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Norberto Aja *JCIR - Senior MD*

PRESENTATION

Operator
Good day and thank you for standing by. Welcome to the J&J Snack Foods Fiscal 2023 Fourth Quarter Conference Call.

(Operator Instructions)

Please be advised that today's conference is being recorded.

I would now like to turn the conference over to your speaker today, Norberto Aja, Investor Relations. Please go ahead.

Norberto Aja *JCIR - Senior MD*
Thank you, operator, and good morning, everyone. Thank you for joining the J&J Snack Foods Fiscal 2023 Fourth Quarter Conference Call.

We will 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 contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements made on this call may not relate to matters, historical fact should be considered forward-looking statements, including statements regarding management's plans, strategies, goals, expectations and objectives as well as our anticipated financial performance.

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 on Form 10-K for the year ended September 30, 2023, and our 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 after the date of this call, November 16, 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 expectations to change. In addition, you may also reference certain non-GAAP measures on the call today, including adjusted EBITDA, operating income or earnings per share, all of which are reconciled to the nearest GAAP measures 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; along with Mr. 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 *J&J Snack Foods Corp. - President, CEO & Director*
Thank you, Norberto, and good morning, everyone. We appreciate you joining us this morning to discuss J&J Snack Foods Fiscal 2023 Fourth Quarter and Full-Year Results. J&J had a great ending to our fiscal year. We delivered record high net sales and profitability for both the 3- and 12-month periods with improved gross profit margins. Our results underscore the tremendous progress we are making across the organization, thanks to the dedicated efforts of our employees and the positive impact of the strategic initiatives undertaken over the past 2 years.

Our topline results marked the sixth consecutive quarter and the third consecutive year of double-digit net sales growth, totaling $443.9 million, up 10.8% for the quarter and $1.56 billion, up 12.9% for the year, reflecting $178 million in incremental sales. More importantly, our results were driven by continued growth across all 3 of our business segments on both a quarterly and a full-year basis, highlighting the health of our business and consumer appeal for our products and brands. I am pleased with the success of our work to improve margins and drive profitability.

Gross margin improved at 32.8% and 30.1% for the quarter and year, respectively, and we lowered distribution expense as a percentage of revenue for both periods. This led to operating income and adjusted EBITDA increasing by 93% and 55.2%, respectively, for the fourth quarter and 77.2% and 46.3%, respectively, for the whole year. Ken will review our financial performance in more detail in just a few minutes.

As I reflect on the year, our company has never been more aligned in its vision and strategy. We ended this year with strong momentum across our business segments, guided by 5 core strategies: grow and protect our brands; dominate core categories; sell across the portfolio; invest in our future; and embrace our culture. We are collaborating better than ever and finding new sales opportunities across our portfolio. This strategy is aligned to our financial goals to grow sales above the market, create expense leverage and grow profits faster than sales. I would like to highlight a few of the successes from the fourth quarter that support our strategy.

Let me start with our focus on our strategies to grow our core brands, and products and how we are collaborating and cross-selling across the organization. We increased our marketing investment and added new production lines to support growing opportunities with SUPERPRETZEL. In the fourth quarter, we launched filled jalapeno nuts nationwide with a major theater customer and introduced a private label Bavarian Pretzel with a major food service distributor.

In retail, I am pleased to report that we gained a SUPERPRETZEL availability with Walgreens, while also expanding PretzelDogs with new retail customers. In addition, we launched frozen SUPERPRETZEL Bavarian sticks with major grocery and mass merchant customers. Looking ahead to fiscal 2024, we are planning to launch a system-wide Pretzel Croissant with a strategic convenience customer. We also expect to be able to further expand frozen SUPERPRETZEL products among major retailers throughout the year and have plans to add fresh baked SUPERPRETZEL Bavarian sticks and buns to the in-store bakery category of several strategic customers.

Moving on to our ICEE brand. I'm so proud of our frozen beverage team for delivering a record quarter and year of sales and profitability. We continue to make progress growing consumption and placement of our ICEE and SLUSH PUPPIE brands in amusement, mass merchandisers and restaurants. Also, the theater industry continues to gain momentum, and our Mexico team delivered another stellar quarter and year. As we look forward, our team is rolling out a self-serve program to a major club store customer in early fiscal 2024, and we continue to have positive momentum with tests in QSR and family entertainment channels.

Turning to Hola! Churros. We are really pleased with the success of this brand in its first year. Sales grew over 23% for the year and 8% for the fourth quarter. With the production capacity we added this year, we have a strong pipeline of growth opportunities. This quarter, we convinced the retail rollout of Hola! brand Churros in the Northeast with several regional grocery retailers. We also successfully completed a market test with a major QSR sandwich chain for Churros that will begin to roll out system-wide in early calendar 2024.

The best example of how we are executing product development and leveraging cross-selling opportunities is in Dippin' Dots. You may recall, we closed the acquisition of Dippin' Dots in June 2022. In the first year under J&J's ownership, the brand achieved all-time record high sales and profitability, growing over 13% and 80%, respectively. We are bringing new flavors to the market like the recently launched ICEE Cherry and Blue Ras ICEE flavor, the best smooth flavor launch in Dippin' Dots' history. And we are looking forward to next year's launch of a new cookie dough offering called Frozeti Dough. Our rollout for regal theaters is almost complete, and we are adding test locations for 2 other major theater chains and expect to continue building our presence in the theater channel in 2024.

Also, we are testing a vending program in amusement parks, clubs, theaters and entertainment venues and have an in-store freezer test with a major convenience store. We also remain laser-focused on improving our go-to-market strategies, including finding added cross-selling opportunities, securing new client wins and entering and growing in new geographic markets.

We are excited about the opportunities ahead of us in the international markets, such as Mexico. We have recently added an international business development leader to identify opportunities to expand key products and brands like SUPERPRETZEL, Hola! Churros and Dippin' Dots into new markets.

Our product portfolio extends across over a dozen product categories from soft pretzels, churros and handhelds, the bakery goods, dog treats, italianized and frozen beverages. We also sell into more than a dozen distinct venues, including school cafeterias, theaters, amusement parks, airports, stadiums and supermarkets as well as restaurants and convenience stores. Our team is aligned and focused on driving plans to leverage our portfolio of products to add growth across our many channels and customers.

As we've discussed for the last couple of years, one of our core strategies is to build capability and invest in our future. Let me begin with our warehousing network. I am pleased to report that we now have 2 new regional distribution centers open, one in Texas and the other in New Jersey. We are on track to open the third RDC in Arizona in early calendar 2024. The 3 RDCs will be used to store and distribute most of our products as we decrease our points of distribution from over 30 to less than 10.

This will include added freezer storage capacity for Dippin' Dots, which is really the key to our growth plans for that brand. It will also result in improved customer service and lower distribution costs. We expect this initiative to provide at least $10 million in annual cost savings as we ramp up over the next 2 years.

As you know, we are partnered with NFI over a year ago to manage our logistics and transportation network and are seeing efficiency improvements that are lowering shipping, handling and storage costs. NFI now manages all of our transportation network, improving truck capacity and routing and enhancing customer service. We are also just beginning to leverage the 6 recently added state-of-the-art production lines as we add production capacity to our core products, such as pretzels, churros and frozen novelties. And not only do these lines provide more capacity, they are creating production efficiency and higher output metrics through better automation.

Transitioning to M&A. We continue to be highly disciplined in our approach. We are evaluating opportunities that complement our brand portfolio and business model and that offer attractive shareholder returns. Financially, we have the resources and the balance sheet to invest in growth when opportunities align.

In summary, our momentum is strong, and we are aligned on a strategy that positions us well for continued success in fiscal 2024 and beyond. I am so proud of the J&J teams and their relentless focus on satisfying the consumer every time they enjoy one of our products. Our focus on cross-selling is opening up new opportunities in channels, which creates new selling opportunities across our portfolio.

The diverse nature of our business, along with the power of our brands and the affordable price point of our products is something that we are confident will continue to serve us well. We believe this momentum, together with improved operational efficiencies, positions J&J to deliver long-term value to our employees, partners and shareholders. Our success is anchored by a winning culture, and I want to thank our J&J employees for their efforts to deliver a record 2023 year.

With that, I would now like to pass the call over to Ken to review our financial performance in more detail. Ken?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***
Thank you, Dan. To echo Dan's comments, J&J ended fiscal 2023 on a strong note, including record fourth quarter and annual net sales and profitability. I'd like to take a few minutes to walk you through the results.

Net sales for the quarter totaled $443.9 million, a 10.8% increase versus the prior year, and sales for the full year totaled $1.56 billion, a 12.9% increase versus full-year fiscal 2022. Our sales results this quarter and fiscal year included an extra week compared to the prior year and contributed an estimated 6.8% and 2% to sales growth, respectively.

Foodservice, our largest segment saw Q4 '23 sales exceed Q4 '22 by $13.5 million to $270.3 million or an increase of 5.3%, including approximately $35.2 million in sales from the amusement acquisition of Dippin' Dots. We saw continued strong sales across all of our product lines, including a 14.6% increase in pretzels, 9.7% increase in frozen novelties and 8.1% increase in churros and a 2.2% increase in bakery. Dippin' Dots sales increased almost 12% in the quarter.

Handheld sales decreased 21.8% driven primarily by contractual cost true-up agreement. Volume for core Foodservice handheld increased for the quarter. This led to Q4 '23 Foodservice segment operating income of $17.5 million or an increase of 175.8% versus the prior year period, reflecting topline growth as well as improvement in margins and added leverage from lower distribution expenses.

Moving to our Retail segment. Q4 '23 retail sales increased 21.2% to $64.8 million compared to Q4 '22. Retail sales were driven by a 205.5% growth in handheld sales, a 32% increase in biscuit sales and a 16.7% increase in frozen novelties sales, led by Luigi's, Dogsters and ICEE sticks. So pretzel sales grew by 6.7% versus the prior year period, led by the expanded placement of SUPERPRETZEL Bavarian sticks by the Mini Dogs with several retail customers. This resulted in Q4 '23 Retail segment operating income of $3.6 million or an increase of 237% versus the prior year period, driven by topline growth as well as improvement in margin and lower distribution expenses.

As it relates to our third segment, Frozen Beverages segment sales were $108.7 million and beat Q4 '22 sales by 20.6%. Beverage sales grew 24.8% or $14.2 million higher than Q4 '22, led by double-digit volume growth and in healthy consumer trends across key channels, including convenience, amusement parks, mass merchants, restaurants and theaters. The Barbenheimer effect drove strong theater performance of growth above pre-pandemic levels as well as higher food and beverage consumption per visit.

Machine service revenues increased 6% versus the prior year period, reflecting strong maintenance call volumes, while equipment sales increased 33.2%, representing our second largest year ever and was driven by strong growth from new clients in convenience customers. Q4 '23 operating income in the Frozen Beverage segment had also improved to a record $20.6 million, a $6.4 million increase compared to Q4 '22. Overall, we've made significant progress including gross margin and distribution expenses. Our focus on improving gross margins through an improved mix of core products, better calibration cost and price and cost of goods efficiencies is clearly benefiting our results.

For the quarter, gross profit totaled $145.7 million, a 25.8% increase compared to Q4 '22. This led to a gross margin of 32.8%, favorably comparing to 28.9% in Q4 '22. This allowed us to reach our goal of 30% gross margin for the full year, a marked improvement from 26.8% for the full year in 2022.

Overall, we experienced slight deflation for the quarter. The cost of key ingredients, including flour, oil, dairy and meats have declined. So we are still experiencing double-digit inflation in sugar sweeteners, which continues to impact products such as frozen novelties and baked goods.

Looking at expenses. Total operating expenses increased $9.8 million or 10.4%, representing 23.4% of sales for the quarter compared to 23.5% in Q4 '22. Distribution cost was 2.8% of sales in the quarter, much improved compared to 12.4% in the prior year period. Marketing and selling expense represented 7% of sales versus 6.4% in the prior period, driven primarily by incremental promotional and marketing support on core brands and new products. Administrative expenses were 5% in sales in Q4 '23 compared to 4.3% in Q4 '22, attributable to higher performance-based bonus payments compared to the prior year and investments and capability.

This led to an operating income of $41.7 million or a 93% increase compared to $21.6 million in Q4 '22. Adjusted operating income was $45.8 million or a 77.8% increase compared to Q4 '22. For the quarter and the year, the extra lead contributed an estimated $2 million in operating profit.

After the impact of income taxes of $11.3 million compared to $3.9 million in Q4 of fiscal '22, net earnings increased to $30.4 million, resulting in reported earnings per share of $1.57 or $4.08 for the full year. This compares to $0.90 which -- $2.40 in the prior year period. Adjusted diluted earnings per share were $1.73 for the quarter and $4.50 for the full year compared to $1.05 and $2.76 in the prior year periods.

Adjusted EBITDA increased 55.2% to $62.2 million from $40.1 million in the prior year period, and our effective tax rate was 27% in the fourth quarter. Looking at our liquidity position, I'm pleased with our ability to quickly delever on the back of the Dippin' Dots acquisition. We were able to reduce our debt from approximately $125 million when we acquired Dippin' Dots to $27 million at the end of fiscal Q4. The focus will continue to be on maintaining a healthy balance sheet and prudent leverage positioning, which positions us to continue investing in the growth of our business and returning value to our shareholders. Our cash and marketable securities at the end of the quarter were $49.6 million. In addition, we have ample availability under our revolver of approximately $188 million in additional borrowing capacity.

In summary, we are confident that the decisions we are making and the steps we are taking to transform our company are driving results and laying the foundation for future success.

I would now like to turn the call over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And our first question is going to come from the line of Jon Andersen with William Blair.

Robert Frederick Dickerson ***Jefferies LLC, Research Division - MD & Senior Research Analyst***
Congrats on the quarter. I wanted to -- you mentioned in the prepared comments that I think it was kind of a forward-looking thought around maybe an algorithm -- longer-term algorithm. You mentioned sales growth above that of your principal end markets, expense leverage and earnings growth as a result above rate of sales. Could you talk a little bit more about that?

Did I read that right? As maybe kind of a new way to communicate how you think about the growth of the business, top and bottom line going forward? And perhaps then kind of narrow in on 2024 using that as a framework and how you're thinking about end market growth, your own growth and perhaps margin expansion?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***
Jon, this is Ken. Great question. Yes, we've been operating kind of under this, what I call, financial formula for really the last couple of years. And probably as I stated, as we did in the script, that it really gets to what I talked about before is we're focused on the entire P&L. And we've kind of foundationally set the goal that sales-wise, we want to drive our business to grow sales faster than the market. As we're doing that and as we're investing in capabilities and efficiencies, our job is really to leverage the P&L.

As those sales grow at that pace, that obviously provides you a better ability to do that. At the same time, a lot of the initiatives that we've undertaken have been done to improve, say, distribution expenses as a rate of sales to figure out how we can operate more efficiently in our plans. So day in and day out, we kind of operate under that kind of financial formula to think about how we should kind of hold ourselves accountable to managing this business, both now and yes, going forward.

Jon Robert Andersen ***William Blair & Company L.L.C., Research Division - Partner & Research Analyst***
And then that's helpful. And as we look ahead to fiscal '24, I mean, it sounds like you have a tremendous amount of new business activity, a lot of cross-selling going on, a lot of new distribution for, I guess, new items in -- both in Foodservice and Retail, ICEE placements in food away from home venues, et cetera. I mean, how should we be thinking broad strokes about what are your growth expectations for 2024, given just kind of the -- what seems like a really strong pipeline. And then could you talk also about maybe price and volume. Are you still benefiting from price right now? And would you expect, going forward, that the growth is going to largely be volume driven?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***
Good questions, Jon. We're feeling good about and you saw that in my comments, feeling really good about the momentum that we have going into 2024. We've talked a lot about the different areas of our business that we're working on. And one of those is the cross-selling effect across our businesses. We have such great relationships in different areas that we're able to bring other sides of our businesses in and introduce the products. And we really see that working. And as I talked about, we have a really nice pipeline coming into 2024.

So we're feeling pretty good about that. From a price and volume standpoint, we were fortunate in this past quarter. We see volume really increase across our categories, just about all of them. And we think that there's an opportunity for us to continue to do that. I'll let Ken talk about the pricing, but I think we've pretty well lapped that pricing effect now, and we'll be looking at some additional pricing in some of the areas in 2024 as well.

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***
Yes, Jon, if you recall from prior calls, the last pricing increase we took was last kind of call it September, October, so we've lapped -- the other 2 is certainly lapped and we've lapped portions of that. But there was a little bit of price increase benefit in the past, in this quarter, Q4. But it really gets -- as Dan said, is much more of that growth is coming from volume, particularly in retail and frozen beverages had really nice volume quarters. And yes, you're correct. Given where the kind of the inflation, deflationary environment is right now, as we look forward, we really expect probably more of our growth to be from volume than from price as we look to the next year.

Jon Robert Andersen ***William Blair & Company L.L.C., Research Division - Partner & Research Analyst***
Okay. One more for me, and I'll get back in the queue. You were able to achieve kind of your gross margin, I guess, near-term or medium-term gross margin objective of getting to 30% in this fiscal year. And you finished really strong in the back half, north of, I guess, in the second half of the fiscal, probably north of 33%, And I know there's some seasonality in there, et cetera.

But I guess not to put you under the gun, but what's the -- is there kind of a new interim targets? Or should we -- is there more room to move in a constructive direction in terms of gross margin? I'm just thinking about your commentary around 6 new production lines that are scaling more efficient to focus on core brands and the mix of your business and that being beneficial. It would just seem there's more room for improvement on that gross margin line, but I don't want to get ahead of myself in thinking about that.

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***
Right. Another good question. And you know we've been talking about this now for over a couple of years. And our goals that Ken and I have wanted to drive the business to and to get to that 30% gross profit margin. Really proud of the teams to follow the strategies to allow us to get there. And yes, Jon, we might be a little even more bullish there. We think our strategies are working. We think some of the new lines allow us to make products more efficiently.

We think our teams are working hard in every facet and are starting at that 30% as a floor and which we can grow from. How quickly? Again, we have some seasonality to it. We're coming off the back end of the summer months where Dippin' Dots and ICEE are a big part of our sales and as we get into the winter months that isn't as strong, but we think we can continue to grow from where we landed this year for sure.

Operator
Our next question is going to come from the line of Connor Rattigan with Consumer Edge.

Connor J. Rattigan ***Consumer Edge Research, LLC - Research Analyst***
So Dan, I think I just heard you mentioned that you're expecting some pricing next year. And -- so if I'm not mistaken, you guys are pretty much back to pre-pandemic margins with deflation at commodities. I guess just how do you -- the customers to sort of push that pricing through while they know you're experiencing deflation?

And I guess maybe could you provide a little color into your visibility into your input costs for next year? And maybe any hedging you have in place? And I guess should we kind of expect that deflation to continue next year?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***
Good question, Connor. And we are experiencing deflation in some of the areas that we are having double-digit inflation in others like sugar and sweeteners. And that impacts some of our business pieces like the ICEE side or the Dippin' Dots side or pieces of our frozen novelties. And so there will be some areas that we will be able or will be taking price increase in, and probably need to, maybe needed to already. And yet, there will be other areas that will be taken a look at, and I'm sure we'll be challenged in and we're prepared for those areas as they come. So there will be some pricing that will take. ICEE is pretty consistent about doing that at the first year. And I believe that we're scheduled for that again. And Ken, do you want to mention the other piece of that?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***
Yes. Connor, in terms of kind of covered or contracts, I couldn't say enough good things about the procurement organization, so whether it's flour, whether it's sweeteners, whether it's something like eggs or whatever, I think they're managing that very well. In some cases, we've got contracts out for the next 3 months. In some cases, it would be 6 to 9 months, but I think we're really well positioned kind of maintain and manage and minimize any other inflation or maximize deflation in that and how we buy.

In terms of the outlook, I mean, it's always hard to say. You've seen different political and just international things happen that can drive things pretty quickly, whether it's the Ukraine situation. So those wild cards, I think, are still out there, but absent any of that. I think it's going to be a pretty stable environment. I mean I don't see a lot of significant more deflation, but I think most of these categories will hold pretty well and we expect to see a lot of inflation. CPI, I think, came out yesterday at around 2%. Production, CPI generally about 100, 150 basis points higher than that because there's a bit of a trail there. As we look forward, I think the forecast on inflation is in that 1.5% to 2% range. So that's probably how we kind of feel about it and how we're trying to manage what we do in terms of procuring materials and how we do that.

Connor J. Rattigan ***Consumer Edge Research, LLC - Research Analyst***
Okay. Perfect. Very thorough. And then I guess just one more for me. So Dan, in your prepared remarks, you mentioned targeting international growth, especially down in Mexico. I guess, first, can you remind us if you currently have any international operations? And I guess is this more of an exploratory project or should we expect this to be a tangible 2024 impact? And then I guess, just kind of stepping back as well, we've seen a lot of CPGs that are U.S. focused kind of attempt to migrate to international markets, and which really run into issues, gaining distribution and also experiencing some profitability challenges, given the skew to more traditional retail and also there's a lack of scale. I guess just sort of what is the plan in place to sort of drive that distribution growth to maybe minimize those profitability headwinds?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***
Down in Mexico, our operation is really centered around ICEE today, and they really had a tremendous year. They had a record year in both sales and profits and proud of what that team is doing down there. We're going to be able to expand on some of their

business. We want to be able to maybe take some of our products that they aren't operating with today. And expand them down there, such as Dippin' Dots or some of our snack food items and think that there's a real opportunity for us to grow.

We do, do a little bit of this, internationally today. And feel like there's an opportunity for growth for us. And so for kind of really the first time we brought on an international business leader to help us identify that and to do some steps along that way. I don't see that being impactful to our 2024 year.

I think it will build over a period of time. And we have enough experience to know -- to be careful about how we do that. And so we're excited about the opportunity of bringing on this business leader and I had some experience with him in the past and think that he will hit the ground running for us. But I probably would caution not to be overly optimistic about that in 2024.

Operator
Our next question is going to come from the line of Todd Brooks with The Benchmark Company.

Todd Morrison Brooks ***The Benchmark Company, LLC, Research Division - Senior Equity Analyst***
Congrats on a strong quarter and a strong year.

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***
Thank you very much, Todd. It's a great way to end the year, for sure.

Todd Morrison Brooks ***The Benchmark Company, LLC, Research Division - Senior Equity Analyst***
Dan, I want to start off, when you started rattling off new opportunities for '24, and Jon kind of hit on this. It was quite the laundry list. I don't necessarily remember that much internal momentum at J&J. Could you maybe highlight for us the 2 or 3 most impactful opportunities as you see it for '24 that investors should be most focused on?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***
Yes, we really do have a great pipeline. Our Snack Foods side led Bjoern Leyser is doing such a good job identifying opportunities as we are building capabilities to be able to grow within some of our core markets. You've heard that talked about in our core strategies. And so some of the great opportunities we have are right within our core. I love what we're doing.

We released our SUPERPRETZEL sticks this past quarter, and they sold really, really well. I'm not surprised by that either, Todd. I knew that was going to be a good hit and it was. And I think we have some great opportunities there within the retail environment. Also within the retail environment, we released the Hola! Churros and early readings on that are strong, and I think that will continue to grow, alongside the growth of the SUPERPRETZEL hotdogs that we make that, I think, have a real opportunity. So some really good things inside retail.

On the Foodservice side, you heard me touch on a test that we had over this past quarter with a large sandwich chain that is going to roll out come January of 2024. I think that has a really big impact that can make a difference for us in this coming year. Again, able to do those things because we've built that capacity out there.

On the bakery side, I love what they're doing there. We've been reshaping that piece of our business, but we're going to be able to release some of our core products, the sticks and the buns inside the bakery and think that has some real opportunities for growth in 2024. And ICEE is chugging alone. ICEE has an opportunity to win a club store to move our machines from a pre-served to a self-serve and early tests on that, and we've been in the test mode for a while are really strong.

And a great impact on those sales, and they're in test with a couple of QSR chains that I think, have the opportunity to come through for this coming year. So I love where we're heading. The pipeline looks good. The sales teams on -- led by [John] on Snack Foods and Aaron Winkelman in the ICEE side and Matt Inderlied on Dippin' Dots side are all kind of hitting on all cylinders. It had a sales meeting last week and had the 3 of them on stage it was really impressive to see the kind of pipeline they have built. And so it gives us good confidence going into 2024.

Todd Morrison Brooks ***The Benchmark Company, LLC, Research Division - Senior Equity Analyst***
That's great. And a follow-up, you talked about the 6 new lines that have been put in place for the core products over the course of this year. I don't think you've ever sized the revenue unlock that those lines could represent for J&J. But can you maybe at least talk on a percentage basis, how much of the benefit was realized in fiscal '23 versus how much of that benefit you could see harvested in '24 and '25? Just looking at the overall opportunity.

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***

Yes. '23, not so much. We're kind of building those out during 2023. And it really was much of it came even in the back half of the year. So not too impactful in the 2023 year. Feel like we have a chance for it to grow in 2024 with the pipeline that I just talked about. Some of those opportunities require those investments that we made in the 6 new lines. And so happy with where they're at there.

I think what we have said before, Todd, is that the opportunity of those 6 new lines allows us to grow sales by $150 million or above, right? And so I think that's where we're really shooting for. And I think that we see a piece of that come through in 2024 with those opportunities that I just talked about.

Todd Morrison Brooks ***The Benchmark Company, LLC, Research Division - Senior Equity Analyst***
Great. And then one for Ken, and I'll jump back in queue. Jon kind of pointed out the seasonal nature of gross margins. I just wanted to see if we could maybe level set for our modeling purposes. I know last year, we saw basically a 300 basis point-ish gross margin dip in the first half of the fiscal year versus second half of '22. We're obviously working off a higher base. Would you expect that magnitude of retrenchment in the first half of fiscal '24 modeling, so kind of down to that 30% level from the 33% you put up in the back half year?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***
Yes. That's a good question, Todd. I think the way to think about that is you're right. As we got towards the end of this year, we got our mix humming and we got price caught up, inflationary was a bit more as our friend than it was early in the year, you started to see us get to those marks that we set the goals -- we ended up finishing the full year at 30.1% gross margin. And I think, Dan and I talk about -- that was kind of the floor. We had to get back there. And I think we expect to be able -- as this goes forward to get beyond that number. But yes, there is a seasonal impact.

So as you look at Q1 and Q2, I think the way to think about that is the trajectory of being better than the prior year should continue. But we're not all of a sudden going to do 30% in Q1 because of the slowdown in winter time so some of those high-margin areas like Dippin' Dots and ICEE. But we should on kind of an equivalent basis be better than we were Q1 of a year ago and Q2 of a year ago. And then probably as we get into the back half of the year, you probably see gross margins probably pretty similar to what they were in Q3 and Q4 of this year.

Operator
And our next question is going to come from the line of Andrew Wolf with CL King.

Andrew Paul Wolf ***CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst***
Dan, congratulations on your election of Chairman of the Board. So I wanted to ask, given the current grocery environment, you guys were having good volume growth, particularly shipping and on the shelves, I assume. But as you look to the current planning year, fiscal '24, is it fair to say the predominant or maybe even all of the planned volume is going to come from new doors and new distribution, maybe line extensions? Or are you guys planning any velocity gains as you kind of ramp up the marketing spend as well?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***
I think we'll have a little bit of both. I do think we have some great opportunities for continued expansion on some of our core products, like what we talked about, the pretzel sticks, I believe that will continue to grow. I think Luigi's is continuing to grow. Our ICEE, frozen novelties is growing well. So I think we'll have that continue. Dogsters is doing really well. Dogsters did well in the fourth quarter and think that we have some good opportunities for new outlets with that. But I also think that we'll see a little bit of increase in some of our core products too.

I think we're pretty niche in an area that allows us to be able to do that. We're watching that consumer really closely and watching what others are saying and doing and we'll be prepared for whatever headwind comes our way. But we think we have some good opportunities for continuing to not just grow volume with what we have today, but by garnishing new outlets as well.

Andrew Paul Wolf ***CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst***
Okay. And I also wanted to kind of follow up to Todd's question on the unlock. When you get the third RDC open, on Dippin' Dots, you've referenced a few times you really -- that business needs national frozen capability to be fully distributed. Any chance you could help us a feeling for how much investable market increases or what really -- what it does for the business either quantitatively or qualitatively in terms of how much more of the market you can go after?

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***
I would love what the team is doing at Dippin' Dots. We had the best year sales and profits in its history and feel like we're still just

scratching the surface. The team is really gelling together, fit really nicely. Synergies from their organization to ours is just really fit good. I love what they have in test today. I talked about this in the opening. The Regal Theater now is pretty much completely rolled out. A couple of other big theater chains expanding their tests. And the team is out there knocking on a lot of doors and having some great success. I think that will continue to grow nicely for us. Love what they're doing, really happy with that acquisition. Ken, I don't know if you want to add any color to that at all?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***
Yes. I think, Dan summarized it well. I think the thing to think about Dippin' Dots is, one, we just came out of having been for a full year. We'll have -- I think we even mentioned this double-digit growth in that business. We would expect to be able to grow that business next year double digits. Production capacity, we have plenty of capacity to hit those numbers and produce that.

It was really the freezer and store space that we had to address to be able to move faster and keep up with that growth. And with the added freezer space at Taro and at Woolwich, the 2 facilities that are now open and we feel really good about, really meeting any kind of opportunity in the foreseeable future. I don't have an exact number on what that means. All I can tell you is it's a part of the enablement of helping us continue to grow this business double digits.

Andrew Paul Wolf ***CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst***
Okay. Fair enough. And the last thing is for you, Ken, as well. Could you just size up the true-up expense that you had to record against sales and tell us that, that was also full flow through as a reduction to earnings as well, the cost plus arrangement and the handhelds?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***
Yes, the way to speak to that, I think we may have said this before, Andrew, is we have an agreement with a customer that would make -- for where we pass on any cost increases or decreases. It's a quarterly true-up for that customer, as you can probably appreciate, really benefited us and we're going through 20-plus percent inflation.

And -- but now that we've had deflation, we've passed those cost reductions back to that customer, but the profit of that stays home. We continue to make the same profit because we're kind of locked into a profit margin contract and the volume of those core SKUs continues to grow.

Andrew Paul Wolf ***CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst***
Okay. So that was all inter-quarter, it wasn't for previous accrual rates that were too high?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***
No. That was inter-quarter. That will happen. Each quarter, give or take, if things stay stable, then you wouldn't see much of a movement there.

Andrew Paul Wolf ***CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst***
So handheld sales down this quarter and last quarter basically because of deflation and the contract arrangement? Or is there other reasons the sales dollars for that?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***
The sales dollars are mainly down because of the contractual pass-through of those costs back to the customer.

Operator
Our next question is going to come from the line of Robert Dickerson with Jefferies.

Robert Frederick Dickerson ***Jefferies LLC, Research Division - MD & Senior Research Analyst***
So I'm just curious, I mean, maybe you fill me, but I didn't really know if there was going to be a 53rd week. So once we back out the 53rd week, right, you get to sales growth about 4% in the quarter. So while I respect that you always break out kind of pricing volume relative to other companies. I'm just curious if you could maybe add some color, would you say of the 4%, like most of that still is pricing. I'm just trying to gauge kind of volume trajectory, especially vis-a-vis kind of the overall backdrop we're seeing right now in kind of market -- in the U.S.?

Ken Allen Plunk ***J&J Snack Foods Corp. - Senior VP, CFO & Treasurer***
Yes. Let me kind of explain it this way. And there's a lot into that in terms of really trying to narrow down the puts and takes of one extra week. And so we summarized that in the release based on our business overall. But if you take 2 parts of our business, retail and frozen beverages, both up over 20%, you back out the extra week. Both of those businesses were up double digits, and both

would have been at or near double-digit volume growth. So very healthy quarters there.

If you look at Foodservice, giving the 5.3%, but you get handheld negative against that, that I just explained to Andrew, which was really more of a cost pass-through, not a volume. They start to break that out, Foodservice would have grown 8.5% without that effect, if you focus on the core categories in Foodservice, pretzels, churros and frozen novelties, those were up 11.5%. So you start to see, even peeling back the extra week, a very strong quarter and really volume is up across the board, probably other than bakery, and that's really a part of what we've been talking about. And bakery would then dialing in on SKUs and getting out of some SKUs that weren't profitable. So that's probably the best way to kind of think about each of those segments and the 53rd week.

Robert Frederick Dickerson ***Jefferies LLC, Research Division - MD & Senior Research Analyst***
Okay. Great. So net-net still positive volume growth kind of despite pricing you've taken kind of overall...

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***
Yes. Absolutely.

Robert Frederick Dickerson ***Jefferies LLC, Research Division - MD & Senior Research Analyst***
Okay. And then -- that's great. And then I guess just kind of more broadly speaking, just kind of want to get your feel around current consumption behavior, like what you've been seeing, right? We've heard some, let's say, some concession companies that might say, well, maybe we've seen a little recent pressure and consumers might be shopping to the store or maybe they're looking for products that are more satiating and quality. Everyone is shopping for more value. There's some channel shifts a lot. Walmart, this morning, saying last couple of weeks of the quarter definitely saw some pressure.

But it sounds like kind of given the positive volumes for consumers are still kind of walking into a Wawa buying a snack, they're going movie theaters getting an ICEE drink. So I'm just kind of curious kind of what your feel is around consumption behavior? What's your product? Like why are you still able to generate this volume because it's the value proposition, right, that takes -- satiating -- anything you have looks very helpful.

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***
I think it's a great question and kind of expected to anticipated to get something along that line. We're watching the customer and the consumer really, really closely and watching that behavior. We faced a lot of headwinds since we've been in this position. We're prepared as a company to kind of be able to pivot in any direction that we need to pivot. We've talked a lot about the resiliency of the J&J portfolio.

Partly we sell across a lot of different channels with a lot of products, many of them with tremendous brand that people follow and use as a treat or a reward. And I really believe it's that diversification that we have across channels, across brands that allows us to be resilient during times like this, right? You watched it even as -- we've been in charge here and led the organization.

There's been times when the theater business is down, but the retail is way up, right? And then we go through a year like last year, where theaters are way up and we're challenged in other areas. We're really proud of the diversification that we have and the products we have and the following that the brands are. And I think that allows us to withstand periods like this.

Operator
And I would now like to turn the conference back over to Dan Fachner for any closing remarks.

Daniel Fachner ***J&J Snack Foods Corp. - President, CEO & Director***
Great. Thank you very much. In closing, in 2023, we delivered the strongest year in the history of the company. It took tremendous hard work, perseverance and agility from every one of our employees and partners, and I could not be prouder of what we've accomplished or more excited about what lies ahead. We expect to deliver another year of strong sales and earnings growth in fiscal 2024 as we invest in our amazing portfolio of brands, additional capacity and capabilities. We look forward to updating you on our progress in the new year. Have a wonderful Thanksgiving and holiday season. Thank you very much.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect.