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Lamb Weston Holdings, Inc. (LW) CEO Tom Werner on Q1 2020 Results - Earnings Call Transcript

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FQ1: 10-02-19 Earnings Summary

Press Release *10-Q*

EPS of $0.79 beats by $0.01 | Revenue of $989M (8.10% Y/Y) beats by $17.55M

Earning Call Audio

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Lamb Weston Holdings, Inc. (NYSE:LW) Q1 2020 Earnings Conference Call October 2, 2019 10:00 AM ET

Company Participants

Dexter Congbalay - VP, IR

Tom Werner - President and CEO

Rob McNutt - CFO

Conference Call Participants

Andrew Lazar - Barclays Capital

Adam Samuelson - Goldman Sachs

Tom Palmer - JPMorgan

Chris Growe - Stifel Nicolaus

Bryan Spillane - Bank of America Merrill Lynch

David Mandel - Consumer Edge Research

Operator

Good day, and welcome to the Lamb Weston First Quarter 2020 Earnings Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Dexter Congbalay, VP, Investor Relations, of Lamb Weston. Please go ahead.

Dexter Congbalay

Good morning, and thank you for joining us for Lamb Weston's first quarter 2020 earnings call. This morning, we issued our earnings press release, which is available on our Web site, lambweston.com.

Please note that during our remarks, we'll make some forward-looking statements about the company's performance. These statements are based on how we see things today. Actual results may differ materially due to risks and uncertainties. Please refer to the cautionary statements and risk factors contained in our filings with the SEC for more details on our forward-looking statements.

Some of today's remarks include non-GAAP financial measures. These non-GAAP financial measures should not be considered a replacement for, and should be read together with, our GAAP results. You can find the GAAP to non-GAAP reconciliations in our earnings release.

With me today are Tom Werner, our President and Chief Executive Officer; and Rob McNutt, our Chief Financial Officer. Tom will provide an overview of our performance as well as some comments on the current operating environment. Rob will then provide the details on our first quarter results.

With that, let me now turn the call over to Tom.

Tom Werner

Thank you, Dexter. Good morning everyone, and thank you for joining our call today. We're pleased with our solid start to the year with each of our core business segments driving volume, price mix, and earnings growth. Specifically sales increased 8% behind strong volume growth, EBITDA including unconsolidated joint venture increased 9% driven by strong sales growth and higher gross profit. Diluted earnings per share increased 8%, reflecting operating gains, and finally we generated nearly $240 million of cash flow from operations. These results provide us with a good foundation to deliver on our full-year commitments. They also reflect how our commercial and supply chain teams continue to execute on our strategic and operational objectives.

For example, in our Global segment, we drove strong growth by supporting customers in North America and internationally. We also continue to grow sales of limited time offering products in the U.S. and key markets in Asia, despite lapping a very strong prior-year quarter. In our Foodservice segment, we delivered our third consecutive quarter of volume growth behind sales of Lamb Weston branded products as our direct sales force continues to strengthen relationships with customers.

In retail, our Alexia, Grown in Idaho, and licensed branded products each grew volume. Grown in Idaho continue to expand distribution, helped in part by the recent launch of two new items that are phenomenal, Dipper and Waffle Fries. And finally, our supply chain team continued to ramp up our new £300 million French fry line in Hermiston, Oregon, providing us with additional flexibility to service and upgrade other production lines that have been operating at peak capacity.

Although we delivered a solid quarter, we did face some challenges in our supply chain. As you know, we've enjoyed the benefits of operating our manufacturing assets at very high utilization rates over the past couple of years. When possible, and without compromising food or employee safety, we've taken opportunities to defer maintenance in order to continue to support our customer's growth. However, it has also placed a strain on our production assets. During the quarter that strain showed. As Rob will discuss later, we had instances of production issues resulting in unplanned maintenance and repair costs, as well as some unscheduled operating downtimes, in turn, this increased our costs. Our manufacturing plants are now operating better, while we're making good progress and working through the issues that affected our performance, we expect to realize some residual impact on our results in the near-term.

Before turning to the operating environment, let me give you a few quick updates. First, on a preliminary basis, we believe the crop in our growing areas in the Columbia Basin and Idaho, where we source the vast majority of raw potatoes, will be consistent with historical averages. While crop yields in Alberta and Minnesota may be just below average due to weather events, we do not expect this to have a notable impact on our overall results. So, at this time, we do not expect any significant issues with the crop in North America. As usual, we'll provide our updated view of the crops yield and quality, and how we expect the crop will hold up in storage when we report our second quarter results in early January. These factors are all key to determining how the potatoes perform in our production facilities, and along with contracted raw potato prices or actual costs for raw potatoes.

Second, our early read on the potato crop in our growing areas in Europe is that it will be a bit below the long-term average. This is due to hot weather conditions this summer. However, despite being below average, we believe it will be better than last year's historically poor crop. As a result, we expect that Lamb-Weston/Meijer's performance will gradually improve as the year progresses as cost pressures ease in the second-half of our fiscal year once the new potato crop begins to be processed.

And finally, with respect to contracts with our large customers, we finalized most of the agreements that are up for renewal this year. In aggregate, we're satisfied with how the discussions progressed and the terms on which we ultimately agreed, including price. These contracts reflect our balanced approach to improving price and mix in order to offset inflationary pressures, and importantly, to maintain and reinforce our strategic customer relationships.

Now, turning to our operating environment, we believe the current global environment is generally favorable. We believe industry capacity utilization rates in North America remain elevated during the first quarter. For the remainder of fiscal 2020, we anticipate that new capacity in North America will allow processors to operate their facilities closer to normalize rates, but utilization rates will remain elevated.

With respect to demand growth in our fiscal first quarter was strong. In the U.S., positive restaurant traffic trends continued to be supported by low unemployment. Quick serve restaurant traffic growth was especially strong led by growth at chicken-based outlets. Growth in French fry servings was also encouraging. These trends help drive our Global segments strong volume growth in the quarter. In our key international markets, demand continued to grow in line with recent trends, and in Europe, demand growth was solid despite higher frozen potato prices as a result of last year's crop.

While the recent frozen potato demand has been higher than average, we're monitoring signs of softening macro-economic conditions which may temper demand growth towards more normalized rates. However, French fry demand has proven somewhat resistant to the effect of challenging economic times as most rides are consumed at QSRs. Generally, consumer traffic at QSRs tends to weather periods of slower economic growth, better than fast casual, and other casual restaurant formats. That's why we've stayed aligned with our strategic QSR customers and partnered with up and coming QSRs in many of our key markets. As a result, along with our broad market coverage, advantage global manufacturing footprint, focus on execution and commitment to serving our customers, we believe we're well-positioned to deliver our financial objectives for the year and create value for our stakeholders over the long-term.

So, in summary, we delivered a strong start to the year despite some manufacturing-related challenges. The potato crop in North America is in line with historical averages, and the crop in Europe has improved versus the prior year. We're satisfied with the outcome of customer contract renewals, and we're on track to deliver on our fiscal 2020 financial targets.

And one more thing before I turn it over to Rob, earlier this year, Rick Martin, our Global Head of Supply Chain, told me of his intention to retire. For the past 25 years, he has been a tremendous asset to Lamb Weston and especially to me through the last three years as we transitioned to a standalone public company. Rick has been a steady hand leading the supply chain organization during our transition, including building and starting up several new lines to support our growth. He has also been a tireless champion for safety in our manufacturing facilities, and a great partner for me and my management team. On behalf of Lamb Weston, we wish Rick a happy and healthy retirement.

And as we announced a couple of months ago, we're welcoming Gerardo Scheufler as our New Supply Chain Leader. Gerardo has more than 25 years of supply chain experience, most recently as the Vice President of Global Operations at Mondelez International, where he oversaw a major global restructuring program to optimize the global supply chain footprint that included more than 50,000 employees, and more than 150 global locations. Prior to Mondelez, he spent more than 20 years at Procter and Gamble in a variety of roles of increasing responsibility. We're happy to have Gerardo join the team and to leverage his experience as we make progress against our strategic plan.

Now, let me turn the call over to Rob to provide details on our first quarter results.

Rob McNutt

Thanks, Tom. Good morning everyone. As Tom noted, we're pleased with our solid start to the year. Net sales increased 8% to $989 million with growth in each of our business segments. Volume increased 6%, led by growth in our Global segment. Together, our two acquisitions in Australia, Marvel Packers and Ready Meals added about a point of volume growth. Price mix was up, 2% due to pricing actions and favorable mix.

Our strong sales growth drove an $18 million or 8% increase in gross profit, specifically higher prices, volume growth, and favorable mix drove the increase more than offsetting the impact of higher manufacturing costs due to inefficiencies, cost inflation and higher depreciation expense associated with our new production line in Hermiston. It's important to note that the increase in price was enough to offset input cost inflation on a $1 basis.

In addition, the increase in gross profit includes nearly $2 million benefit from unrealized mark-to-market adjustments related to commodity hedging contracts compared to a $5.5 million loss in the prior year period. While we drove a solid increase in gross profit dollars, our gross margin percentage was down a modest 10 basis points to 25%. However, excluding the mark-to-market adjustments, it was down 80 basis points. The gross margin decline, excluding the mark-to-market adjustment was primarily driven by manufacturing and efficiencies. As Tom noted earlier, these inefficiencies were largely a result of the strain that we've placed on our assets by operating at very high utilization rate levels over the past few years.

In the quarter, we incurred higher maintenance, repair, and related costs such as additional labor expense. We also had higher than normal periods of unscheduled operating downtime. Together, both scheduled and unscheduled maintenance affected our production levels, which in turn impacted our fixed cost absorption. Raised overall maintenance cost and lowered recovery rates. Most of our plants are now operating more normal levels. In addition, getting our new Hermiston line operational and qualified to make a range of products has provided more flexibility across our network. And the overall transition to processing the new potato crop is going well.

Nonetheless, we'll continue to realize some carryover effect from these manufacturing inefficiencies on gross profit as we make progress on correcting these issues over the coming months. And as we work through finished goods inventories early in the second quarter, SG&A expense increased less than a $1 million to about $79 million. The increase in SG&A was due to higher expenses related to information technology services and infrastructure, including approximately $1 million associated with designing a new enterprise resource planning system, as well as investments in our sales, marketing, and operating capabilities.

We expect SG&A will increase as we ramp up the training and transition process for the new ERP system. The increase in SG&A in the quarter was largely offset by a $4 million decline in foreign exchange expense, and a $1.5 million decline in advertising and promotional expense. As a result, income from operations increased $17 million, or 11% to $170 million reflecting solid sales and gross profit growth.

Equity method investment earnings from our unconsolidated joint ventures, which include Lamb Weston/Meijer in Europe and Lamb Weston/RDO in Minnesota, were $11 million in the quarter, excluding mark-to-market adjustments, equity earnings were down about $10 million. The decline was largely due to higher raw potato and manufacturing costs and associated with last year's poor crop in Europe carrying through inventory during the quarter more than offsetting the benefit of higher prices and volume growth. This impact is largely behind us and we should see profitability improve in the second quarter. So putting it all together, EBITDA including the proportional EBITDA from our 2 unconsolidated joint ventures increased to $20 million or 9% to $233 million.

Operating gains by our base business along with contributions from the BSW in Australian acquisitions drove $28 million of EBITDA growth. This was partially offset by an $8 million decline and EBITDA from our unconsolidated joint ventures.

Moving down the income statement, interest expense was about $28 million, which is about $1.5 million more than last year. This increase reflects the right off of debt issuance costs and connection with a refinancing of a portion of our term loan facility to secure lower costs and to extend the maturity date.

Our effective tax rate was about 24% consistent with our full-year guidance. Turning to earnings per share, diluted EPS was up $0.06 or 8% to $0.79. Operating gains in our base business and our approximately $0.03 benefit from the BSW acquisition drove the increase. This was partially offset by lower equity earnings.

Now, let's review the results for each of our business segments. Sales for our Global segment, which includes the top 100 U.S. base change, changes all as well as all other sales outside of North America were up 11%. Volume grew 9% with growth driven by higher sales, including increase sales of limited time offering products to strategic customers in the U.S. and key international markets. It also includes a two-point benefit for Marvel Packers and Ready Meals acquisitions in Australia.

Price mix Rose 2% primarily reflecting pricing adjustments associated with multi-year contracts. Global's product contribution margin, which is gross profit less advertising and promotional expense increased $8 million or 9%. Favorable price mix and volume growth drove the increase, which was partially offset by higher manufacturing cost, input cost inflation and higher depreciation expense associated with the Hermiston production line.

Sales for our food service segment, which services North American food service distributors and restaurant chains outside the top 100 North American restaurant customers, increased 3%. Price mix increased 2% reflecting improved mix and the benefit of pricing actions initiated in the fall of 2018. Volume increased 1% led by growth of Lamb Weston branded products. Food Services contribution margin was essentially flat increasing about $0.5 million price mix and volume growth offset higher manufacturing cost, input cost inflation and higher depreciation expense.

Sales in our retail segment increased 11% driven by eight points of volume growth behind increased sales of branded and private label products across our portfolio. Price mix increased 3% largely due to favorable mix and pricing actions. Retails product contribution margin increased 6 million or 27%. Higher price mix, volume growth and the timing of A&P spending probably increased.

Moving to our balance sheet and cash flow, our total debt at the end of the quarter was about $2.2 billion. This puts our net debt to EBITDA ratio at 2.7 times. With respect to cash flow, we generated nearly $240 million of cash flow from operations. That's up about 5% versus last year driven by earnings growth. We use nearly half of that cash to purchase Ready Meals in Australia for about $117 million and invested about $60 million combined in capital expenditures and IT projects.

We bought back about $5 million worth of stock or more than 72,000 shares at an average price of $66.67 cents. Our ability to repurchase shares in the first quarter was limited since we only had a very narrow trading window in August. We also paid $29 million in dividends to our shareholders.

Turning to our fiscal 2020 outlook, as Tom noted, our financial targets are unchanged and we remain on track to deliver our financial commitments for the year. Our targets include the contribution of a 53rd week that will benefit the fourth quarter. For the year, we continue to target sales to grow at mid single-digit rate, primarily driven by volume and price mix to increase in order to offset input cost inflation. We also continue to anticipate adjusted EBITDA including unconsolidated joint ventures to be in the range of $950 million to $970 million, with sales and gross profit growth driving the increase.

We expect gross profit growth will drive a significant portion of the EBITDA increase with volume growth and favorable price mix more than offsetting input cost inflation and higher depreciation expense as well as the effect of some manufacturing inefficiencies. As I noted earlier, we continue to realize some effect from the manufacturing inefficiencies on gross profit as we work through finished goods inventories early in the second quarter.

Turning to SG&A, for the year, we continue to expect our base SG&A which excludes advertising and promotional expense, as well as the ERP investments to be within our target of 8% to 8.5% of sales. We're targeting A&P expense to remain in line with what we spent in fiscal 2019. We also continue to anticipate total ERP spending of between $10 million and $20 million, and that it should ramp up over the course of the year depending on the pace of the implementation of the system.

We continue to expect equity earnings to gradually improve as we put the challenges of last year's poor crop in Europe behind us. In addition to our expected operating gains, our outlook includes an approximately $10 million year-over-year earnings benefit from the BSW acquisition in the first-half of fiscal 2020. Most of our other financial targets also remain the same, including total interest expense, around $110 million, an effective tax rate of 23% to 24%, and total depreciation and amortization expense of approximately $175 million. We're raising our capital expenditure target to $300 million from $270 million to reflect updated spending estimates for our new ERP system and other projects.

Now, here's Tom for some closing comments.

Tom Werner

Thanks, Rob. Let me quickly sum up by saying we are pleased with our solid sales earnings and cash flow growth to start the year. We're on track to deliver on our physical 2020 financial targets, and we remain focused on serving our customers, executing against our strategic initiatives to support long-term and creating value for all our stakeholders. I want to thank you for your interest in Lamb Weston. And we're now happy to take your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And we'll take our first question from Andrew Lazar with Barclays.

Andrew Lazar

Good morning, everybody.

Tom Werner

Good morning, Andrew.

Andrew Lazar

So, I've got just one quick one on some of the supply chain challenges, and then a broader follow-up. With the supply chain piece you mentioned some of the higher costs you incurred. Were there any -- it didn't sound like it, but were there any, I guess, supply issues with any key customers or shorting customer of product given some of the unexpected plant downtime and things like that, or were you able to kind of make that up, just albeit with higher costs?

Tom Werner

Yes, Andrew, we -- this is Tom. We, with our manufacturing footprint, these things unexpectedly happen. We do have the ability to move production around to other facilities. So to pointblank answer your question, there wasn't any customer disruption associated with planned downtime and the manufacturing challenges we had in the first quarter.

Andrew Lazar

Great, thanks for that. And then in the release this morning and then in your prepared remarks you mentioned how Lamb is monitoring the potential for a softening of macro economic conditions that I guess could temper frozen potato demand towards more normalized levels. So I'm just trying to get a sense of maybe what signs that you're either currently seeing or that you're monitoring, and are they regional in nature or maybe more broad-based? And then I've got a follow-up to that.

Tom Werner

Right, Andrew, we obviously look at all the syndicated data, and we also have some data that we look at in the international markets. And it's exactly what I just stated this morning, we're monitoring it. And we had a great quarter in terms of traffic in the U.S. with QSRs, so it's -- that's counterintuitive to what we're concerned about economically. But it's been choppy the last three, four quarters in terms of traffic. So we're continuing to watch it. It's -- there's a lot of economic concern in the market, but right now it's just - it's just something we monitor. But again, we had a great traffic quarter in the QSR in the U.S. International markets are on trend in terms of what traffic and what we're seeing our growth. So it's just something we're monitoring.

Andrew Lazar

Okay. And then the last piece of that would really be, maybe, could you just remind us of what demand has been. We can see obviously what demand has been more running at, but can you remind us what you see as more normalized rates of growth in North America, and Internationally. And just the reason I ask is I want to make sure how we should think about, if we get to a point where there's more normalized rates, and I realize right now that's not the case, what that means in the context of some increased industry supply in the market even though current utilization remains pretty tight, as you said?

Tom Werner

Yes, so Andrew, a normalized that we look at is 1.5% to 2.5% globally. And obviously there's going to be different growth rates in different markets. And just to give you context, broad strokes is a £30 billion market category globally, so 1.5% to 2.5%, that's a big chunk of volume growth on a normalized basis. So that's how when I talk about normalized growth rates, that's the window you need to think about.

Andrew Lazar

Okay, thanks very much.

Tom Werner

Yes.

Operator

We'll now take our next question from Adam Samuelson with Goldman Sachs.

Adam Samuelson

Yes, thanks. Good morning, everyone.

Tom Werner

Good morning, Adam.

Adam Samuelson

So, I guess first, I wanted to just touch on the pricing discussion a little bit, and it ties into the capacity side. And in the quarter, I mean you talked about kind of being pleased mix being favorable and getting pricing to cover cost. Any additional color you could have as you've gone through additional contracting discussions with your global customers into 2020? And then in the Foodservice side, the price mix line did decelerate pretty notably from where you were last quarter, and I thought the lapping of a price increase was going to be more in the upcoming quarters, so just any color on the 400 basis point deceleration in price in Foodservice.

Tom Werner

Yes, so just generally, Adam, this is Tom. Overall, the contracting exercise we just finished, up by and large, are pricing -- kind of landed where we thought it was going to be. And I know there was some concern out there that with the capacity coming on that there was going to be some pressure -- a lot of pressure on pricing. And by and large where we ended up is exactly where we thought we would be. Historically, based on my experience with this business, in these times where you have a little extra capacity, yes, you're not going to get maybe the lifts that you've had in the past, but overall pricing landed exactly where we thought we would be. So I'm pleased with where all that ended up.

In terms of the Foodservice pricing deceleration, I would say it's at a more normalized level based on from a historical standpoint, and we've had significant price increases over the last few years based on a number of economic reasons and business reasons. And we were able to get some pricing through, as we expected. And I'm -- even though it's decelerated we're lapping some big price increases from prior year. I'm super happy where we landed on all this. So I feel good about where we're positioned in terms of that.

And again, the belief out there was it was there was a lot of concern whether or not we were going to be able to price. And the team did a great job getting it through the marketplace.

Adam Samuelson

Okay, I appreciate that color. And then second for me, just on the potato crop side, I think you indicated in your key growing regions in the Pacific Northwest you're comfortable with the supplies. Are there any pockets though, you talked Alberta or Minnesota as areas where their crop might be a little bit weaker. Any residual impacts to the broader market or broader industry capacity utilization that could be potentially opportunities where you have potatoes that some of your competitors' plants might be more challenged, or any pockets of supply disruption on that front that you could call out?

Tom Werner

Yes, Adam, I'm going to kind of defer answering that question. We are right in the middle of harvest, and as I do in Q2, I'll give you a broader base point of view on the crop in total. All I will say right now is exactly what I said on the call is we feel good about the Pacific Northwest. There's some challenges in Alberta and the Midwest, and right now it's really about understanding how that crop is going to process. And we really just need time. Another month and then we'll have a good idea, and I'll get back to you in Q2, like I do every year, and give you point of view of where there are challenges or not.

Adam Samuelson

Okay. And if I could just squeeze a quick clarification, just the other segment, the profit jumps about $5 million year-on-year, any color on what drove that?

Rob McNutt

No, the other profits also includes our mark-to-market, and so, the other category does, and so that that's really the noise in there; nothing operationally.

Q – Adam Samuelson

Okay, perfect. Thank you very much.

Okay, perfect. Thank you very much.

Operator

We'll now move to Tom Palmer with JPMorgan.

Tom Palmer

Good morning.

Tom Werner

Good morning, Tom.

Tom Palmer

Firstly, I just wanted to ask about the higher ERP-related CapEx. Is this any type of shift in terms of the spending from operating expenses to CapEx either for this year or down the road? And then is the increase like a pull-forward of expenses or just a outright increase in terms of expected spending for the ERP, just some color on that would be great.

Tom Werner

Yes, Tom, the ERP project, and again, recognize the accounting around those kinds of things in computer systems has changed here recently. And so, some of that is when you're doing these licenses gets put into SG&A expense, and then there's some of the things that go into CapEx. So there's a little bit of change in the accounting standards, but from us for our spending is we're exactly on plan as expected, and we're very deliberately going through and making these upgrades. And so, the adjustment to the CapEx is just we've got a little more clarification and specificity over the spending for that project. And so, that's where we raised our CapEx for that as well as some other project work we're doing.

Tom Palmer

Okay, thank you. I wanted to also ask just on the volume side, you called out both planned and unplanned downtime for maintenance, but your volume growth didn't seem to be negatively affected by a large amount. Why was this? And should we expect volume growth to decelerate as we look at the remainder of the year, or you think these rates are -- you're able to maintain them?

Tom Werner

Well, just in terms of kind of what I said earlier, Tom, the great thing about Lamb Weston and our diversified asset base is when we have some of these challenges in the business with the start-up at Hermiston, that gives us flexibility in terms of capacity, additional capacity, we're able to move production around, if you will. So, we didn't impact customers, and tend to the needs of the unplanned downtime. So you're not going to feel the impact in the quarter, because we're able to flex our asset base in terms of production.

In terms of volume expectations, going forward, we're very prudent in our forecasts and our outlook. We had a strong volume quarter. A lot of it was driven by the strong QSR traffic. So, I would not take this quarter and extrapolate it out, because we have remained prudent in our outlook based on what we think volume is going to be for the year.

Tom Palmer

Okay. So, just to clarify, it sounds like you're essentially not factoring in this 5% growth, just to be safe on the traffic side, or are there specific reasons that volume was particularly strong this quarter, and you do not see those recurring?

Tom Werner

Again, Tom, we had the traffic in the quarter was as good as we've seen it, and what we do as a company is we're very prudent in our outlook. And these traffic trends, if you look at the syndicated data, they can turn on a dime. So, yes, we're monitoring our customers. Yes, we have an outlook on what our customers are thinking about doing in terms of in-market promotional activity, but we will always be prudent in our projections going forward, and historically that's what we've done. That's what we're going to continue to do.

Tom Palmer

Understood, thank you.

Operator

Operator

Your next question comes from Chris Growe with Stifel.

Chris Growe

Hi, good morning.

Tom Werner

Good morning, Chris.

Chris Growe

Hi, just wanted to follow-up a little bit on the just a couple questions around volume. You talked about this kind of 1.5% to 2.5% global growth, and it may kind of gravitate back towards that level. Do you have like what volume growth was globally in the quarter, I think you said about 5% traffic growth? Was that a U.S. comment or is that a global comment?

Tom Werner

That was a U.S. comment.

Chris Growe

Okay, got it. And then it would seem like based on your volume performance, you gained significant market share. Did you give a little bit of breakdown of volume by international versus U.S. were they about the same or was one better than the other?

Dexter Congbalay

Hey, Chris, it's Dexter. Yes, international was stronger overall than domestic, as you would expect, and I'd say little bit meaningfully so. But the category overall, I mean, normalizes 1.5%, 2.5%. The category has been little bit better than that over the last call, nine, 12 months. I think we've talked about that before. And that's why we're saying that in our prepared remarks, we said we've seen higher than average category growth, particularly this past quarter. And obviously, we were part of the beneficiary to that as well.

Chris Growe

Sure, that makes sense. And I think you're trying to be prudent in your expectations going forward for the category if I heard that properly. So that makes sense. And then just one of the questions if I could in SG&A, you talked about SG&A less advertising, less ERP. What was it on that basis in the first quarter, I guess, I was just trying to understand is the ERP funding sort of picking up throughout the year? SG&A was a little below what I thought for the year -- for the quarter, which was good. I just want to get a sense of what it was on that basis of which you're modeling for the year?

Dexter Congbalay

Yes, SG&A in the first quarter ex-A&P and I don't have that is million dollars of ERP spend, but was about 7.5% ex-A&P to put that in context, last year Q1 was 7.8% -- 7.8% sorry.

Tom Werner

Yes, Chris, I would say that anticipate that the ERP spend is going to increase over the course of the balance of the year. And so that 10 to 20 I talked about that's going to take place really in the back half of the year. So you will see it grow.

Chris Growe

Okay, that sounds great. Thank you so much for your time.

Tom Werner

Thank you.

Operator

We will now take our next question from Bryan Spillane from Bank of America.

Bryan Spillane

Hey, good morning, everyone.

Tom Werner

Good morning, Bryan.

Bryan Spillane

So, a couple of questions, I guess the first one, just, as we've touched on, on pricing a couple of times in the quarter. We had heard that some of your competitors had put some price increase letters out in the food that what would be I guess, kind of relative to the Foodservice segment to you, I guess like during the course of the quarter, so is that something that you've seen and is there potential, I guess for some more price incremental pricing in that segment as we move forward?

Tom Werner

Yes, Bryan it's Tom, I'm not going to get into specifics about pricing and competitive pricing, but we executed our plan pricing in the marketplace across all of our segments as we normally do. And I will tell you, like I said earlier, I'm pleased with how all that, how the team did and they executed it. So we'll start seeing that pricing in the marketplace here. It takes a while for the pricing to get in the marketplace. And so, we'll start seeing the benefit of that, but it does take a while, from the time we announced until it actually starts flowing through to the business, but we've executed across all of our segments on the pricing that we felt we could get through.

Bryan Spillane

So just to be clear, so is it whatever you've announced, isn't really even reflected in what we saw in this quarter's results because it's going to take some time to flow through?

Tom Werner

That's correct, Bryan.

Bryan Spillane

Okay. And then second on potato supply? I know, you commented on your growing regions, I guess in the trade press, it seems like the Eastern, like Eastern Canada crop, maybe not as good. So, can you just kind of talk about how if there's a tight supplies in potatoes on the East Coast, just how that affects the industry, right? Is it possible that some of your competitors that are more East Coast dependent will be kind of tight on potato supply and just how that affects the whole supply demand dynamic in the market?

Tom Werner

Yes, Bryan, so again, it's early on, and there's been some weather challenges in Canada, Midwest and the East, and it does put pressure on raw potato supply and it causes some of natural things that happen like shipping potatoes across the country. When you ship potatoes, they don't travel very well. So, as the - potentially the competitors are facing these issues. Historically, they have assured supply, but they have to do some unnatural things, and it increased our costs, and typically my experience when that goes on, we haven't seen a lot of disruptions. Do we get a few calls from customers here and there? Yes, we do, but typically the competitive set even though they have to do unnatural things and incur cost by shipping potatoes across the country, they are going to support their customers too, but it really comes down to -- it pressures their margins, I think…

Bryan Spillane

And then -- yes.

Tom Werner

I am sorry, just add to that, that in terms of the impact on us, I mean, because we contracts such a high percentage, high 90% of our raw ahead of the season going into the season that really isn't going to impact our cost structure even though they're pulling potatoes maybe out of Idaho or something.

Bryan Spillane

Okay. And then just the last one from me, maybe Rob, if you could just help a little bit the gross margins in the first quarter I guess there was a few kind of one off items that affected gross margin, right. You'd mentioned the supply chain inefficiencies as being one of them. I think tariffs also crept in this quarter and would've affected gross margins. Could you just give us a sense of how much of was pressuring gross margin in the first quarter, the magnitude of what it was and I guess it's going to linger a little bit into 2Q and then the magnitude of what it was and I guess it's going to linger a little bit into 2Q and then how much we might get back if things are more normal in the back half of the year. Just trying to understand how much of the gross margin pressure was kind of more transient in nature versus you know, carry through the year?

Rob McNutt

Yes. If you take the 80 basis points down that I called you know, ex mark-to-market, ex the noise in the manufacturing facilities, we would've been modestly positive in terms of gross margin percentage growth, right.

Bryan Spillane

Okay. And some of that will, kind of linger into the second quarter, but we should sort of be through that by the time we get to the second half?

Rob McNutt

Exactly.

Bryan Spillane

Okay, all right. Thank you.

Operator

Thank you. We will now take our next question from David Mandel with Consumer Edge Research.

Tom Werner

Good morning, David.

Operator

And David, you may be on mute.

David Mandel

I was on mute. I'm sorry. Good morning.

Tom Werner

Good morning.

Rob McNutt

Good morning, David.

David Mandel

So, just to pick up on the tariff and the slowing growth, possibly reverting to normalize rates, I was just wondering how prudent is that exactly, I mean if there is a macro slow down and tariffs are an issue in export market, particularly China, Is a slowed down to normalized rates really prudent or could it get even worse?

Tom Werner

Yes, David. I will address the tariff question first. With all the tariff discussion and everything that's going on, we have a pretty sizable business in China. Obviously we've got a manufacturing plant in China, and we have executed our contingency plan, as the tariff rates change. So we've adjusted production and it's been -- have we been impacted absolutely have. It's been immaterial. So the team has done a great job, looking at ways to mitigate a tariff increases on French fries specifically, so, nothing material in the tariffs right now.

The second part of your questions, I'll answer it, it's interesting. I'll give you a perspective. When you go back 10, 11 years when we had the financial crisis and the interesting thing in our business a little bit to what I said earlier in my prepared remarks is even through all that period, our volume held pretty steady, and it's a combination of consumer behavior. This is my belief of the QSR traffic. People still eat out, but they eat out at QSRs in the traffic, and we saw it in our volume, and we have international markets that continue to grow. So, our experience, if something finance, some economically happens, even in that time, our volume continue to -- it grew, but it kind of grew, I don't remember what the rates are, but it continued to grow. So that's the data point I have, and we have as a business when we have a significant economic downturn, and again, back to my earlier comments, that's why we're always going to be prudent with our outlook going forward.

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David Mandel

Thank you. That's really helpful. Earlier in the call, you referred to maintenance issues, did the Hermiston plants come online faster than usual, to kind of rescue maintenance issues or…

Tom Werner

No. I mean, the Hermiston plant came out as planned. Yes, the Hermiston plant was online in May as planned and on target, so we're ramping it up.

David Mandel

Sorry, so it fully ramp up faster than usual.

Tom Werner

No, it was right on track, and the team did a great job, getting up and running, and it did certainly helped relieve some of the some of the pressures were filling in, some of the other manufacturing facilities, but by and large, it was on track.

David Mandel

Great. Thank you for that. And my last one, can you break up the mid single-digit sales growth a little bit? I mean, if I think about the 53rd week adding about 2%, and pricing to kind of offset input costs, but it's really -- sales growth is going to be volume-driven. I'm just trying to think about how much volume and how much pricing, because there -- once you back out the 53rd week, there isn't all that much left?

Dexter Congbalay

Yes. Hey, David, it's Dexter. I mean if you think about broad stroke sales is mid singles for call that four to six, right? And that's the 53rd week. I've been basically saying three to five. So I said a couple points, probably a little bit more than a point. And then, we're saying the bulk of that is going to be more largely driven by volume. So, you can use your assumption, whatever you want to use for price mix.

David Mandel

Great, thank you for that, and that's all I have. I'll pass it on.

Operator

And it appears there are no further telephone questions. At this time, I'd like to turn the conference back to our presenters for any additional or closing remarks.

Dexter Congbalay

Thank you everybody for joining us today. If you have any follow-up questions, please pop me an e-mail, we can schedule a call, and look forward to talking to you later. Thank you.

Operator

And once again, that does conclude today's conference, and we thank you all for your participation. You may now disconnect.