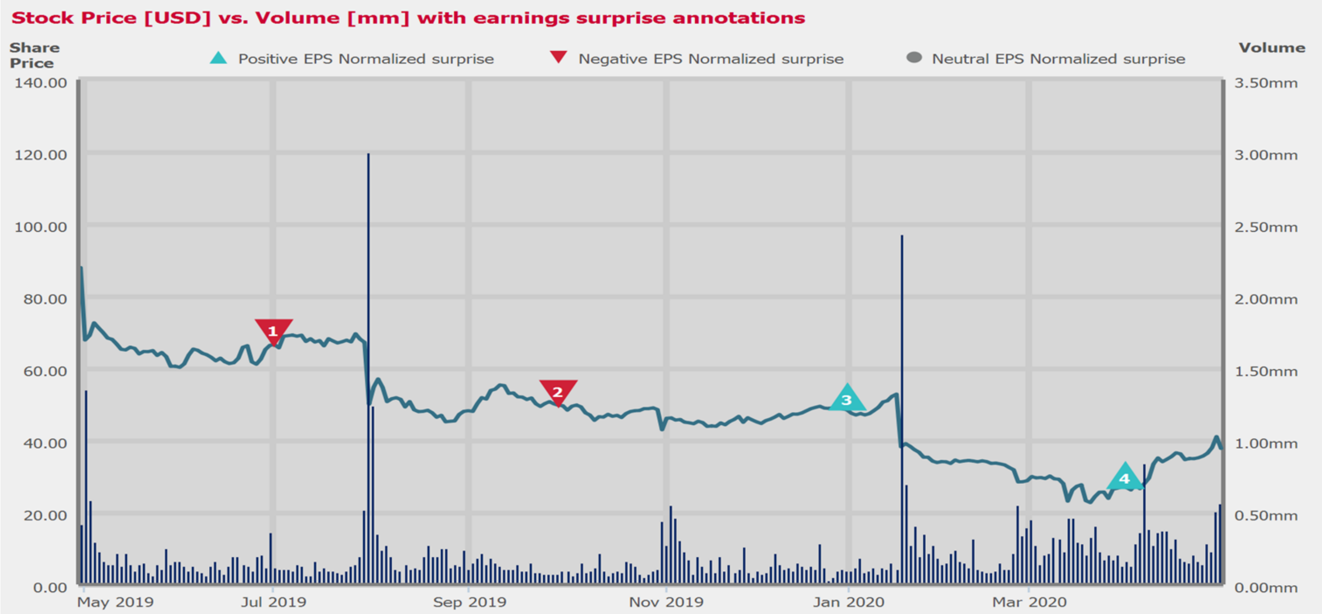
S&P Global
Market Intelligence

MGP Ingredients, Inc. NasdaqGS:MGPI
FQ1 2020 Earnings Call Transcripts
Thursday, April 30, 2020 2:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.35	0.61	▲74.29	0.44	2.04	2.18
Revenue (mm)	87.77	99.08	▲12.89	90.67	368.37	382.80

Currency: USD
Consensus as of Apr-14-2020 10:34 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	0.52	0.46	▼1 (11.54 %)
FQ3 2019	0.64	0.48	▼2 (26.15 %)
FQ4 2019	0.71	0.76	▲3 7.04 %
FQ1 2020	0.35	0.61	▲4 74.29 %

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Call Participants

EXECUTIVES

Augustus C. Griffin
CEO & Director

Brandon M. Gall
VP of Finance & CFO

Dave Colo

Mike Houston

ANALYSTS

Alex Joseph Fuhrman
Craig-Hallum Capital Group LLC, Research Division

Benjamin David Klieve
National Securities Corporation, Research Division

William Bates Chappell
SunTrust Robinson Humphrey, Inc., Research Division

Presentation

Operator

Good morning. The MGP call will be starting in a few moments. Please continue to hold. Again, the MGP call will be starting in a few moments. Thank you. Good morning, and welcome to the MGP Ingredients First Quarter 2020 Results Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please not this event is being recorded. I would now like to turn the conference over to Mike Houston, Investor Relations. Please go ahead.

Mike Houston

Thank you, Danielle. Good morning, everyone, and thank you for joining the MGP Ingredients conference call and webcast to discuss the company's financial results for the first quarter 2020. I'm Mike Houston with Lambert and Company, MGP's Investor Relations firm, and joining me today are members of their management team, including Gus Griffin, Chief Executive Officer; Dave Colo, President and Chief Operating Officer; and Brandon Gall, Vice President of Finance and Chief Financial Officer. We will begin the call with management's prepared remarks, and then open the call up to questions.

However, before we begin today's call, it is my responsibility to inform you that this call may involve certain forward-looking statements, such as projections of revenue, earnings, and capital structure, as well as statements on the plans and objectives of the company's business. The company's actual results could differ materially from any forward-looking statements made today, due to a number of factors, including the risk factors described in the company's most recent annual and quarterly reports filed with the Securities and Exchange Commission. The company assumes no obligation to update any forward-looking statements made during the call. If anyone does not already have a copy of the press release issued by MGP today, you can access it at the company's website, www.mgpingredients.com.

At this time, I'd like to turn the call over to MGP's Chief Executive Officer, Gus Griffin. Gus?

Augustus C. Griffin
CEO & Director

Thank you, Mike. And thank you all for joining us. At the conclusion of our call in February, none of us could have imagined how our world was going to change in just a few short months. On the call this morning, we will provide details of our performance for the first quarter as usual, but we also spend some time in our comments discussing items, which believe will be of interest to you in the wake of the COVID-19 pandemic.

Before we turn to the results for this quarter, I'd like to welcome Dave Colo to the call this morning, as our recently appointed President and Chief Operating Officer. Following my retirement in May, Dave will assume the role of CEO. I feel very fortunate to have had the opportunity to lead such a talented, passionate, and collaborative organization. I also appreciate the strong ongoing support of our Board. I've worked closely with Dave since he joined the Board in 2015, and I am confident he will be a terrific successor in leading MGP. As a Director on our Board, Dave played a critical role in supporting the company's growth over the past several years, and we are very excited to have him on the executive leadership team.

Now, I will turn to the results for the first quarter. We are very pleased with the results this quarter, with consolidated sales increasing 11.2% and gross profit increasing 39.3%. These results reflect strong customer demand in both business segments, and improved effectiveness in our tactical execution. Our results for this quarter reflect growth in premium beverage brown goods sales, as well as significant year-over-year increases in sales of our specialty wheat starches and proteins.

Looking at each segment individually, in our distillery products segment, sales finished the quarter up 7.3% to $80 million, while gross profit increased to $18.2 million or 22.8% of segment sales. These results reflect a 240 basis point increase in gross profit margin, as compared to the prior year period. Sales of premium beverage alcohol were up 9.4% for the quarter. These improved results were primarily driven by a double-digit growth in both sales of new distillate and aged whisky, which led to a 17.1% increase in sales of brown goods. We saw strong demand for our inventory of aged whiskey, including sales of whiskey from our 2015 and 2016 vintages. Sales of aged whiskey reflect lower pricing versus the prior year quarter, but in line with our expectations. Despite some significant changing dynamics at the retail level and potential challenges to specific customers, we believe the underlying macro consumer trends supporting the ongoing growth of the American whiskey category remains strong.

The stay-at-home orders have had a devastating impact on on-premise sales over the past six weeks, while consumers appear to be increasing their consumption at home, driving record increases in off-premise sales during the period. While channel specific trends going forward are uncertain, the category trends seem to be holding strong, with American whiskey continuing to be one of the top growth categories. While sales of premium beverage white goods were down 1.6% for the quarter, margins improved due to lower input cost.

While continuing to implement our broader growth plan, we are also focusing on helping our industrial alcohol customers navigate the challenges they are confronted with as a result of the COVID-19 pandemic. We remain committed to continuing the legacy our company was founded on more than 75 years ago by supporting the relief effort with both financial aid and increased production of alcohol for hand sanitizer and commercial disinfectant needs. MGP is uniquely positioned to serve as the backbone of the increased industrial alcohol production in this country, and we're proud to expand our efforts at our Kansas and Indiana facilities during this critical time.

Sales of industrial alcohol increased for the quarter by 5.7%. As a reminder to those new to the story, we typically run our alcohol production close to full capacity to optimize the cost structure of our facilities. While we have experienced increased demand related to COVID-19 over the past several weeks, it's important to point out that a significant portion of our industrial alcohol and premium beverage white goods production was already contracted for a set price last fall. Improved demand for industrial alcohol has come into play in the near term, but we do not view this pandemic as an opportunity to maximize short-term financial results on this product line.

Also of note, sales of dried distillers grains, or DDG, experienced a decline of 1.5%, as compared to the first quarter of 2019. This was due to a slight decrease in sales volume, partially offset by favorable average selling prices. Revenue from warehouse services increased by 10.5%, reflecting, in part, the growth in the number of customer barrels aging in our whiskey warehouses and other services we provide.

Turning to ingredient Solutions. Sales grew 31.4% to $19.1 million. Gross profit increased to $5 million or 26% of segment sales, reflecting a significant increase in gross profit margin, as compared to the prior year period. Our Ingredient Solutions posted its fourteenth consecutive quarter of year-over-year sales growth. We have been very pleased with the continued strength and momentum of our Ingredients business over the past several years, and we are encouraged by the robust gross margins we were able to achieve this quarter. The majority of this increase is due to our ability to optimize sales in production toward our highest margin products. We also benefited from decreased input cost in the absence of flood-related cost.

Specialty wheat starch sales grew 48.4% this quarter, while our specialty wheat protein sales grew 43.3%, both driven by increased volume and favorable average selling prices. We believe our specialty starch portfolio, particularly our line of fiber products and our recently rebranded ProTerra line of textured proteins, continue to be aligned with strong consumer trends.

While the COVID-19 pandemic continues to create a period of uncertainty and potential challenges, we remain committed to taking the measures necessary to help ensure the safety and well being of our employees. We began our response to the pandemic by mobilizing a Central Crisis Response Team, which has been up and running since mid-March. This broad-ranging team includes members from operations, HR, legal, IT, finance, and our executive team, which meet on a weekly basis. We also created a specialized subgroup of this team, which meets daily. This subgroup was established to manage proactive and responsive actions across our operations. We have direct engagement with all areas of the organization on a daily basis, and have enacted centralized protocols for responding to operational issues as they develop.

We're proud of the aggressive actions put in place to safeguard our employees while they perform their essential work. We continue to look to the CDC, WHO, and state and local health departments for guidance as we move forward at each of our facilities and offices.

This concludes my remarks. Let me now turn things over to Brandon Gall for a review of the key metrics and numbers. Brandon?

Brandon M. Gall
VP of Finance & CFO

Thanks, Gus. For the quarter, consolidated sales increased 11.2% to $99.1 million, reflecting a 7.3% increase in the distillery products segment, and a 31.4% increase in the Ingredient Solutions segment. Consolidated gross profit increased 39.3% to $23.2 million, due to increased gross profit in both the distillery products and Ingredient Solutions segments. Consolidated gross margin increased by 470 basis points to 23.4% of sales, up from 18.7% in the prior year quarter. Corporate selling, general, and administrative expenses totaled $9.5 million for the first quarter 2020, representing an increase of 16.6% compared to the first quarter of 2019, primarily due to increased incentive compensation expense, inclusive of certain incremental costs incurred relating to the transition at the CEO position. Consolidated operating income increased 61% to $13.7 million, due to increased gross profit in both the distillery products and Ingredient Solutions segments, partially offset by increased corporate selling, general, and administrative expenses.

Non-GAAP operating income increased 67.9% to $14.3 million, exclusive of CEO transition costs. Our corporate effective tax rate was 24.7% in the current quarter, compared to a tax benefit of 17.7% in the prior year quarter that resulted from a sizable vesting of share-based awards. Consolidated net income for the quarter increased slightly to $9.8 million, while earnings per share remained flat from the prior year period at $0.57 per share. EPS was affected by improved operating results and partially offset by a prior-year period tax benefit, resulting from the vested share-based awards.

MGP's balance sheet and access to capital remains strong. We remain well capitalized and threw down additional funds on our revolving credit facility during the quarter to maintain a conservative cash position and have sufficient liquidity in the event the pandemic directly impacted operations. As such, we ended the quarter with a debt balance of $96.1 million, and a cash balance of $42.7 million. As of March 31, 2020, approximately $245 million remain available under the $300 million revolving credit line. Our leverage continues to be very low, and given we haven't experienced any significant economic hardship on our business to date as a result COVID-19, we have not participated in any of the lending programs provided by the CARES Act.

First quarter 2020 cash flow provided by operations was $0.5 million, compared to a use of cash of approximately $3.8 million in the prior year quarter, an improvement of $4.3 million. Accounts receivable and days sales outstanding increased $11.5 million at seven and a half days during the quarter, respectively. This increase is consistent with the development of longer sales histories with craft customers, new relationships with export customers, and new long-term supply agreements with large customers, all of which we've discussed on this call in previous quarters.

Customers we extend credit to are mostly large in nature, and all have a combination of strong balance sheets and long payment histories with MGP. As a result, we're not experiencing issues with collections. Historically, first quarter operating cash flow has not been indicative of the whole year. During the period, we also invested a net $7.2 million for growing our barrel distillate inventory for aging. As a reminder to those that might be new on the call today, while we did reduce our annual volume growth expectations for aged whiskey on our call last February, we believe our library of various mash bills and vintages will continue to contribute significant levels of profit for the company going forward. We also believe our inventory set aside for aged whiskey sales in the U.S. market is close to reaching equilibrium on a net basis, and any future inventory increase will be for export sales, new mash bills, and to support the growth of our own brands. Past or even recent quarters are not necessarily indicative of barrel distillate investment in subsequent quarters.

Fluctuations in our quarterly investment can be impacted by a number of factors, including customer demand for new distillate, production efficiencies, mixing capacity, warehouse capacity, and sales of aged whiskey. Our warehouse expansion program has been another important initiative to support new distillate demand for our customers, as well as our investment in aging inventory. As of March 31, 2020, we spent approximately $49.7 million of $49.8 million we projected as a total investment. The program remains on track to be completed later this year.

During the quarter, we purchased shares in the open market as part of a $25 million common stock repurchase program announced in February of 2019. We repurchased 159,104 shares for approximately $4.1 million for a weighted average all-in cost per share of $25.47 during the first quarter of 2020, and we concluded our purchases on March 16. Recently, the Board authorized a second quarter dividend in the amount of $0.12 per share. The Board continues to view dividends as an important way to share the success of the company with shareholders.

Let me now turn things over to Dave Colo for concluding remarks.

Dave Colo

Thanks, Brandon. Now, I would like to touch on some additional initiatives that support our long-term strategic plan, but first, address our outlook for the balance of the year. While we are off to a strong start to the year with ample access to capital and encouraging customer demand, our financial results for the balance of the year could be impacted by the COVID-19 virus. Given the uncertainty this pandemic has caused for nearly every industry across the world, it is impossible to predict with any level of precision the pandemic's cumulative impact on our future financial results. For these reasons, we are withdrawing our previous 2020 guidance, and we'll reassess this position based on the visibility of the macroeconomic recovery.

Our balance sheet and access to capital continue to be strong, while we seek to optimize cash management during this pandemic. Although our long-term capital allocation strategy may experience little change, we seek to maintain a conservative cash position, as outlined by Brandon earlier. By renewing our credit facility and expanding our borrowing capacity earlier this year, we have enhanced our access to capital with attractive pricing and terms. As we navigate the effects of this pandemic, we will remain focused on prudent capital management, which is why we have elected to curtail stock repurchases while maintaining our quarterly dividend. The management team, in close collaboration with the board, has the ability to initiate the buyback program or adjust quarterly dividends as circumstances warrant. The American whiskey category continues to experience strong growth and we will continue to invest to support that growth. The demand and pricing in line with our expectations demonstrate the health of this category. If you'll recall from our communications last quarter, we continue to have a significant share and scale advantage and plan to increase our focus toward growing volume share in the global American whiskey category.

We do not believe this equates to significant changes to overall pricing, but rather refinements to how we approach the selling process, the products we offer and the markets we focus on. Our objective, going forward will be to optimize our brown goods profit by increasing volume share at market-based pricing. Although we believe the American whiskey category trends are long-term in nature, we have identified a handful of potential headwinds for the balance of the year as a result of the pandemic. While we did not experience any significant impact from these potential headwinds during the quarter, we wanted to proactively share what we're seeing across the industry.

The first relates to the potential pantry loading that may have been occurring over the past several weeks, causing off-premise sales to significantly spike. We are unsure how long these purchasing behaviors will continue and what potential impact they might have on future off-premise sales when stay-at-home orders are lifted across the nation. Second, the stay-at-home orders and closures of bars, restaurants and tasting rooms are having an immediate impact on our craf customer sales the past several weeks. We would anticipate these trends to reverse as these establishments reopen. But it is difficult to predict when that might occur in a meaningful way. The third potential headwind is related to our multinational customers. While most have strong balance sheets and access to capital, it is unclear how their conservation of cash may impact our brown goods sales throughout the balance of the year. The last potential headwind we have identified is our near-term ability to grow international sales and export our distilled spirits overseas.

In the first quarter, we began to experience meaningful progress against our ability to expand our international sales. We continue to believe that our investments to expand international sales will provide long-term shareholder value. However, as travel has been curtailed and tariffs in key international markets persist, our ability to further develop this opportunity has been delayed. We continue to closely monitor each of these potential headwinds and will provide additional updates as they become available. Our warehouse expansion project is substantially complete, allowing us to increase our storage capacity to meet the growing demand for our new distillate. We anticipate the conclusion of this project to occur in the second quarter.

As Brandon mentioned, we also invested an additional $7.2 million in our aging whiskey inventory. This brings our inventory of aging whiskey to $111.4 million at cost. The positive brown goods results this quarter continue to demonstrate the long-term value of our aged whiskey inventory. While our focus in the Distillery Products segment will always be supplying other brand owners with premium distilled spirits, we continue to progress our brands initiative with the acquisition of new Columbia distillers based in Washington D.C. We're thrilled to add the Greenhouse Gin brand to our award-winning portfolio This acquisition enhances the depth of expertise and commitment to the category we've developed over the years.

We continue to develop our existing markets focused on increasing retail distribution and velocity per point of distribution for our portfolio brands. Although the current environment is not generally conducive to M&A activity, we will continue to assess opportunities to strengthen our position in growing markets in concert with our financial position in the upcoming quarters.

Our pandemic response plan, which is designed to accommodate evolving information and guidance provided by government agencies and health officials, focuses on protecting our employees and customers and doing our part to help stop the spread of the virus. The Central Crisis Response Team and specialized subgroup Gus mentioned earlier have helped to ensure the safety of our employees as well as to comply with various government restrictions for stay-at-home orders. As directed by these two teams, we will continue to implement social distancing at each of our facilities and offices, paying hourly wage bonus to our production employees, cross-train team members to ensure coverage for critical positions, provide health screenings and monitoring for our employees as well as extending our sick leave policy, restrict travel across the organization, implement work-from-home policies where we are able and lastly, we will continue to have a weekly risk assessment of our supply chain, which includes a daily monitoring of our contractors, transport partners, input producers and all other suppliers and vendors to mitigate any potential disruptions to our supply chain.

Before we conclude our prepared remarks and begin the question-and-answer portion of the call, I would like to express my gratitude to Gus for his success in leading the company. Since joining in 2014, Gus was able to focus the entire organization on a clear strategy, led its successful implementation and, very importantly, helped restore MGP's special culture. We are well-positioned for the next chapter in our story and we sincerely thank Gus for his years of dedicated service to MGP and the lasting contributions he has made to the company. The aggressive implementation of our strategic plan, put in place by Gus over the past several years, has positioned MGP for sustainable long-term growth.

Management team will be focused on continually refining the effectiveness of our tactical execution, accelerating the pace of our strategic implementation and leveraging the strong foundation we have built for growth in 2020 and beyond. We remain confident that focusing on our key strategies will drive superior long-term shareholder value moving forward.
Operator, we are now ready to begin the question-and-answer portion of the call.

Question and Answer

Operator

We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Ben Klieve of National Securities Corporation. Please go ahead.

Benjamin David Klieve
National Securities Corporation, Research Division

All right, thanks for taking my questions. First, a couple of questions on the ingredient side. I'm wondering, first of all, if you could kind of break into the growth numbers that you saw in the first quarter. To what degree were there any lumpy one-time sales in there or maybe accelerated buying at the end of the quarter in advance of anticipated volume from consumer goods companies? How can we look at the results from that quarter in that segment in the context of the COVID-19 era?

Dave Colo

Hi Ben, it is Dave. I will take that. So, I think as you heard on the call, our Ingredients business has continued to demonstrate good growth. I think it's primarily driven by the fact that we have a well-positioned portfolio both on the wheat protein and the wheat starch side. I think what you're seeing is kind of a continuation of strong consumer demand as consumers continue to migrate to a healthier diet and with our plant-based protein in the Ingredient sector, we really didn't see any anomalies, if you will in Q1 in that business. I think we're just seeing good strong underlying consumer trends with a well-positioned portfolio to support those trends.

Benjamin David Klieve
National Securities Corporation, Research Division

Got It. That's great. Then sticking to that segment, to what degree do you see the consumer goods companies adjusting their R&D process in the area of social distancing? I mean, are you seeing delays, are you seeing complete shutdowns from that process or is that continuing relatively uninterrupted? What are you guys seeing on your end?

Dave Colo

Yeah, I mean, for the most part relative to the Ingredients, it's relatively been uninterrupted at this point. Although we are seeing some impact in the Foodservice channel primarily related to customers that serve. If you think about sporting event stadiums, entertainment venues of that nature and the products they produce to support those venues, we have seen a slight slowdown in some of those product lines. But for the most part, our portfolio is positioned against breads, pastas, snacks and obviously, those continue to be on trend and in great demand even during this pandemic.

Benjamin David Klieve
National Securities Corporation, Research Division

Got it. Perfect. Turning over to the distillery segment you commented a couple of times on the improvement from the export market. I'm wondering if you can comment on a couple of things there. First of all, to what degree did you see kind of a broad macro improvement in the export market versus maybe just kind of uniquely strong execution from your team?

Dave Colo

Yes, I think we are that kind of a new part of the organization for us trying to penetrate export sales and our comments were relative to the fact that we started to see some pretty good traction with customer interest and engagement during the first half of the quarter. The last half of the quarter has been impacted by COVID-19 in the fact that substantially, all travel has been shut down. So, it's been difficult to continue the engagement with the customers. It requires travel primarily into the US or our team to go international but the comments were really specific to the work that has been done to date, started by paying some dividends in Q1 but we do see that being delayed until the pandemic clears and we're able to get back more active engagement with our customer.

Benjamin David Klieve
National Securities Corporation, Research Division

Got it. Last one from me and then I'll get back in queue. Did you comment on you may be hitting the pause button, if you will, on pursuit of M&A activity, which certainly is understandable In the current environment? My question around that is to what degree do you look at the M&A market right now, especially on the branded Spirits side and see a meaningful decrease in valuations or is it too early to know that yet? I mean what are you seeing in that space right now as the world has evolved over the last 6 weeks?

Dave Colo

Yeah, I think there has been a significant slowdown in M&A activity globally, if you see, and if you're looking at Spirits Brands of our company, it's an interesting thing with the COVID impact and with the off-premise sales spiking, I'm sure some companies can view that actually as an opportunity to position themselves from an increased valuation perspective. So, I think we need to let this pandemic play out to really understand the impact on M&A activity and how it will or will not affect valuations of company.

Brandon M. Gall
VP of Finance & CFO

This is Brandan. Just to add to that for a second, I think, to be clear and clarify, we put a pause or curtailed the share repurchase program during Q1. Our comments are on M&A, or is that we are necessarily pausing them at this point in time, but we did say is that we acknowledge that this environment is not generally conducive to M&A as Dave just mentioned, but that we will continue to assess opportunities to strengthen our position in growing markets in concert with our financial position in the upcoming quarters.

Benjamin David Klieve
National Securities Corporation, Research Division

Got it. Okay. Thanks, Brandan. Very good. I think that does it for me. Thanks for taking my questions and I'll get back in queue.

Operator

Here our next question comes from Bill Chappell of SunTrust. Please go ahead.

William Bates Chappell
SunTrust Robinson Humphrey, Inc., Research Division

Thanks, good morning. I am going to ask probably more than 2 and less than 50 questions. Let's start with the aged inventory. There is more color around the sales this quarter. Was there a postponement from fourth quarter to this quarter? You talked about lower pricing year-over-year. Is that part of the plan to have lower than 3 times pricing and then maybe, is this a start of things to come? Do you feel like we're now getting the process moving forward, where you have more regular sales of aged?

Dave Colo

Thanks, Bill. It's Dave. I think part of the sales we saw in Q1 were some carry-over that we expected in Q4. For the price in question, we had a very strong pricing quarter that we were siting over a year ago, but our pricing this quarter is still in line with our for aged. As we go forward, as I commented in the prepared remarks, our approach with aged, with brown goods, in general, is that we want to make sure that we're in a position to grow our volume share and do that -- the market-based pricing so that the end result is we maximize or optimize -- excuse me -- our profit in our brown goods sector. So I think you'll see us continue to talk in those terms and make sure that we're in a position where we're optimizing the profitability of the inventory that we have.

William Bates Chappell
SunTrust Robinson Humphrey, Inc., Research Division

So just to make sure I understand, I mean, do you -- you can make another probability of selling it above cost. That's all I'm just trying to understand. Do you think that aged -- there is steady demand as we go through this year, the prices you're talking about.

Dave Colo

Yeah, I think our pricing in Q1 was certainly in line with the historical way we talked about it, 3x, if you will. And we do see continued demand for both new distillate and aged whiskey going forward. I think what we're saying is we just want to make sure as we go forward that we're optimizing the profitability of the entire portfolio and not so focused on 3x, per se, but making sure we're in line with market-based pricing as we move forward.

William Bates Chappell
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And then just last one on the whiskey. I mean, I know there have been some talking [indiscernible] people for some international sales, particularly Asia. Have you seen any changes there in terms of demand for the aged?

Dave Colo

Yeah, I think it's -- If you look at Europe, Asia, etcetera, I think there is still demand. It's been put on pause with the accounts that we've been pursuing simply because of the pandemic. As this passes and we understand more the macroeconomic impact of the pandemic, that will help us in line of sight to those -- if the potential still exists, which we believe it will, and how quickly we can restore discussions with international customers.

William Bates Chappell
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And then switching to industrial alcohol. I mean, can you just give us some more color on how that business works, how it worked in the quarter? When I say that, the question I get is you make ethyl alcohol, we hear of ethanol players or Exxon or others kind of moving into this. And at the same point, you're saying you're uniquely positioned within the market. You're, obviously, expanding operations in Indiana as well as Kansas to meet the demand. I understand when Gus says we're not looking for near-term financial gain, you're not looking to price gouge. But at the same point, it would seem, it's pretty dramatic changes to that business over the next few months, so more color on both how you're uniquely positioned, how it works, in terms of kind of pricing and demand and new customers and stuff like that? A tutorial would be helpful.

Dave Colo

Sure. So I think you know, I think when Gus made the comments we're uniquely positioned, we've been in industrial alcohol marketer and producer for a long, long time. It was really kind of the foundation of the company in its beginning and we know the market, we know the industry extremely well. The way, traditionally it works we contract the majority of our volume in the fall for the coming calendar year, our fiscal year, if you will. And then there is some volume that's left, it's sold on the spot market, but the majority of it is contracted. So our -- any pricing spike that you would have anticipated as a result of this increased demand in Q1 from the pandemic, we already had the majority of that volume price, if you will.

I think going forward, what we've historically said is the margins in industrial alcohol are very slim and there is a structural issue in the category. And what I mean by that is there is a lot of ethanol. There is oversupply of ethanol in the country right now that's been ongoing probably for the last two to three years. There has been an oversupply of industrial alcohol as well. And something structurally there would have to change before margins can be restored and either industrial or ethanol, for that matter.

What's going on right now in the -- with oil prices so low and nobody is driving anywhere because of the pandemic, the demand for ethanol is really been impacted negatively. So there is a number of ethanol facilities that are closed. What we always watch out for in that environment is making sure our understanding, if some of that ethanol capacity gets converted into industrial alcohol capacity. It requires a capital investment to do that, but that -- there's certainly nothing stopping them from doing that other than the sheer economics of it. So, I guess what I'm trying to say is that there is a short-term blip in demand for industrial due to the pandemic. We're going to watch closely to see, post-pandemic, if the usage of industrial increases because of changes in behavior. Obviously, people more sensitive to viruses, et cetera, that could drive consumer behavior changes, that could increase demand for industrial. But at this point though, I think it's too early to tell how this is going to play out long-term.

William Bates Chappell
SunTrust Robinson Humphrey, Inc., Research Division

So just trying to understand with the contract of -- and I understand long term over the next few years, but I'm just trying to understand, with the way it's contracted out, does that mean -- when would you start to see the benefits of the near-term spiking demand; was that this quarter or is that next quarter or is that at all? Are you kind of trying to step away from this and not try to build up too much?

Dave Colo

Yeah, I mean we were on our Industrial Complex, if you will, pretty much at capacity. So I think what we've tried to do to support our customers as their needs have increased during the first quarter here, is we've tried to optimize that output as much as we can. So we started the quarter, call it the first two-thirds of the quarter and we really didn't see an impact from the pandemic. It was really the last third of the quarter where we started seeing increased demand for industrial to make hand sanitizer.

We did as much as we could to put as much volume through our Industrial Complex, if you will, to meet customers' needs. But as far -- if this is going to continue, we think that we're continuing to see strong demand as we sit here today. It's hard to predict how long that's going to continue. From a pricing perspective, any spot purchases that occur for the next few months, there may be a benefit in pricing just because of the demand, but in the near term, I think we do anticipate seeing increased demand. The impact of that on pricing, as I said earlier, [indiscernible] of our volume's contracted, so we're not going to see a real benefit from that and there is potential for the spot market pricing to increase.

William Bates Chappell
SunTrust Robinson Humphrey, Inc., Research Division

Got it. And so last on this, are you adding new customers or is it just you're -- just trying to understand. Are you just basically saying we are going to support our existing customers at pretty similar prices and any excess capacity is just going to go to them and so it's a level kind of increase or improvement over the next few months or you looking at outset new customers?

Dave Colo

Yeah. We have long-standing customer relationships, so, obviously, we're taking care of them first and including trying to support the additional needs they have. In scenarios like this, obviously, new customer opportunities exist because people start calling you versus you having to call them, so we also are evaluating new customers. But we'll continue that process as we go forward.

William Bates Chappell
SunTrust Robinson Humphrey, Inc., Research Division

Got it. So one last question. Remind me, just on uniquely positioned, what do you -- right now what you're doing differently versus just ethanol players?

Brandon M. Gall
VP of Finance & CFO

Yeah. Bill, this is Brandon. And so by uniquely positioned, going back to Dave's earlier comments that we've been doing this a long time. And we already have a standing customer base that's designed to as efficiently and quickly as possible get this type of product out to the market where it's needed the most and that's where we've been -- and that's where we've been for more than 75 years. And having those relationships with those existing customer puts us in the unique position to really help respond to this pandemic in the most efficient way possible.

Just to give you an example, on that, Bill, so one of our industrial customers, for example, is producing more than a million bottles of hand sanitizer per day for the response. MGP supplies, a majority of the alcohol of that customer. So just by going through our existing networks, we're able to uniquely add value and -- to the overall effort in response to the pandemic.

William Bates Chappell
SunTrust Robinson Humphrey, Inc., Research Division

Got it. Thanks so much.

Brandon M. Gall
VP of Finance & CFO

Thank you.

Dave Colo

Thank you.

Alex Joseph Fuhrman
Craig-Hallum Capital Group LLC, Research Division

The next question comes from Alex Fuhrman of Craig-Hallum. Please, go ahead. Great, thanks very much for taking my question. I thought it was interesting, the acquisition that you made during the quarter. Can you talk a little bit more about the thought that went into that and what kind of an opportunity that could be to expand your gin business. And then just thinking more broadly about your portfolio of brands, obviously, a small part of your business right now, can you talk about how the current environment has impacted your expansion plans for your brands? And does that -- does this change the execution of your branded strategy at all?

Brandon M. Gall
VP of Finance & CFO

Yeah. Alex, this is Brandon and I'll take a start at that. So yeah, we're very excited for the acquisition of Green Hat Gin. It's currently, as you know, located or sold in the Maryland, DC and Virginia and we see this as a great opportunity as the largest distilled gin manufacturer in the United States throughout a premium, super-premium, very well-positioned brand to our portfolio. It's an effort that I think you probably know, we've been talking about potentially adding a gin for some time now and we're very happy to see it come to fruition.

In terms of our overall effort in the branded space, like everybody else, we're not immune to a lot of the challenges that are out there, it's very difficult to launch new markets or to put a whole lot of new efforts in when you can't do live tastings and you can't visit retailers and distributors and so on. So like a lot of our peers, what we are doing is we're doing a lot of things virtually. We're trying to really keep our social media presence very prominent with our consumers and really trying to focus in on that effort until things normalize.

Alex Joseph Fuhrman
Craig-Hallum Capital Group LLC, Research Division

That's really helpful. Thank you and wishing you all the best at MGP and, Gus, wishing you well in the next chapter of your life here.

Augustus C. Griffin

CEO & Director

Thanks, Alex. I appreciate it.

Operator

Okay, this concludes our Q&A session, I would like to turn the conference back over to David Colo for closing remarks.

Dave Colo

Thank you for your interest in our company and for joining us today for our first quarter call. We are certainly pleased with the results this quarter and the continued progress we've made towards implementing our long-term strategic plan. I'm excited for the opportunity to lead this company forward and build on the momentum, culture and solid operating results achieved. I look forward to talking with you again after the second quarter.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.