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Market Intelligence

The Marzetti Company

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Earnings Call

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Call Participants

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Thomas K. Pigott

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Scott Michael Marks

Jefferies LLC, Research Division

Todd Morrison Brooks

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Presentation

Operator

Good morning. My name is Liz, and I will be your conference call facilitator today. At this time, I would like to welcome everyone to The Marzetti Company's Fiscal Year 2025 Fourth Quarter Conference Call. Conducting today's call will be Dave Ciesinski, President and CEO; and Tom Pigott, CFO. [Operator Instructions] Thank you.

And now to begin the conference call, here is Dale Ganobsik, vice President of Corporate Finance and Investor Relations for The Marzetti Company.

Dale N. Ganobsik

Vice President of Corporate Finance, Investor Relations & Treasurer

Good morning, everyone, and thank you for joining us today for The Marzetti Company's Fiscal Year 2025 Fourth Quarter Conference Call. Formerly known as Lancaster Colony Corporation, our business rebranded as The Marzetti Company effective June 27. This rebranding honors the 130-year history of our flagship Marzetti brand and signals our future as a food company with an ongoing commitment to delivering high-quality flavorful products that make every meal better.

While Lancaster Colony will always be an important part of our heritage, we believe the Marzetti name is critical to positioning our business in today's food industry and communicating the value we deliver to all of our stakeholders.

Please note that our discussion this morning may include forward-looking statements, which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially, and the company undertakes no obligation to update these statements based upon subsequent events. A detailed review of these risks and uncertainties is contained in the company's filings with the SEC.

Also note that the audio replay of this call will be archived and available on our website, investors.marzetticompany.com, later today.

For today's call, Dave Ciesinski, our President and CEO, will begin with the business update and highlights for the quarter. Tom Pigott, our CFO, will then provide an overview of the financial results. Dave will then share some comments regarding our current strategy and outlook. At the conclusion of our prepared remarks, we'll be happy to respond to any of your questions.

Once again, we appreciate your participation this morning. I'll now turn the call over to The Marzetti Company's President and CEO, Dave Ciesinski. Dave?

David A. Ciesinski

President, CEO & Director

Thanks, Dale, and good morning, everyone. It's a pleasure to be here with you today as we review our financial results and provide you with an update on our business. Before I provide comments on our fiscal fourth quarter results, I am pleased to share that we completed fiscal year 2025, which ended June 30, with record high net sales, gross profit and operating income. I want to extend a sincere thank you to all of our teammates throughout our business for their countless contributions to this achievement as well as their continued commitment to our ongoing success.

Moving on to our results for our fiscal fourth quarter, which ended June 30, we are pleased to report that consolidated net sales grew 5% to a fourth quarter record \$475.4 million, and gross profit advanced 8.7% to a fourth quarter record \$106.1 million.

In our Retail segment, net sales increased 3.1% to \$241.6 million, driven by growth from both our licensing program and our own brands. During the quarter, we increased our marketing investments

with proven strategy and noted improved household penetration trends for our brands in several key categories.

In licensing, sales growth was led by expanding distribution for our popular Texas Roadhouse dinner rolls and new club channel sales for Chick-fil-A sauces. Buffalo Wild Wings sauces also added to the growth of our licensed items.

Our category-leading New York Bakery frozen garlic bread remained a key contributor to the growth of our Retail segment, driven by contributions from our recently introduced gluten-free Texas Toast. Our Sister Schubert's brand, frozen dinner rolls also performed well, including the benefit of the later Easter holiday that shifted some sales into the fiscal fourth quarter.

Excluding all sales attributed to the perimeter-of-the-store bakery items that we exited in fiscal year 2024, the Retail segment's fourth quarter net sales increased 3.6% and Retail sales volumes measured in pounds shipped increased 2.9%.

Circana scanner data for the quarter ending June 30 showed strong results with both sales dollars and volume for our branded products up 5.5%. In the frozen dinner roll category, our own Sister Schubert's brand and our licensed Texas Roadhouse brand combined to grow 52.4%, resulting in a market share increase of 690 basis points to a category-leading market share of 63.8%. In the frozen garlic bread category, our New York Bakery brand continues to perform very well as sales grew 10% versus a 3.5% increase for the category, driving New York Bakery's market share up 260 basis points to a category-leading 43.3%.

In the shelf-stable sauces and condiments category, sales of Chick-fil-A sauce grew 17.2%, with market share up 30 basis points as we introduced the popular sauce into the club channel during the quarter.

In the produce dressing category, sales of Chick-fil-A dressings grew 2.6%. When combined with our Marzetti brand dressings, our market share totaled a category-leading 27.6%.

In the Foodservice segment, excluding noncore sales attributed to a temporary supply agreement, sales improved 1.4%, while sales volume declined 1.7%. In addition to the benefit of inflationary pricing, Foodservice segment net sales reflect increased demand from some of our national chain restaurant account customers as well as sales gains for our own Marzetti branded Foodservice products.

Our focus on supply chain productivity, value engineering and revenue management all remain core elements to further improve our margins and financial performance.

I'll now turn the call over to Tom Pigott, our CFO, for his commentary on our fourth quarter results. Tom?

Thomas K. Pigott

VP, Assistant Secretary & CFO

Thanks, Dave. Overall, this quarter, the company delivered improved top line and gross margin performance and continue to invest to drive growth. Fourth quarter consolidated net sales increased by 5% to \$475.4 million. Breaking down the revenue performance, higher core volume and product mix drove a 190 basis point increase. Net pricing was accretive by approximately 60 basis points.

In addition, the company reported \$12.2 million in sales or 270 basis points of growth that resulted from a temporary supply agreement with Winland Foods, the seller of the Atlanta-based manufacturing facility that we acquired in mid-February. We entered into this agreement to facilitate the closing of the transaction. It's important to note that these temporary and noncore sales are expected to end by March '26. And finally, last year's exit of the perimeter-of-the-store bakery product lines accounted for a 20 basis point decline.

Consolidated gross profit increased by \$8.5 million or 8.7% versus the prior year quarter to \$106.1 million, and gross margin expanded by 70 basis points. The gross profit growth was driven by higher volume and mix in our Retail segment and our ongoing cost savings programs. Note that excluding the \$12.2 million in sales from the temporary supply agreement, which did not contribute to gross profit, gross margin expanded by 130 basis points.

Selling, general and administrative expenses grew \$8.9 million or 16.7%. This increase reflects a higher marketing spend in our retail segment to drive growth. Higher personnel costs increased legal spend and costs related to the integration of the Atlanta facility.

During the quarter, the company reported \$5.1 million of restructuring and impairment charges. \$4.5 million of the charges are attributed to the planned closure of our sauce and dressing facility in Milpitas, California, that we announced last quarter. This closure is part of our ongoing initiatives to optimize our manufacturing network. Production at that facility is expected to conclude during the quarter ended September 30. In our prior year quarter, restructuring impairment charges of \$2.7 million were attributed to our decision to exit our perimeter-of-the-store bakery product lines.

Consolidated operating income decreased \$2.8 million due to higher SG&A expenses and increased restructuring impairment costs, partially offset by the improved gross profit performance. Our tax rate for the quarter was 19.7% versus 20.5% in the prior year quarter. We estimate our tax rate for fiscal '26 to be 23%. The fourth quarter diluted earnings per share decreased to \$0.08 or 6.3% to \$1.18. The restructuring impairment charges I mentioned reduced EPS by \$0.15 in the current year quarter and \$0.08 for the prior year quarter.

In the current year quarter, we also incurred the last of our Atlanta facility integration costs in the SG&A line, which accounted for \$0.01 per share. With regard to capital expenditures, our payment for property additions totaled \$58 million for the full year. In addition, we invested \$78.8 million to acquire the Atlanta-based dressing and sauces facility. For fiscal '26, we are forecasting total capital expenditures of between \$75 million and \$85 million. We will continue to invest in both cost savings projects and other manufacturing improvements as well as the newly acquired Atlanta facility.

In addition to investing in our business, we also returned funds to shareholders. Our quarterly cash dividend of \$0.95 per share paid on June 30, represents a 6% increase from the prior year's amount. Our enduring streak of annual dividend increases stands at 62 years. Our financial position remains strong with a debt-free balance sheet and \$161.5 million of cash.

In regard to the full year results, overall, the company delivered against its growth algorithm. Net sales grew 2%, primarily driven by volume. Gross margins expanded by 80 basis points due to cost savings initiatives and some modest cost deflation. Reported operating income grew 10.5%. When you adjust operating income for restructuring impairment costs recorded in both years, the current year's acquisition costs as well as last year's inventory write-down for the business exit, operating income was up 5.7%. This growth was driven by higher volumes and the gross margin expansion.

To wrap up my commentary, our fourth quarter and full year results demonstrate strong execution across a number of areas in a more difficult operating environment. In addition, we continue to make investments to support further growth and cost savings.

I will now turn it back over to Dave for his closing remarks. Thank you.

David A. Ciesinski
President, CEO & Director

Thanks, Tom. Going forward, The Marzetti Company will continue to leverage the combined strength of our team, our operating strategy and our balance sheet in support of the 3 simple pillars of our growth plan to: One, accelerate core business growth; two, to simplify our supply chain to reduce our cost and grow our margins; and three, to expand our core with focused M&A and strategic licensing.

Looking ahead to fiscal year 2026, we anticipate retail segment sales will continue to benefit from volume growth with contributions from both our licensing program and our core Marzetti, New York Bakery and Sister Schubert's brands. The popular Texas Roadhouse dinner rolls will begin shipping nationally to all major retailers this fall, and we also have some new items planned for our core brands that we'll launch in the year ahead.

In the Foodservice segment, we expect sales to be supported by growth from select QSR customers and our mix of national chain restaurant accounts as our culinary team continues to provide our Foodservice

partners with a wide range of innovation initiatives and favorable flavors to help them drive menu excitement and ultimately, traffic growth. Like many of you, we continue to monitor external factors, including U.S. economic performance and consumer behavior that may impact the demand for our products.

With respect to input costs, in the aggregate, we anticipate a modest level of cost inflation in 2026 that we plan to offset through contractual pricing and our cost savings programs, as we remain focused on continued margin improvement in the year ahead. We also look forward to incorporating our newly acquired Atlanta-based sauce and dressing plant into our manufacturing network. When combined with the closure of our sauce and dressing facility in Milpitas, California that we announced last quarter, we believe our supply chain is well positioned to cost-effectively support the growth of our key customers in fiscal year 2026 and beyond.

This concludes our prepared remarks for today, and we'd be happy to answer any questions that you might have.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Jim Salera with Stephens.

James Ronald Salera

Stephens Inc., Research Division

Dave, I want to start with some thoughts around Foodservice because there's a lot of noise right now around the consumer. It seems like there's certain QSR platforms that are really focusing on value, but other ones that continue to do well kind of despite the backdrop. And a lot of the menu innovation seems to be more focused around chicken, which I would anticipate benefits your business. So -- can you maybe just walk us through as we think about FY '26. What are your expectations around QSR industry traffic as a whole? And then innovation for the accounts that you service and maybe how we put that all together to come up with expectations for the Foodservice business in '26?

David A. Ciesinski

President, CEO & Director

Yes. Well, great question, Jim. And maybe I'll start by framing it as follows. If you go back, let's say, 18 months or 1 year ago, the industry was still wrestling with inflation and passing through pricing, and I think that pricing that went through created value issues for a range of consumers, particularly consumers in the middle and the lower incomes that started to manifest itself in trade down. I think as we've rolled forward now, most of the operators have cycled past that pricing. And as we look at our core operators, we can see that they're not passed into pricing like they've had.

And I would tell you, as a whole, it looks like commercial foodservice has modestly -- is either flat or very modestly improving within, let's say, the last couple of months. But when I say modestly, I mean about one point, approaching closer to flat. Now within there, it becomes somewhat divergent and a little bit different than we've seen in prior periods. We're seeing segments with higher price points like casual dining that are struggling a little bit more. And you've read about that. I know you follow the space. You're seeing the casual dining guys, the likes of Chili's and even Applebee's starting to perform a little bit better as they've really focused on simplifying their menus, their [Bakehouse] operations and striving to give consumers value.

In the QSR space, I think we've seen them over the last, let's say, three quarters struggle with getting on the better side of pricing. And now we're starting to see their traffic get closer to flat overall. And that's, in fact, true with a lot of our customers. It's still below what we would have seen historically, but I would tell you, it's modestly improving. As we go forward, what we would expect is neither a catalyst for a significant downturn nor a significant improvement. I think we're just going to continue to operate in the sort of broader macro environment.

Now bring it closer to us, where is it that we're going to find pockets of growth. I think there are several themes that remain true. One is you're going to see these operators continue to look for ways to present value. In the casual dining space, the Chili's and guys like that, I think you're going to see them continue to hover around meals for the \$15 mark to attract guests and then look to plus that up with incremental items. In QSR, I wouldn't be surprised if we see things like what McDonald's has done around snacking and with chicken. And then I think the trend that really is going to continue to benefit us is going to play probably a couple of ways, and it's in chicken. The chicken operators continue to do better than most of the others, let's say, hamburger, et cetera. So I think that's going to present an opportunity for continued growth and an opportunity for us to continue to innovate with those operators that are out there.

I also think I didn't talk about Pizza QSR. I think Pizza QSR will continue to be relevant, particularly as they focus on absolute price points. At the end of the day, consumers, I think, are trying to balance their sources and uses of cash. And they're still looking for affordable ways to feed their family and find sources

of happiness. And I think Foodservice will continue to factor into that. The onus is on us to figure out ways to help these operators present that and grow.

James Ronald Salera

Stephens Inc., Research Division

That's great. And then, Tom, if I could ask one of you on the commodity side. It sounds like you guys have a pretty robust productivity program coming -- continuing into FY '26. We've heard some commentary around soybean oil specifically and potential supply crunch there with some of the domestic production going towards biofuels. And -- I'm no commodity expert, but I know if I just look at the spot price for soybean oil, it's up pretty significantly year-to-date, and it kind of took a leg up more recently when the EPA announced some news around biofuel. So can you just give us any thoughts around your visibility in the soybean oil pricing. If you're able to tell us how much of the commodity basket that is for you guys, if you're hedged? Just kind of any thoughts around that? And potential variability as we go into the new year and have kind of this biofuel demand that could potentially pull?

David A. Ciesinski

President, CEO & Director

So Jim, it's a great question. It's an important part of our commodity basket. Maybe I'll lead off and then let Tom get into some of the specifics as well. As you noted, over the last probably 7 or 8 years, we've started to see soybean oil play a more prominent role in renewable diesel. As we got to the end of the Biden administration, there was somewhat -- some uncertainty regarding how much volume would be renewed in RVOs or the amount of gallons that are going to go towards renewable diesel. Earlier this summer, the EPA came out with guidelines that elevated the soybean oil being diverted into renewable diesel. And to your point, it resulted in a spike. Up until that point on the Board, it was probably trading, I would say, in the mid-40s or thereabout. And then it jumped into the mid-50s. It got up to as high as \$0.55. And now it's eased off. I looked at it this morning, actually on the Board and it was about \$0.51. There are still a couple of areas that have yet to be resolved in this space that I think could ultimately dictate where the price nets out.

Ordinarily, what they do is they allow an exception for small refiners. And if they continue to grant that exception, what you might see as those commodity costs for soybean oil continue to fall back a little bit more. So it remains within our expectations. So we don't see it as a near-term headwind for our business. We do take hedging positions with our suppliers on this. And maybe with that, I'll turn it over to Tom and he can provide you with a little bit more.

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. I think Dave said on the broader market indicators. And what I would share with you is that we do have -- we do utilize a consultant to help us analyze this market because it's very complex. And we have a team that goes out and takes positions when we think they're advantageous to us. So as we look at the total cost as a percent of our COGS, soybean oil is about 10%, depending on the market at that point. And in terms of our outlook for next year, from our internal cost projections based on the current markets and our hedging positions, it's neither a big headwind or tailwind for us.

David A. Ciesinski

President, CEO & Director

Yes. We've been layering in on this for a while, Jim, anticipating this. So these changes aren't anything new. Just to give you an idea, if we went back 7 years ago, took a bean and you crushed it. The meal went to be essentially chickens and cattle and hogs and everything else and the oil then would be diverted into the food supply. Now virtually half of that oil is being directed into renewable diesel. So this is sort of a phenomenon that we've been watching here very carefully. And not only do we buy for ourselves, but we sit down on a regular basis with all of our big customers and QSR space, and we advise them and work with them to take positions as well so we can create an element of predictability with this important commodity.

Operator

Your next question comes from Todd Brooks from The Benchmark Company.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Two questions for me as well. First, if we look at the G&A spend, I know we talked about some incremental marketing investment behind the retail operation. I think you called out about \$500,000 of onetime costs related to the new facility. I'm just wondering, I'm seeing a kind of a 140 basis point uptick year-over-year, how much of that was the marketing spend? And were there some other onetime items around the corporate name change or anything that didn't get called out in the release? And how should we think about maybe a normalized type of percent of sales spending for G&A as we think about fiscal '26?

Thomas K. Pigott

VP, Assistant Secretary & CFO

Great question, Todd. So -- the spend was up for 3 factors. One was the marketing, which was almost half of the increase, and I'll let Dave talk to that. Other two drivers were, as you mentioned, the Atlanta integration and the legal costs. We don't -- those are more transient items. We don't expect them to continue. And then the third driver is that some timing of costs from Q3 that flowed into Q4. So broadly, we don't expect to grow that line more than inflation, and we're very happy with the reinvestment we made into the marketing spend. I'll let Dave talk a little bit about that.

David A. Ciesinski

President, CEO & Director

Yes. So as Tom pointed out, half of it was directed into marketing and essentially what we're doing, Todd, is we have a new leader in the marketing organization that's doing a great job digging into the data that we have and looking at the digital tools at our disposal, and we invested in some very specific programs that helped us drive household penetration. If you look across our shares, we were up share-wise in 5 of our 7 categories. And I'll give you sort of anecdotally why we feel good about it. You look at our own Texas Toast brand. Right now, we have -- we ended the quarter with about a 43% share. With that product, our household penetration was up 8 points in the quarter. And our repeat rate on that item is almost 60%. And our belief continues to be if we can make smart marketing investments at reasonable prices, and we can drive household penetration, the performance of that product keeps those consumers in the fold and allows that business to continue to grow period-on-period. And we took that same sort of formula, and we used it across a range of different products in a very point-specific basis. And we think it's along with innovation going to be an important part of our overall algorithm that allows us to deliver profitable volumetric growth.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

That's great. And then just a follow-up on that, Tom, before I get to the other question. When we talk about kind of growth in line with inflation for '26, what's the normalized base that we should be thinking about growing that off of?

Thomas K. Pigott

VP, Assistant Secretary & CFO

I would take the reported number, pull out the Atlanta integration costs, and that would be your base.

Todd Morrison Brooks

The Benchmark Company, LLC, Research Division

Okay. Perfect. And then my second question, and you talked about this as one of your offsets for the moderate inflation that you're expecting in fiscal '26. Can we you talk to -- and this is something you've long been expert at, the cost savings that the team was able to realize in '25? And then the outlook for '26

on cost savings, just thinking that we've got some probably chunkier opportunities around the Milpitas exit and ramping that volume to the right spots and the rest of the sauce and dressing production system?

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. So when you look at '25, the team did an outstanding job against a number of pillars, procurement savings, negotiating more favorable contracts for us. Value engineering, which is optimizing our products to make them more efficient and less costly to produce, labor management. We also benefited from the SAP implementation as we got better information on our costs. So a number of things contributed to the performance that the team was able to achieve in '25. As we look at -- as we look forward into '26, what I would add to that list is the network reset that we're doing. So essentially, between closing the Milpitas facility and ramping up College Park, that gives us another pillar to drive cost savings into '26. And I think as we look at it, right now, we're in the midst of that transition. So we're decommissioning lines in California, commissioning lines in Atlanta and moving volume into Horse Cave as well. There's a lot of change going in -- going on right now in our networks, and we're executing well against those. As we get into the back half of fiscal '26, I think we'll begin to see more of those benefits flow through to our margin as the year progresses.

Operator

Your next question comes from Alton Stump from Loop Capital.

Alton Kemp Stump

Loop Capital Markets LLC, Research Division

Just to clarify, from a modeling perspective, of course, you mentioned, Tom, that the temporary supply agreement will go through March, obviously, the first 3 fiscal quarters. Should we kind of think about the revenue contribution from that similar to what it was in most recent 4Q?

David A. Ciesinski

President, CEO & Director

And you're referring to the temporary supply agreement that we have and the rate of sales on that?

Alton Kemp Stump

Loop Capital Markets LLC, Research Division

Yes, consistent throughout the first 3 quarters. Yes.

David A. Ciesinski

President, CEO & Director

So our preference would be that you exclude that revenue from your model just because it's temporary and noncore and project off of a more organic number, which would exclude that revenue.

Alton Kemp Stump

Loop Capital Markets LLC, Research Division

Got it. Okay. Okay. Thank you for that on the modeling front. And then I guess just fundamentally, there's obviously a lot of mixed signals as far as the consumer. You guys, of course, have [indiscernible] good view of things because, of course, your Foodservice business kinds of benefit when consumers eat more at home and whereas obviously retail -- I'm sorry, vice versa that Foodservice benefits and people are eating out more, whereas Retail benefits when they're staying at home and eating more. So I guess, as you kind of look at overall dynamic, how do you think the consumer environment will impact each of your businesses separately?

David A. Ciesinski

President, CEO & Director

Well, maybe I'll take a shot at that, Alton, and Tom can add. As we kind of roll our way through the end of this calendar year and we go into the next, as long as we don't see things like inflation spike, I think there are two things that could be potential catalysts for tailwinds. One is the fact that we see interest rates start to recede, I think that could be a net benefit. I think the other is we're watching crude oil prices and gas prices, which remained flat to down. And if they continue to pull back, I think -- we've seen in the past that gives consumers discretionary spending to be able to use on eating out or spending more to eat at home. The other is, we've read a fair amount about the fact that with the OB3, the one big beautiful [build]. The sense is when we get into the calendar year, there's going to be potentially tax benefits to consumers that could give them an incremental discretionary spending to use. So I think as we look into the future, we're cautiously optimistic that the consumer might start to see some modest tailwinds as long as we can keep inflation in check. You come around then and you say, what does that mean to our business overall? I would expect to see the Foodservice situation continue to sequentially improve for all of our customers, really. And I think as long as we remain in this sort of value environment, there are going to be winners and losers. And I think that we tend to line up more with the winners.

I think on the Retail business, sort of independent of the macro environment. We're excited about the pipeline of new items that we're bringing to the marketplace. We're just now starting to roll out Texas Roadhouse rolls to all of retail. We think that's going to be a source of continued growth for our business. We have a range of other new items for Texas Toast and Sister Schubert's that we're excited about. We have a new item of Olive Garden [indiscernible] Italian, which allows us to attack a part of that category that we don't play in today, which we think is just growth waiting for us. So we have kind of a continuation of different pockets that we're working on that allow us to look at the environment as it stands today without a material change and see line of sight to low single digit volume-led growth.

If the environment gets better, particularly in Foodservice, well, we'd be happy to go back and revisit those numbers. But that's kind of our view right now. And I would say it's -- the consumer has proven to be resilient so far. And I think adaptable organization, CPG organizations are in tune with that, and they're figuring out how to meet those consumers' needs. And the good ones will figure out how to grow.

Thomas K. Pigott

VP, Assistant Secretary & CFO

Yes. I'll just add, overall, I think we expect '26 just to be a continuation of our growth algorithm where we see revenue growing in the low single digit, really driven by volume in retail, and some pricing for the Ag commodity. Foodservice, I think we're looking at more of a flattish profile in '26. And then on the gross profit, we expect to continue to grow our margins probably in the -- around the 50 basis point range and SG&A, as I mentioned, growing with inflation. So that's kind of the broader outlook to how we're forecasting '26.

David A. Ciesinski

President, CEO & Director

Which gets us overall to low single digit on the top line, mid-single digit on the bottom line, sort of a continuation of our outlook for this year.

Operator

Your next question comes from Scott Marks from Jefferies.

Scott Michael Marks

Jefferies LLC, Research Division

I wanted to ask just one technical question. As it relates to the \$5 million restructuring charges. Were those associated with the retail segment? Or are they kind of unallocated?

David A. Ciesinski

President, CEO & Director

Those were unallocated, yes. And that was -- the disclosure because it includes both segments in that facility.

Scott Michael Marks*Jefferies LLC, Research Division*

Okay. Understood. And I guess that leads me into my next question on the Retail segment, which is obviously put up a pretty good top line number. But I think profitability came in a little bit below what some folks were looking for. And it sounds like there was some incremental marketing expense that was kind of the reason for that. So how do you think about -- or how should we be thinking about the marketing investments that you spoke to? I know you spoke about change in leadership on that part of the business, some incremental investments upfront. Should we anticipate maybe some higher spend upfront with the expectation that growth will come down the line? Just trying to gauge the right level of profitability for the segment that we should be kind of thinking about going forward?

Thomas K. Pigott*VP, Assistant Secretary & CFO*

Yes. So it's an excellent question. And you're right, we did choose to take advantage of some good potential programs to invest in, in the quarter, and it did impact Retail's profitability. There are a couple of other things I'll mention, and then I'll let Dave talk a little bit about the marketing spend. The other thing on Retail is we had a very difficult comp this particular quarter. The prior year quarter was a record Q4 on operating income for the Retail segment. And then the other thing that impacted the profitability was this particular quarter, PNOC was a little bit negative due to the ag inflation in time, we expect that PNOC to balance out. So that's kind of some additional color on the retail operating income line. I'll let Dave talk a little bit about the marketing spending and how we're thinking about it.

David A. Ciesinski*President, CEO & Director*

Yes. So Scott, bringing around it, we don't expect a reset on marketing for the Retail segment. We saw an opportunity in this period to raise it. And I think as we continue to generate cost savings in other areas of the P&L, I think we're going to look for opportunities to plow some back into the business longer term. And I think to Tom's point on this business, I would expect our operating margins to remain in line here. So if you're looking at both gross margins and operating margins over the foreseeable future, we expect those to be flat or grow in line with our productivity programs.

Scott Michael Marks*Jefferies LLC, Research Division*

Understood. And then maybe one on the Foodservice side. I know last quarter you called out the impact from some larger customers of yours who kind of pulled back on some LTOs. As we think about this quarter's performance, down 1.7% on the volume side, excluding those TSA sales. Is that -- does that mean that those kind of like one-off headwinds are still in there, but you saw growth elsewhere in the portfolio? Just trying to gauge how we should be thinking about the volume trajectory on a go-forward basis as it relates to impact from those LTO reductions versus other potential wins and business opportunities?

David A. Ciesinski*President, CEO & Director*

You're precisely right. That's exactly what that is. So we did see favorability with some of our other customers that was able to offset some of that. So as we sort of work our way through this, you can expect to see us begin to lap those headwinds as we get to the back part of the year. If you look at it, we saw growth from a handful of our QSR customers, and we continue to see growth with the branded part of our portfolio, which is our own Marzetti branded items that we sell through distributors. So -- and if you look at the pipeline that we have of new items and the traffic performance of our existing customers, we would expect to see those trends continue.

Operator

If there are no further questions, we will now turn the call back to Mr. Ciesinski for his closing comments.

David A. Ciesinski

President, CEO & Director

Well, thank you, everybody, for joining us today. We look forward to being back together with you in November as we share with you our results for the first quarter of this fiscal year. We look forward to seeing you guys on the road. Take care.

Operator

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

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