Memorandum

Date: February 2, 2023

To: Dan Fachner, Ken Plunk

From: Joe Jaffoni, Jennifer Neuman, Norberto Aja

Re: **JJSF FISCAL 2023 Q1 TRANSCRIPT**

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the J&J Snack Foods fiscal 2023 First Quarter Conference Call. (Operator Instructions) At this time, I would like to turn the conference over to Mr. Norberto Aja, Investor Relations. Sir, please begin

Norberto Aja

Thank you, operator, and good morning, everyone. Thank you for joining the J&J Snack Group's Fiscal 2023 First Quarter Conference Call. We'll start in just a minute with management's comments and your questions. But before doing so, let me take a minute to read the safe harbor language.

This call will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements made on this call that do not relate to the matters of historical fact should be considered forward-looking statements, including statements regarding management's plans, strategies, goals and objectives; and our anticipated financial performance, industry-wide supply constraints and the impact COVID-19 has had on our business.

These statements are neither promises or guarantees that involve known and unknown risks, uncertainties and other important factors that may cause results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors discussed in our annual report in Form 10-K for the year ended September 24, 2022, and other filings with the Securities and Exchange Commission could cause actual results to differ materially from those indicated by the forward-looking statements made on this call today.

Any such forward-looking statements represent management's estimates as to the date of this call, January 31, 2023. While we may elect to update forward-looking statements at some point in the future, we disclaim any obligation to do so, even if subsequent events cause earnings to change.

In addition, we may also reference certain non-GAAP metrics on the call today, including adjusted EBITDA, operating income or earnings per share, all of which are reconciled to the nearest GAAP metric in the company's earnings press release, which can be found in the Investor Relations section of our website.

Joining me on the call today is Dan Fachner, our Chief Executive Officer; as well as Ken Plunk, our Chief Financial Officer. Following management's prepared remarks, we will go ahead and open the call for a question-and-answer session. With that, I would now like to turn the call over to Mr. Dan Fachner, J&J Snack Foods' Chief Executive Officer. Please go ahead, Dan.

Daniel Fachner

Thank you, Norberto, and good morning, everyone. We appreciate you joining us this morning to discuss our fiscal 2023 fiscal quarter results. We are pleased to report the seventh consecutive quarter of double-digit top line growth and remain confident in our plans to continue growing sales. We are investing in our brands, accelerating the cross-selling strategy with our customers and across our channels, expanding our production capacity and building a strong pipeline of product innovation.

We have hit the ground running with our Dippin' Dots business, having already gained placement at Regal Theaters, the second largest movie theater chain in the United States. In fact, we increased unit sales in our Dippin' Dots business over 14% in the first quarter.

Also, we recently launched Hola! Churros brand and are seeing strong momentum, including over 30% sales growth in the first quarter. This positions us well to grow our churros business including the introduction of new products and entry into new channels. These are just a couple of examples of the opportunities ahead of us.

In the first quarter, our industry experienced some softness in spending and traffic across retail, restaurants and foodservice as consumers adapt to the changing economy. Also, the historic winter storm that hit most of the country during 2 key selling weeks prior to Christmas did impact volume sales, especially in theaters and outdoor venues. Despite these challenges, many of our strategic categories, including [ICEE], Dippin' Dots and Hola! Churros grew volume during the quarter.

As it relates to our income performance, ongoing inflationary pressures and the softening consumer environment impacted our year-over-year bottom line results. Our recent pricing actions helped deliver improved gross margins of approximately 100 basis points above Q1 last year, and we are confident that this will continue throughout the year. However, we continue to manage cost pressures on the expense side when compared to prior year, most noticeably our distribution expense. We expect to see improvement in distribution expenses as we cycle through the high inflationary periods later in the year.

Also, Dippin' Dots is a seasonal business. And as expected, it negatively impacted our results in the first quarter. This business will drive most of its profitability in the second half of the year. Ken will provide some more insights to our financial performance in just a few moments.

Switching to our 3 business segments. Starting with foodservice. Q1 revenue was up 13%, even as we manage through the challenging winter weather events in December. This, combined with a weaker slate of movie releases, had some impact on our sales. Soft pretzel sales increased 4% this quarter. We see expanded growth opportunities throughout the year as we introduce knots and pretzel bites focused on the entertainment theater, QSR and convenience channels.

We also saw continued strong momentum in our churros business with sales increasing 32% as we introduced our new Hola! Churros brand of food service. The sales team expanded placement of churros with major distributors, large regional QSRs and fast casual restaurants. We are confident that there are still significant growth opportunities across QSR, fast casual, convenience channels and with major distributors, including a significant opportunity with a major QSR burger chain going into test in the first half of 2023. Hola! Churros will have a whole selling and marketing support plan throughout the year.

Frozen novelties was relatively flat in Q1, excluding sales from Dippin' Dots. The first quarter is a slow seasonal period for this category and was further impacted by the challenging weather conditions. We have strong incremental sales plans in place starting in the second quarter and remain very confident in growing this category throughout the year in -- health care and convenience channels. We have also added 2 new production lines to support these growth opportunities.

Transitioning to our bakery business. Sales increased 1% driven by strong growth of handhelds and cookies with a major club customer and we expanded business with our strategic convenience store customer as well. Looking forward, we see additional growth opportunities for our ICEE cookies and our frozen cookie dough.

Our strategy to improve margins in the bakery business is working as we shift the mix to more profitable products and customers and rationalize less productive items in our portfolio. Very pleased with our bakery group. Lastly, we continue to forecast added gains in key items such as handhelds and funnel fries.

Moving to our Retail segment. Sales increased 1% for the quarter as the industry started to experience softness and macroeconomic spending for consumables. In our soft pretzel segment, we saw continued strength in our flagship SUPERPRETZEL brand driven by distribution gains and organic growth. However, overall pretzel sales declined 11% in the quarter, primarily in licensed and private brand products as we executed the planned SKU rationalization of lower-margin items. As the year progresses, our strong focus on SUPERPRETZEL brands, including new SUPERPRETZEL pretzel -- flavors, launch of SUPERPRETZEL nuts and super SUPERPRETZEL BAVARIAN pretzel sticks, is expected to lead a full year revenue growth in the soft pretzel category.

In frozen novelties, we saw a 1% sales increase for the quarter. As we enter the second quarter, we are planning for incremental growth in this category, including the launch of ICEE and SLUSH PUPPIE pops, Whole Fruit in the weekly distribution gains and further expansion of our Dogsters brand in grocery. We are also confident with our plans to bring OLO to retail later this year. We added capacity. This will be a big growth opportunity for this category.

Regarding our third segment, Frozen Beverages, Q1 revenue was up 9% driven by a 15% increase in beverage sales and an 8% increase in service sales. This was partially offset by 11% decline in equipment revenue due to the timing of customer installations between years. However, we are excited to communicate that we have secured a contract with [checkers] to buy approximately 800 machines, and these will be installed over the second half of the year. This business also includes a service contract as well. ICEE branded tests continue with large QSR customers, and we are in the process of rolling out ICEE across more stores nationwide.

In regard to Dippin' Dots business, our pipeline is strong. Not only has it performed very well thus far, including a 14% increase in unit sales in the first quarter, but it holds significant potential for added growth both in foodservice, where it's predominantly today, as well as in expanding into the retail sector.

As an example, we recently signed to deal with Regal Theaters, which as some of you know, is the second largest theater chain in the United States with over 540 locations. The initial placement will cover over 230 locations with the rest to come thereafter. The initial sales results are really encouraging. We also recently introduced ICEE cherry and [Blue Raz] Dippin' Dots flavors a new product launch with promising Q1 sales, which demonstrates our ability to leverage our strong brand portfolio across business channels.

I would now like to spend a few moments reviewing our strategic priorities as we remain focused on transforming the business. We have taken aggressive measures to offset the challenges facing us as we operate under this historic backdrop of inflationary pressures and can position the company for long-term success. We are aggressively focused on improving operational efficiencies through initiatives by implementing a new ERP system, adding 7 new more automated production lines, outsourcing our shipping logistics and building a more geographically optimized distribution network. In addition, we have now fully implemented various price increases across our portfolio, which will continue to drive improved gross margins.

Let me start with our supply chain strategy priorities. We communicated last quarter that our logistics and distribution management responsibility have now been fully outsourced to NFI, a recognized expert in the industry. They are now managing 100% of our business, and we expect to generate approximately $4 million annualized benefit as we improve management of carriers, improve truckload efficiencies and minimize miles through better network management.

We are further investing in our supply chain process through the build-out of 3 geographically located distribution centers across the country. These RDCs will enable better location of inventory and simplify our warehouse network moving from managing over 30 plant 3PL locations to approximately 6. 2 of these new RDCs will have a box in a box where we'll be able to store Dippin' Dots products, adding capacity for growing this business and getting product closer to the customer. Our first RDC will open up in June at a facility just outside of Dallas, and a second RDC should open up later in the fiscal year. The third RC is still in development and expected to be opened in fiscal 2024.

On the operations side, we have committed investments to add 7 new production lines that will add capacity and drive efficiency to better automation. To date, we have opened 2 new frozen novelty lines and one additional churro line. Over the next 6 months, we will activate 3 additional lines focused on expanded pretzel production.

As it relates to M&A, we are currently working on integrating Dippin' Dots into the J&J systems, processes, customer channels and operations. At the same time, we continue to evaluate potential M&A opportunities that complement our brand portfolio and our business model.

In summary, we will remain focused on building this business for the long-term growth. Strategically, we are transforming the business, investing in our brands and capacity to grow while implementing initiatives to help us operate more efficiently. Our leadership team is aligned. And the organization is excited about the opportunities ahead of us to continue building on the great history of J&J Snack Foods.

I would now like to turn the call over to Ken Plunk, CFO, to review our financial performance. Ken?

Ken Allen Plunk
Thank you, Dan, and good morning, everyone. As Dan mentioned earlier, we continue to experience double-digit sell-through across our business. We remain optimistic about the balance of the year given the many issues we have underway and their expected impact on our business on the top line to the bottom line.

Net sales for the quarter was $351.3 million growing by 7.3% versus the prior year period. (inaudible) fooddservice, our largest segment representing approximately 68% of our total sales, revenue of $278.3 million exceeding Q1 2022 by $26.6 million or an increase of 13%. That included approximately $13.4 million in Dippin' Dots sales. The healthy performance in foodservices was driven by 157% increase in (inaudible) sales benefiting from our Dippin' Dots business as well, 32% increase in churro sales and 27% increase in (inaudible) sales. We also saw growth in soft pretzels in our bakery business of 4% and 1%, respectively.

The Retail segment posted sales of $43.1 million or an increase of 1% compared to the same period in fiscal 2022. Handhelds continued their strong performance with a 127% increase in sales, while frozen only increased 1%. So pretzels and biscuits decreased 11% and 4% on, respectively, versus the prior year.

Frozen Beverage sales were $70 million and grew 9% versus Q1 2022 led by average sales growth of 15% as well as repairs and maintenance service revenue growth of 8%. Equipment sales declined 11% due to the timing of installation between (inaudible). Gross profit for the quarter was $9.9 million, an increase of over 14% compared to the previous year period. Gross margin was 25.9% in the quarter, favorably comparing to 20.9% in Q1 of fiscal 2022.

Moving down the income statement. Total operating expenses increased $81.5 million, representing 23.2% of sales for the quarter compared to 20.3% in Q1 of 2022. These results largely reflect the persistent inflationary pressures across all our expense lines, in particular, distribution expenses. Distribution expenses were 12% of sales compared to 10.5% in fiscal 2022 but did improve compared to Q3 and Q4 of 2022 when they were 12.7% and 12.4%, respectively. 150 basis points higher distribution costs as a percent of sales contributed approximately $5 million additional expense for the quarter on an equivalent basis when compared to a year ago.

Marketing and selling expenses represented 6.7% of sales versus 6.6% in the prior year period. Our administrative expenses were 4.7% of sales in Q1 2022 compared to 3.3% in Q1 of 2022. Also Dippin' Dots is a seasonal business, and as expected, negative (inaudible) impacts our results in the first quarter. This business will drive most of its profitability over the second half of the year as higher sales better [leverage] expenses in those quarters. This led to an operating income of $9.3 million compared to $14.8 million in Q1 2022 or a year-over-year decline of [37%]. Adjusted operating income was $11.2 million and adjusted earnings per diluted share was $0.42.

After considering income tax of $2.3 million compared to $4 million in Q1 of fiscal 2022, net earnings decreased to $6.6 million resulting in reported diluted earnings per share of $0.34. That compares to $0.58 in the prior period. Adjusted EBITDA decreased 8% to $25.3 million. Our effective tax rate was 26% in the first quarter.

Taking a look at our liquidity position. Even with the Dippin' Dots acquisition, we continue to have a healthy balance sheet an overall strong liquidity position with $61.2 million in cash and marketable securities and approximately $92 million in debt. In addition, we have ample availability under our revolver of approximately $123 million of additional borrowing capacity.

In summary, we are excited about the opportunities ahead and remain confident that our portfolio of brands, investments in our business and strategic initiatives will continue to fuel growth. Our efforts to gain added efficiency and effectiveness puts J&J in the position of added strength. We improved our ability to leverage opportunities ahead of us. With $55 million in cash and ample available liquidity, we have the means to adequately support, invest in the growth drivers of the business. I would now like to open the call to questions. Operator?

Operator
Our first question or comment comes from the line of Andrew Wolf from CL King. .

Andrew Paul Wolf
I want to start on the kind of your volume results and maybe what you saw with consumer behavior, elasticity and demand. I think it seems like you're kind of outperforming most on elasticity in particular. And then this quarter, you referenced the industry slowing, and it seems like, to some extent, perhaps the business itself kind of caught up to the industry and experienced some negative consumer behavior. Could you just kind of give us a qualitative sense of that and a quantitative sense, too like where your volumes are maybe adjusted for the SKU rationalization as well, so get penalized by that? That would be great.

Daniel Fachner
Right. I'll talk to some of that, Andrew. Thanks for your question. Yes, much like what you said when we did our last quarter, our volumes were strong. And even as we entered into this quarter, they were strong. And then as the quarter went on, they trailed off. And so we're watching that really closely. I tend to the first -- and we do as a company that we were affected pretty greatly in the December month. And mainly, as we gotten into the really 2 or 3 weeks of cold weather, we never like to blame anything on weather, and I won't allow our people to do that. But it does have an effect, especially during the holiday shopping season, and we experienced that as we got late into the quarter.

And so now we'll watch it really closely as we move into a new quarter and are going to be mindful and watching it with a close eye to see what happens from there on out. I don't personally think that we have hit the issue of elasticity. I think the pricing that we took was well within line of what others in our categories might have taken, maybe even slightly below that.

So I don't think that, that's the issue. I just -- I really believe that we get into a period of time where the stress of a recession and you got cold weather and people aren't out shopping as much as they might have done it under different conditions.

Andrew Paul Wolf
Very helpful. And Ken, I alluded to the -- I think your SKU rationalization where you got out of some on productive SKUs, I think, in soft pretzels. Is that a pretty -- somewhat significant number worth calling out or just a rounding error?

Ken Allen Plunk
I wouldn't call it significant, Andrew. Certain categories had a bigger impact than others. Again, with some of the tail-off of volume in other places, anything we expect, because of some of the things Dan said, it kind of magnified that a little bit more, but it's not the key driver.

I mean as we try to comment, we really were taking that quarter to sharpen the pencil a bit, the places in bakery we mentioned, places in pretzel, where we feel really good about our business model, when we focus on the growth. But there are some things from a margin standpoint that we wanted to really get that -- kind of recalibrate a little bit. And so anyway, the answer to your question is, yes, it had an impact on a couple of categories, but I wouldn't call it significant in the quarter in total.

Andrew Paul Wolf
Got it. And just one other question really on capital allocation. First of all, you reported a pretty big increase in cash capital expenditures. It kind of seems to comport with your pretty aggressive plans for 7 new lines. But can you kind of express to us what your capital budget is for the year and how you -- what you think you might be spending to invest back in the business?

And the other side is the M&A that you alluded to. I guess my question here is more balance sheet related. How much debt leverage is the Board and the Executive Committee willing to take on to execute deal?

Ken Allen Plunk
Yes. I mean I appreciate the question, Andrew. Again, we feel really good about where we're at in terms of the ability to continue investing in the business. But to your point, as it relates to changes in debt, yes, you saw on the balance sheet. I think almost double capital spend for the quarter versus a year ago. We've been very clear that we're investing close to $100 million in 71 and then these new RDCs. So obviously, that's going to drive increases in CapEx versus 2, 3 years ago. .

You'll see that I think the number was just south of $90 million that we spent in fiscal 2022 in CapEx. As we continue to execute these investments that we're making, the 2022 number is going to be probably in that range, I'd say $90 million to $105 million, somewhere in there. And it's really all focused on completing the execution of those teams, production lines and RDC investments that we're making.

In terms of leverage in the Board, I wouldn't say there's an exact number that we've kind of landed on with the Board on what we're willing to do. We're evolving as a company. We move from really no debt to start to see that we can leverage our balance -- and grow this business and invest. And I think the Board is supportive of that. But I can't say that there's a specific leverage number that we kind of got in mind at this one.

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

Todd Morrison Brooks
A few quick questions for you. First of all, on Dippin' Dots, obviously, with the seasonality of the business, is there a way that you can size for us so that we can gauge kind of the operating income trend outside of the different guidance impact what the drag on operating income was in the first quarter from Dippin'

Dots?

Ken Allen Plunk
Yes. Todd, this is Ken. I think, in the last quarter, we had kind of tried to guide the group, almost all, I mean we can even call it 100% of the profitability of Dippin' Dots in Q3 and Q4. Again, no surprise given the seasonality of that business. Q1 is the slowest, and it has a negative impact. I think you'll see the sellout in the 10-Q just south of $1 million negative impact in this quarter from Dippin' Dots and that's -- Dippin' Dots actually had a great quarter and performed above expectations. But that's the weight of fixed expenses and high SG&A based on a low sales base, create the deleveraging in Q1. That was certainly expected on our side. But that gives you a little bit around kind of what that impact was in this quarter.

Todd Morrison Brooks
Is that the right type of number to use for the March quarter as well as they're going into the June and September ramp?

Ken Allen Plunk
Slightly better than that time. I would probably kind of guide you that it should be positive but less than $1 million positive.

Todd Morrison Brooks
Okay. That's helpful. Secondly, just wanted to get back to -- and a follow-up on Andy's question about volumes. I was wondering 2 things. One, did you see any -- and this would be outside of the consumer. Did you see a destocking of inventories from your Retail? Or obviously, you have the clubs and mass in the foodservice business. Were those customers working down inventories at all at the end of the year? Is that part of why the volume may have dipped later in the quarter?

Daniel Fachner
Yes. Todd, it's a good question and a good observation, and we absolutely believe that. We did feel that a little bit. As what I discussed with our own business, I think many of the retailers out there found themselves in the same situation and our smart retailers and started to drive inventories down. And so yes, I think that was a portion of what came into play in that December month. And then I'm sorry, Ken, go ahead.

Ken Allen Plunk
I was just going to add this data out there. There's a lot of data to you guys in the same thing, but I did need one. Spending in grocery stores was slightly down. So I think you're starting to see people be a bit more frugal on the basket. The other thing that I read was a quick and pronounced increase in traffic and shopping at dollar stores and a little bit less traffic at some of the bigger retailers, particularly higher grocery stores. I think there's something in there where some that on the retail side, it is impacting buying of our products.

And then to your first question, does it start to kind of drive different decisions on inventory, we've got too much for now (inaudible) this back on us. We slowed down production and all of that as you're trying to calibrate it. It can create a little bit inefficiency.

Todd Morrison Brooks
Okay. And this is just -- I was wondering if this was part of the volume compare as well, obviously, the ERP conversion in the March quarter of fiscal '22. Any customers kind of preload inventory in advance of the conversion that would have benefited the December quarter last year but made for a tougher volume compared to this year?

Daniel Fachner
No, that's a great question, but that really did not happen. Maybe in 20/20 hindsight at this point, we

might have encouraged that last year, but I can't say that that's what happens.

Todd Morrison Brooks
Okay. Great. And final question, I'll pass it along. The strength in churros, was the Hola! launch at foodservice, was that in place for the full quarter? Did it roll out over the quarter. So actually, that strength when you have a full quarter of selling it into the foodservice channel could actually accelerate a bit going forward?

Daniel Fachner
We believe they can continue to be accelerated. We're putting a lot of push behind it. Much like what we've talked about separately, Churros have really come of age. We love the new brand. We loved the opportunity sale there, not just with large customers out there, but even through the distribution network. And we're -- we've got a lot of marketing behind it. We feel really good about it. So I think it can continue to build momentum throughout the year, although (inaudible).

Todd Morrison Brooks
Was it available for the full quarter again? Or did it roll out over the quarter?

Daniel Fachner
It really rolled out throughout the quarter, but it would have been started early. And so it would have been early in the quarter. So I'm not sure how to guide you on that was a good quarter. We had a 32% increase and 30-plus, 30% increase. So the good quarter, I expect the same thing, if not greater, in the coming quarter.

Ken Allen Plunk
There's even stronger promotional plans around that brand. I wouldn't say we've kind of really hit and executed every part of our marketing plan around that. There's more to come, and we're really excited about it, Todd.

Daniel Fachner
And we've got some really good (inaudible) test it as well.

Operator
Our next question comment comes from the line of Connor Rattigan from Consumer Edge.

Connor Rattigan
So just quickly on Dippin' Dots. It sounds like that $13.4 million in sales generated were decently ahead of your expectations. So by my math, it's about 13% of historical sales in the first quarter that puts the brand on about $100 million or so run rate or about 10% higher than last quarter. Could you maybe quantify your expectations for the brand over the year, just trying to get a sense of how big we should expect this thing to be given the planned distribution rollouts?

Ken Allen Plunk
I think your math is good Connor. Good job on that. I'm not in that number, but I think our expectations are in that ballpark that you just came out with. We feel really, really good about what we're doing with Dippin' Dots. And we just mentioned one example in the release and the script, the operational things we're doing other things in the pipeline. So yes, we're aligned with you on kind of what we think we can do to that business this year.

Daniel Fachner
We are. That's good math in your part, and really excited about the team and what they're doing. In fact, the whole sales team are here in the office this week at a sales meeting, and we're just really thrilled with

the way that they're responding.

Connor Rattigan
Awesome. That's great, guys. And then also just quickly on some of the efficiency efforts that you mentioned. So that $4 million figure, is that expected to be fully realized this year? Or is that more of a fiscal '24 goal? And also on the automation efforts, (inaudible) clear, are these fully new orbited lines replacing manual lines? Or are you just really incremental capacity?

Daniel Fachner
Do you want to go first?

Ken Allen Plunk
Yes. Well, on the lines, it is added capacity. So this is not replacing current lines. It's new lines but lines that are obviously more modern and with better automation than existing. So we expect to be more efficient in how we move product through those lines. I'm sorry, what was your first question?

Connor Rattigan
Just on the $4 million in incremental savings from the (inaudible) distribution outsourcing. Is that expected to be fully realized this year? Or is that more of like fiscal '24 (inaudible)?

Ken Allen Plunk
Yes. I think the way we've spoken about it before, we really (inaudible) us until September, October to get all of our business on NFI and kind of the key to managing all this is for them to be kind of pulling the strings on how we manage product and distribution across our entire network.

Secondarily, their job get even easier as we execute this RDC strategy. So on an annualized basis, yes, if I had to make a guess for 2023, given what we've got in motion, I'd probably say it's going to carry -- some of that $4 million is going to carry into '24, but I think we should realize a good portion of that in this fiscal period.

Daniel Fachner
And Connor, let me just touch on the line question that you have. They are in addition to the lines that we have today, but it also allows us to do some shifting of where we make some products to become much more efficient in different areas. Our intention is not to shut down the former line but to be able to use that for more capacity.

Operator
Our next question comment comes from the line of Jon Anderson from William Blair.

Jon Robert Andersen
Maybe just -- I'll stick with that last question since we're on it. On the new production lines, how much capacity in aggregate will the 7 new lines kind of unlock? And are there also margin benefits associated with it? I guess, that's second part of the question and gets to some of comments around shifting or optimization of production. But again, how much capacity are you unlocking with these 7 new lines? And are the productivity benefits as well?

Daniel Fachner
I don't have the exact number to give you on the capacity, but it does allow us to grow our core products, right? So one of the things we really experienced was outgrowing our core, which is our churros and pretzels and frozen novelties and even our pretzel bar side of the business. And so we have addressed that to be able to have enough capacity to get our sales team back out there and really selling new lines and new opportunities. It does help on the margin side because we are becoming much more efficient in different areas, even making products like in our novelty side, making products where they're sold as

opposed to maybe making them in one part of the country and ship them across to another side. So there are margin improvements that we think that we can realize as we open these up.

Jon Robert Andersen
That's helpful. Organic growth in the first quarter was about 6%. Can you help us kind of gauge how much of that the 6% organic growth was volume based and how much was price? And then you kind of laid out a lot of very interesting demand generation initiatives that are kind of kicking in through the year, the cross-selling opportunities, the new account and channel opportunities that seem to be kind of lining up. How should we kind of think about organic growth accelerating through the balance of the year or kind of maintaining that level in this mid-single-digit range? It's a difficult question, but just trying to get a sense for your confidence in some of the initiatives that you have lined up and what that might do to the organic growth profile of the company during coming quarters.

Daniel Fachner
I'm going to let Ken talk a little bit about the numbers, if you can. But I just want to say this about our sales teams. We talked about it for 2 or 3 quarters now about cross-selling and getting people engaged in the different companies on selling the products across channels and across (inaudible). I couldn't be more proud of (inaudible) responding to that. that is happening more and more. And I get to see it firsthand, and that will be helpful. It's certainly helpful as we're starting to look at the Dippin' Dots business, being able to leverage our relationships and our customer contacts that we have to accelerate that growth.

And so just really pleased with the progress that is happening on that side, led by our sales teams, really happy with that. Ken, I don't know if you have some (inaudible) if you could help on the fact.

Ken Allen Plunk
Well, I'd just add this. Jon, I'm glad you picked up on it. But we were very intentional to really go maybe even a little bit deeper on highlighting what we see is a lot of growth opportunity when we sprinkled in examples, some Dippin' Dots to SUPERPRETZEL to frozen novelties to churros. So yes, we still remain very, very confident in our ability in the next 3 quarters to grow the organic side of our business, if you just take out Dippin' Dots for a second.

Like every other company out there, I mean, we're watching things like GDP and be on consumption and you see a little bit of that being back, you see savings rates going up. So there's some consumer things that we're watching, which obviously impacts our business as consumers pull back. But aside from that, I don't know the time of J&J, where we haven't felt more confident about what we do in an innovation with our brands and cross-selling. So we remain very confident in what we're going to be able to do for the rest of the year.

Jon Robert Andersen
Okay. That's helpful. One more. It's kind of a similar question, but more from an earnings perspective. When I look at EBITDA or adjusted EBITDA in the first quarter, and even adjust, I guess, for a bit of the impact of Dippin' Dots, the deleverage. It looks like EBITDA came in around 15% or so of what the Street anticipates full year EBITDA to be. And then if I kind of look back prepandemic to some more typical years, it looks like first quarter EBITDA might have trended more in the 20% to 22% of the year range. So just kind of optically, it would look like maybe you're starting the year a little bit slower this year from an EBITDA perspective, at least relative to what the straight is modeling for the full year.

But again, there are so many great cross-selling things going on. There are a lot of good things happening on the operational efficiency front, margin catch-ups from pricing, et cetera. Are you kind of -- am I thinking about it right that, hey, we're in a pretty good position exiting Q1 and entering Q2 despite those metrics I mentioned to kind of deliver on a full year expectation?

Ken Allen Plunk
Yes. Again, we try to explain this a little bit. Two headwinds right off the back in terms of comparing a year ago, EBITDA or even if you went back to '19, I don't have this number in my head, but I think the number will be even bigger, but you've got roughly $5 million of impact on distribution expenses. If you just -- on an equal basis, that would be -- that would impact profitability this year versus a year ago. And then I mentioned the impact when we bring on the Dippin' Dots business that had a loss during the quarter and, again, expected. Then that starts to create a $6 million kind of bogey out there just from 2 things.

And then I think at the end of the quarter, we expect it to do a little bit better than that because we weren't expecting volumes to tail off in December with some of a lot of challenges that we talked about. And it's in a quarter where if you don't create the cells, then you deleverage pretty quickly. Keep in mind that even for total J&J, 75% of the sales and really profitability for J&J going to be in Q3 and Q4, and that should play out if you go years back. That's just kind of the seasonality of the business.

Operator
Our next question or comment comes from the line of Robert Dickerson from Jefferies.

Robert Frederick Dickerson
Great. Can you hear me okay?

Daniel Fachner
We can. Good morning, Rob.

Robert Frederick Dickerson
Great. All right. Kind of a follow-up to the last question that was asked. I just had to ask a little differently. Ken, to your point, right, there's a little volume deleverage that comes through input cost inflation is still a little bit high. On the COGS side, it sounds like there could be other pricing offsets. And then as you keep mentioning, good innovation, distribution opportunities as you get through the back half.

Q1, understand kind of the drivers behind what happened on EBITDA margin, but I'm speaking more specifically to the growth side. You go back a couple of quarters, right? And kind of the feel is as we kind of got into Q2 this year, maybe more back half-ish we could kind of get back a little bit more of those pre-pandemic margins, and it seems like you're making pretty decent progress on that goal in the back half of last year, right?

And then December kind of had maybe a little softer volume, maybe some consumer behavior shifts to some extent. I guess, as you sit here now, right, if we're thinking about Q2 one, right, just point one, just because I do think you're kind of lapping right, that ERP issue you had last year, I would think there'd be some nice margin progression. And then when we're thinking about the back half of this year, kind of what I'm hearing, I feel like is like it's still a little bit of a moving target, right? Some of this is going to be contingent, obviously, on consumer behavior as we get into the summer, right, which is still kind of far away. It sounds like some pricing might come through to offset some of the cost inflation. And then maybe there's also some incremental distribution innovation that could help offset maybe some consumer weakness.

So lot in there. I'm just trying to gauge kind of where -- how you want the market to be thinking about kind of that margin recovery potential this year. Or is it something that maybe we're kind of we're just pushing it forward a little bit kind of because maybe there's a little less clarity? That's all I have. That's a lot

Daniel Fachner
Thank you, Rob.

Ken Allen Plunk

You did my job for me, right? You did it pretty well too. Yes. I think, been clear as you had these meetings even going back to last quarter. We can go on a trajectory to get this business up to those 30% margins. As I sit here now, I still feel confident in our ability to do that, particularly as we get to Q3 and Q4, because I believe the things we're doing, the initiatives, getting all those inflationary stuff behind us, getting in the peak season, and I think we'll start to see volume really kick back in and some of these new products and new ideas, new innovations are going to drive growth.

So I still said here, seeing that as a pretty good benchmark, Rob. We manage this business long term. And if I could emphasize anything, as we come together each quarter, our jobs are to continue to demonstrate from an investment standpoint from where we're driving growth, the long-term aspects of what we're doing are going to pay dividends for us. We then casually get into a quarter like this, are you get into some economic challenges and weather and that pulls back on volume and then you have to kind of recalibrate inventory reduction a little bit. And so that can hit a quarter, but still feel really good about the back half of the year.

Daniel Fachner

Yes, Rob, I would echo that as well. And I would just also add to it that we still have some pricing coming on the ICEE side. We talked about that in another quarter. ICEE takes pricing once a year. And so there's a pricing that was taken January 1 on the ICEE side. And so, yes, I think we're still feeling pretty confident about getting back to those pre-COVID percentages. And that's part of the conversation that we have amongst all of our groups and all of our conversations.

Operator

Our next question or comment is a follow-up from Mr. Andrew Wolf from CL King.

Andrew Paul Wolf

My first is on your outlook for commodity cost inflation slowing, which I think you said in the release. You might have talked about this, but I didn't hear it well if you did. But could you be a little more specific on kind of what you're thinking the cadence is going to be, maybe what percent of your costs are locked in through forged contracts and things like that. I think a lot of folks in the supply chain manufacturers and others are looking to the June quarter to really -- when the relief really comes in on the year-over-year comparisons where pricing is unambiguously a lot better than cost inflation, plus your sense of that for the business?

And then the other -- the second follow-up is very straightforward. It's just like there's been 5 full weeks and a couple more days since quarter ended. Have you seen any changes either way in the volume trends pretty much in January?

Daniel Fachner

Ken, the commodity costs?

Ken Allen Plunk

Yes. On the commodities, I look at so much data on that, Andrew. And I think we've said this, trends are getting better. Sometimes they seem too gradual, but they are getting better. Just to give you a couple of examples. We were 16% higher than was a year ago. Quarter-over-quarter, it went up just 40 basis points. So it did go up 40 basis points. And the outlook on the is that we do expect that continue to decline. I think as we look at the second quarter and this I (inaudible) as it's our biggest commodity, we think it may go down 3% to 4% is kind of our best guess right now as we look at Q2.

But if you kind of go across the eggs, obviously, the eggs up triple digits year-over-year. Even, 43% quarter-over versus quarter. So eggs continue to go up. So it's kind of spending on what commodity you're talking about. It's a different answer. Collectively, we do expect them to continue to go down. I don't have a crystal ball. I think our best guess next quarter is maybe somewhere in that 3% to 5% range and, then as we look further out, hopefully better than that. I mean, (inaudible) diesel are 2 big ones that are supposed to continue to go down quite a bit. Sugar, it's not as high as it was, but it's still not showing signs of a decline at the same.

Daniel Fachner
And then Andrew all the weeks ahead, we're watching that cautiously being careful about kind of what's happening out in the industry. We do have some really bright spots. So one of those bright spots would be where the theater business was really off in the December month. They've come back pretty strong in the January month. And so we're encouraged by what we're seeing so far.

Operator
I'm showing no additional questions in the queue at this time. I'd like to turn the conference back over to Mr. Dan Fachner for any closing remarks.

Daniel Fachner
Right. Thank you, operator. In closing, we want to assure you that more than ever, our teams are focused on effectively managing through these dynamic market conditions, while serving our customers and partners. As we have outlined on the call today, we've taken aggressive measures to offset these various challenges and to position the company for long-term success. Our momentum remains strong with our core brands and new products continuing to resonate with customers.

And we are -- and as we progress through 2023, we are confident that our strategies will have a marked and positive impact on our business and our goals. We will also take this opportunity to acknowledge the hard work and dedication of our talented teams across the entire business unit. And thank you, everyone, for joining us today on the call. We appreciate your interest and your continued support.

Should you have any questions or wish to speak to us, please contact our Investor Relations firm, JCIR at 212 835-8500. Thank you very much.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day. Speakers, stand by.

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