

Gerald B. Shreiber: Hi, Robert.

Robert Costello: **I had a question on - - (Hi.) on the balance sheet. With regards to the current marketable securities held to maturity and then the long-term marketable, can you explain what's in there and what your earning on that?**

Dennis G. Moore: Well, this is Dennis. This is a combination of CDs and government agency securities and FDIC-backed corporate securities; and in general, we're earning 1.5% or so on average in those investments.

Gerald B. Shreiber: Bob, the real answer is: We're in real safe s**t, but we're getting real low s**t coupon on it.

Robert Costello: Right. **Now the - - those auction rate securities, they're all gone?**

Gerald B. Shreiber: Gone. Gone for three quarters now.

Robert Costello: Right. **The new customers you mentioned, the two specific ones, are they retail customers that you could identify or... I mean what are... Who's the end market for that product?**

Gerald B. Shreiber: One of them is a premier company that operates in malls, and we're still in the middle of expanding with them, and the other is a premier cafeteria/buffeteria company that operates all over the country, and I don't know if we're at liberty to disclose that. We really have to check with them, but we've been in there. We're enjoying positive sales and everything looks go-go-go.

Robert Costello: Right. **Question on your sales. Can you break out the - - what - - maybe you've mentioned it, the - - how much of the sales, the 6% was price and how much was units?**

Gerald B. Shreiber: Looks to be all units.

Robert Costello: Okay, thank you very much. Good luck.

Gerald B. Shreiber: Thank you, Bob.

Operator: Our next question comes from Sarah Lester.

Sarah Lester: Good morning.

Gerald B. Shreiber: Good morning, Sarah. How are you?

Sarah Lester: I'm good. You're trying to cause trouble, Gerry.

Gerald B. Shreiber: Why am I trying to cause trouble? I'm trying to be fair.

Sarah Lester: Oh okay, thank you. **My question... I have a couple questions. In the Food Service segment, it looks like when you take out Burger King, revenue was down 1%, and I was wondering if you're seeing that same kind of trend so far this quarter or if you're maybe seeing a little bit of strengthening?**

Dennis G. Moore: Well, Sarah, I'm not sure how you're figuring Food Service; but from what we report, the Food Service segment sales were up about a little less than 1%.

Sarah Lester: Okay.

Dennis G. Moore: But still not..

Sarah Lester: Is that...

Dennis G. Moore: ...significantly positive.

Sarah Lester: Right. **Is that sort of what you're seeing so far for the second quarter?**

Vince Melchiorre: Again, it's...

Sarah Lester: **Have you seen any improvement?**

Vince Melchiorre : ...(inaudible) because we're only one week into the quarter. Data we have as of today is only one week into the quarter. It's better, but we're only one week into the quarter.

Sarah Lester: Okay. **What are you hearing from customers though? Are you hearing that things have gotten a little bit better for them or has there been much of a change?**

Vince Melchiorre : I would say it's a mixed bag, but I don't think there's been a significant change.

Sarah Lester: Okay. **And then for Burger King, have you gotten any kind of... I guess the product was launched in December. Have you gotten any kind of**

indication from Burger King, any kind of initial or initial impressions from them on the success of that product?

Gerald B. Shreiber: Everybody appears to be satisfied.

Sarah Lester: Okay. **And then I wanted... My last question is on acquisitions. What are you seeing out there? Are you seeing... I've heard from other sources that valuations are coming down a little bit. Is that what you're seeing or what are you seeing out there?**

Gerald B. Shreiber: We're seeing some valuations coming down. We're seeing some valuations that are hard to justify. We are hopeful of... We want to make the right acquisitions. It'll be real easy to make an acquisition and then to be troubled with it for two, three, or four years. Our name is not Mercedes or one of these other companies that buy bigs and never integrate it, so we're looking at things and it has to be just about... Even with a lot of hard work and even with a fixer upper, we have to be real darn sure that we can integrate quickly, fully, and it becomes a slam dunk for us.

Sarah Lester: All right. That sounds good. Thank you.

Operator: Our next question comes from Margo Murtaugh.

Margo Murtaugh: Thank you very much. **Just a couple of questions. You mentioned the fruit, the juice bars are up 52%. What's driving that growth and what's the outlook there?**

Gerald B. Shreiber: Well two things, Margo. One, more people are eating at home. And again, our portfolio is very, very balanced, so we... Even though there's less traffic at some of our traditional go-to places, all right, with more people staying at home and perhaps renting a DV or doing something in the family, like they're eating more of our products at home. And also our juice bars, our new 100% juice bar, have been approved the school lunch program and we started launching them last year, and now that launch has been expanded and some of that product is being put into the club stores, some of the smaller restaurants have been putting them in and some of the organic and the kosher certified distribution arms are also leading with them. So we seem like we have a nice little niche there that's going to grow very nicely.

Margo Murtaugh: Okay. **What... I mean what kind of potentials could there be? Do any kind of growth rate or you willing to share on that or...**

Gerald B. Shreiber: Well, we had some real significant growth rate this quarter, all right, up 26 and 50% . I'll be real happy if we can continue with double digits.

Margo Murtaugh: Okay, thank you. **And then on your commodity cost, you said you benefited by 3.5 million this quarter and you expect that benefit to be lower as the year went on. I wondered how far forward are you bought in wheat? How much visibility do you have on wheat and other commodities?**

Gerald B. Shreiber: Well with wheat, we're out to early summer months; we're pretty good there, so we're kind of like in the... I would say we're kind of in the Catbird seat with wheat because we haven't bought way in advance and so we have plenty covered. Sugar seems to be a variable right now that is bouncing around a little bit and

shortening. But over the years, we've done - - we've managed the costs and along the way we've been able to manage earnings. We're not going to manage earnings to manage the business.

Margo Murtaugh: **Well on sugar, for example, how have - - do you have a contract on that or do you buy that on the spot market or...**

Gerald B. Shreiber: Yeah, we have contracts on sugar, but some of the future contracts have escalators in them. I don't think the escalators would take you upstairs.

Margo Murtaugh: Okay, right, right.

Gerald B. Shreiber: (Inaudible)...

Margo Murtaugh: **On the whole... On all of the commodities, how much visibility do you have? I mean how much are contracted...**

Gerald B. Shreiber: We could project out to our fourth quarter this year.

Margo Murtaugh: Really? Okay.

Gerald B. Shreiber: The end of the third quarter.

Margo Murtaugh: Okay, well thank you very much.

Gerald B. Shreiber: Thank you.

Operator: Our next question comes from Mitch Pinherro. Please go ahead.

Gerald B. Shreiber: Hi, Mitch.

Mitch Pinherro: Hey, guys.

Gerald B. Shreiber: Hey, Mitch. How are you?

Mitch Pinherro: Good. Decided to let everybody else get on first, then I'll ask some questions.

Gerald B. Shreiber: Good.

Mitch Pinherro: **Hey, so just following up on Margo's question, the commodities, you feel good. You have good visibility that - - and you have enough pricing I would presume in your products that commodities really aren't an issue in fiscal '10; is that fair?**

Gerald B. Shreiber: I certainly feel better than we did two years ago, Mitch. But to answer your question, yes, we feel good. But should something go awry or awhack [sic], then Vince and his team will look at it. We'll do what we'll have to, but we're very sensitive about taking price and we probably way back when we did take price year and a half or so ago, we never talked the full complement of pricing. So we've managed the business. We've cleaned some costs out of... We've cleaned some fluff out of some of the other areas in manufacturing and whatnot, so we're confident that and hopeful that this year that we can refrain from taking pricing as long as possible.

Mitch Pinherro: **If there were... I was actually curious. If there... So we always worry about inflation. If there was meaningful commodity deflation, that's not projected yet, but if there were, would you be at risk for having to give back price on product or do you think you can hold prices where they are in your core areas?**

Gerald B. Shreiber: Well most of our products are brands and most of our brands are still popular priced leading brands in their category, in a lot of niche markets, so I can answer that with: I don't think so but...

Mitch Pinherro: **Okay. How about Burger King, so clearly that was a nice new account win and helped the fourth quarter. As we look forward was there...**

Gerald B. Shreiber: (Inaudible)... Mitch, I don't think we got anything in the fourth quarter.

Mitch Pinherro: **Well what I mean is the fourth calendar quarter, December quarter. Obviously a channel still there. Is... Should we expect... I mean would the takeaway... I mean was the type of numbers you saw in December quarter, is that what we can project forward in March and June you think?**

Gerald B. Shreiber: We hope so. And you know, Mitch, and you know the Company as well as anybody, for years now we have talked about making inroads to the fast food and restaurant group. We had a couple of things out there that had gained traction, that were doing okay, and we never thought we would get a home run or a triple right off the bat. I would certainly call the Burger King a... In that group, a lot of people worked a long time during the summer months on this project and knowing they were working on a project and also knowing that it might not

happen, but we got geared up. We established some lines here and in California. We did it out of our normal running cash flow. We started the lines and we polished the lines and December it launched and it gives us great promise and hope that similarly we could develop other product lines that would be offshoots of churros, offshoots of funnel, offshoots of pretzels, offshoots of juice bars, offshoots of one of our bakery goods that we do well, that we make well, we have the tremendous R&D capacity and tremendous plant firepower. So for the first time in years, the mountain climbing that we've been looking at, we're getting some tractions. We got the right spikes and the right steel on and we got the right team, so we hope there will be more of these; and they're proprietary, so that helps too.

Mitch Pinherro: **Yep. Could you talk about perhaps list in terms of the Food Service segments the two or three best performing channels for you and the two or three weaker channels?**

Gerald B. Shreiber: In Food Service?

Mitch Pinherro: Yes.

Gerald B. Shreiber: Well obviously pretzels is the best.

Mitch Pinherro: **In segments, like stadiums, theaters, snack bars, or retail, if you could...**

Gerald B. Shreiber: We had a good year with theaters, stadiums. Our school business has been a little bit squeezed, budgets, monies. Our mall business, which we call our shopping center/mall business, has been hurt, give me to negative first. So Food

Service has been - - it's not quite a fixed bag, it's had more ups and downs than a monkey bar.

Mitch Pinherro: **So the arena/stadium business, how would you characterize that?**

Gerald B. Shreiber: Overall up.

Mitch Pinherro: **What about C stores?**

Gerald B. Shreiber: Down.

Mitch Pinherro: Okay. **When I look at...**

Gerald B. Shreiber: Dollar stores has been up. Again, that's a new segment for us that came out of nowhere and two years became a \$30 million business for us, not tremendous, but a nice little piece that we weren't in a couple years ago.

Mitch Pinherro: **How about club?**

Gerald B. Shreiber: Clubs is doing fine.

Mitch Pinherro: **When I look at IRI for the 12 weeks that ended December 27th, your sales were up 37% in your frozen novelties, but you reported much stronger growth in the quarter. How do you explain the difference, Wal-Mart?**

Vince Melchiorre : I would say we continue to have good growth in WHOLE FRUIT as we built our stick bar business, and we also had good success in our core businesses, particularly with LUIGI'S and ICEE.

Gerald B. Shreiber: But our non-reporting club, that's only the supermarkets. How about the non-reporting?

Vince Melchiorre: Oh that's at about... That's only around... But some of that...

Gerald B. Shreiber: Sam's... Club stores, you're saying.

Vince Melchiorre : Yeah, some club store sales in there too.

Mitch Pinherro: **So you think club - - so club stores are in you retail supermarket line?**

Vince Melchiorre: Club stores here for us are in Food Service, as we reported. So are you trying (inaudible) between IRI and what we reported, Mitch?

Mitch Pinherro: **Yeah, well so I just saw your sales in frozen novelties in the first quarter, I had calculated up 54%. And then when I look at IRI, I'm looking up 36%/37%.**

Vince Melchiorre: It's always hard to reconcile that, Mitch. I would probably say dollar stores and I would also deeper penetration of LUIGI'S and as we get in WHOLE FRUIT bars in other locations.

Mitch Pinherro: Okay. All right. **How about same for soft pretzels, your soft pretzels were up about 13% in sales in the quarter and IRI showed 12-week dollar sales up six, so you... Usually I see companies underperform IRI and it's always - - there's always the Wal-Mart factor. In this case, you guys have outperformed it and I was just curious whether - - I mean... Are you out indexing at Wal-Mart?**

Vince Melchiorre : It's mostly traditional retail, Mitch. It is... Some of it is like C&S, some of it is Target, which you probably wouldn't get in your numbers so...

Mitch Pinherro: Okay.

Vince Melchiorre : I don't know if Target's in your IRI or not.

Mitch Pinherro: Yeah.

Gerald B. Shreiber: Target's (inaudible).

Mitch Pinherro: Yeah, this is FDMX, so it does have mass ex-Wal-Mart.

Gerald B. Shreiber: Moody's* Southern chain.

Vince Melchiorre : I think it's the Sherwood's and the Kroger's and some of that deeper penetration that probably didn't get in IRI.

Gerald B. Shreiber: Moody's in the south. There's a couple of these places in the South.

Mitch Pinherro: Okay, I was just curious. All right. **And then final, as you look forward, you don't give guidance, but looking at 6% sales growth in this quarter is - - how... I mean is that something that might - - is that a good target for the rest of the year or if you could give us any kind of color on the top line?**

Gerald B. Shreiber: We would take six at a minimum, Mitch. Now that doesn't mean ten, all right, but certainly ten means seven or eight.

Mitch Pinherro: Okay. All right. Thank you very much.

Gerald B. Shreiber: You're welcome.

Operator: As a reminder you can press star/one on your touchtone phone if you have a question.

We have Robert Costello. Please go ahead.

Robert Costello: **Question on the club stores. Your pricing increases versus what the operator's passing on, has there been a difference in the number? Because when I shop at the stores, I notice that they've been pretty aggressively raising prices at will because of the consumer shopping there right now.**

Gerald B. Shreiber: Where do you shop, Bob?

Robert Costello: At BJ's.

Gerald B. Shreiber: BJ's. Well you know what?

Robert Costello: Yeah, and you've got a lot of products in there.

Gerald B. Shreiber: I know. Yeah, Sam's, Costco, BJ's. BJ's may be a little more aggressive with price than some of the others.

Robert Costello: **So the price increases you talk about, I mean have you noticed that the retailers have been packing on of late or no?**

Gerald B. Shreiber: We haven't taken anything in well over a year so...

Robert Costello: Right. **But obviously you track, so I mean what the consumer is paying is what I'm trying to identify with and how that will affect demand going forward.**

Gerald B. Shreiber: You know what, Bob, give us something specific and we will track some of this, particularly as it affects to one of our core products. And you don't have to do this now. You can give me a call or slip me a note or whatnot.

Robert Costello: Right. Right.

Gerald B. Shreiber: But every once in awhile, we'll see something that goes awry in there and it just stuck like that, we have to fix it and we'll send our - - somebody out there and...

Robert Costello: **Last question. On the Burger King account, how many stores are you in right now? Is there still more to go? How big in the country is it?**

Gerald B. Shreiber: Well there's 7,000 stores in the country, I believe.

Robert Costello: Right.

Gerald B. Shreiber: And at last count, we were in over 6,000 of them, getting to the 7,000.

Robert Costello: **And going forward with other products, do you anticipate, as I said to you earlier, I remember seeing the product down in South Jersey in test marketed in small stores before it went nationwide. Is that how you anticipate the rollout to be if you get any other products?**

Gerald B. Shreiber: You never know. We had extensive tests in Richmond, Virginia, which was even kind of like shielded from us. There's some test going on in the West Coast with another chain. But all we can do is what we do best every day, make a good product, provide it with good nutritional value, and good pricing, and good logistics, and work with the partners that we have and hopefully we're going to be able to scratch gold now and then.

Robert Costello: Right. Thanks for your time.

Gerald B. Shreiber: Thanks, Bob.

Operator: At this moment, we're showing no further questions.

Gerald B. Shreiber: Well, I wanted to thank everybody for attending the conference call, and we look forward to talking to you next quarter when hopefully we can share equally as good news. Bye now.

Operator: Thank you, ladies and gentlemen. This concludes your conference call. We thank you for participating. You may now disconnect.

Please Note: * Proper names/organizations spelling not verified.
[sic] Verbatim, might need confirmation.
- - Indicates hesitation, faltering speech, or stammering.