

LANCASTER COLONY CORP  
Form 10-Q  
April 30, 2019

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 000-04065

Lancaster  
Colony  
Corporation  
(Exact name  
of registrant  
as specified  
in its  
charter)

Ohio 13-1955943  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

380 Polaris Parkway, Suite 400 43082  
Westerville, Ohio  
(Address of principal executive offices) (Zip Code)

614-224-7141  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

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Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes  No

As of April 18, 2019, there were approximately 27,505,000 shares of Common Stock, without par value, outstanding.

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LANCASTER COLONY CORPORATION AND SUBSIDIARIES  
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## PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements  
LANCASTER COLONY CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

| (Amounts in thousands, except share data)   | March<br>31,<br>2019 | June 30,<br>2018 |
|---|----------------------|------------------|
| <b>ASSETS</b>   |                      |                  |
| Current Assets:   |                      |                  |
| Cash and equivalents  | \$ 187,389           | \$ 205,752       |
| Receivables   | 81,156               | 72,960           |
| Inventories:  |                      |                  |
| Raw materials   | 36,407               | 32,673           |
| Finished goods  | 56,713               | 58,188           |
| Total inventories   | 93,120               | 90,861           |
| Other current assets  | 5,640                | 9,304            |
| Total current assets  | 367,305              | 378,877          |
| Property, Plant and Equipment:  |                      |                  |
| Land, buildings and improvements  | 147,497              | 132,318          |
| Machinery and equipment   | 326,061              | 293,409          |
| Total cost  | 473,558              | 425,727          |
| Less accumulated depreciation   | 249,060              | 234,914          |
| Property, plant and equipment-net   | 224,498              | 190,813          |
| Other Assets:   |                      |                  |
| Goodwill  | 210,429              | 168,030          |
| Other intangible assets-net   | 71,551               | 56,176           |
| Other noncurrent assets   | 12,502               | 10,595           |
| Total   | \$ 886,285           | \$ 804,491       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                      |                  |
| Current Liabilities:  |                      |                  |
| Accounts payable  | \$ 70,390            | \$ 57,978        |
| Accrued liabilities   | 38,407               | 35,789           |
| Total current liabilities   | 108,797              | 93,767           |
| Other Noncurrent Liabilities  |                      |                  |
| Deferred Income Taxes   | 42,464               | 41,638           |
| Commitments and Contingencies   | 20,016               | 16,804           |
| Shareholders' Equity:   |                      |                  |
| Preferred stock-authorized 3,050,000 shares; outstanding-none   |                      |                  |
| Common stock-authorized 75,000,000 shares; outstanding-March-27,504,669 shares;<br>June-27,487,989 shares | 121,565              | 119,232          |
| Retained earnings   | 1,344,638            | 1,279,343        |
| Accumulated other comprehensive loss  | (8,129 )             | (8,259 )         |
| Common stock in treasury, at cost   | (743,066 )           | (738,034 )       |
| Total shareholders' equity  | 715,008              | 652,282          |
| Total   | \$ 886,285           | \$ 804,491       |

See accompanying notes to condensed consolidated financial statements.



LANCASTER COLONY CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (UNAUDITED)

|   | Three Months<br>Ended<br>March 31, |           | Nine Months Ended<br>March 31, |           |
|---|------------------------------------|-----------|--------------------------------|-----------|
|   | 2019                               | 2018      | 2019                           | 2018      |
| (Amounts in thousands, except per share data) |                                    |           |                                |           |
| Net Sales                                     | \$317,882                          | \$296,174 | \$984,117                      | \$914,755 |
| Cost of Sales                                 | 242,485                            | 228,263   | 736,129                        | 687,430   |
| Gross Profit                                  | 75,397                             | 67,911    | 247,988                        | 227,325   |
| Selling, General and Administrative Expenses  | 37,981                             | 29,875    | 109,902                        | 97,005    |
| Change in Contingent Consideration            | 88                                 | 521       | (9,517 )                       | 1,514     |
| Operating Income                              | 37,328                             | 37,515    | 147,603                        | 128,806   |
| Other, Net                                    | 1,329                              | 525       | 3,682                          | 1,595     |
| Income Before Income Taxes                    | 38,657                             | 38,040    | 151,285                        | 130,401   |
| Taxes Based on Income                         | 8,053                              | 10,419    | 33,746                         | 27,474    |
| Net Income                                    | \$30,604                           | \$27,621  | \$117,539                      | \$102,927 |
| Net Income Per Common Share:                  |                                    |           |                                |           |
| Basic   | \$1.11                             | \$1.01    | \$4.28                         | \$3.75    |
| Diluted                                       | \$1.11                             | \$1.00    | \$4.26                         | \$3.74    |
| Weighted Average Common Shares Outstanding:   |                                    |           |                                |           |
| Basic   | 27,448                             | 27,405    | 27,436                         | 27,399    |
| Diluted                                       | 27,549                             | 27,458    | 27,543                         | 27,456    |

See accompanying notes to condensed consolidated financial statements.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (UNAUDITED)

| (Amounts in thousands)                                    | Three Months<br>Ended<br>March 31, |          | Nine Months Ended<br>March 31, |           |
|---|------------------------------------|----------|--------------------------------|-----------|
|   | 2019                               | 2018     | 2019                           | 2018      |
| Net Income  | \$30,604                           | \$27,621 | \$117,539                      | \$102,927 |
| Other Comprehensive Income:                               |                                    |          |                                |           |
| Defined Benefit Pension and Postretirement Benefit Plans: |                                    |          |                                |           |
| Amortization of loss, before tax                          | 102                                | 134      | 307                            | 402       |
| Amortization of prior service credit, before tax          | (46 )                              | (45 )    | (137 )                         | (136 )    |
| Total Other Comprehensive Income, Before Tax              | 56                                 | 89       | 170                            | 266       |
| Tax Attributes of Items in Other Comprehensive Income:    |                                    |          |                                |           |
| Amortization of loss, tax                                 | (24 )                              | (41 )    | (72 )                          | (140 )    |
| Amortization of prior service credit, tax                 | 11                                 | 14       | 32                             | 47        |
| Total Tax Expense   | (13 )                              | (27 )    | (40 )                          | (93 )     |
| Other Comprehensive Income, Net of Tax                    | 43                                 | 62       | 130                            | 173       |
| Comprehensive Income                                      | \$30,647                           | \$27,683 | \$117,669                      | \$103,100 |

See accompanying notes to condensed consolidated financial statements.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

|  | Nine Months Ended<br>March 31, |            |
|--|--------------------------------|------------|
| (Amounts in<br>thousands)  | 2019                           | 2018       |
| Cash Flows From<br>Operating Activities:   |                                |            |
| Net income   | \$ 117,539                     | \$ 102,927 |
| Adjustments to<br>reconcile net income<br>to net cash provided by<br>operating activities: |                                |            |
| Impacts of noncash<br>items:   |                                |            |
| Depreciation and<br>amortization   | 22,677                         | 19,899     |
| Change in contingent<br>consideration  | (9,517 )                       | 1,514      |
| Deferred income taxes<br>and other changes   | 3,910                          | (8,633 )   |
| Stock-based<br>compensation expense  | 4,542                          | 3,484      |
| Pension plan activity  | (602 )                         | (362 )     |
| Changes in operating<br>assets and liabilities:  |                                |            |
| Receivables  | (6,220 )                       | (6,828 )   |
| Inventories  | (766 )                         | (11,738 )  |
| Other current assets   | 3,080                          | (303 )     |
| Accounts payable and<br>accrued liabilities  | 8,780                          | 16,879     |
| Net cash provided by<br>operating activities   | 143,423                        | 116,839    |
| Cash Flows From<br>Investing Activities:   |                                |            |
| Cash paid for<br>acquisitions, net of<br>cash acquired                                     | (57,540 )                      | (318 )     |
| Payments for property<br>additions   | (43,966 )                      | (22,561 )  |
| Other-net  | (592 )                         | (36 )      |
| Net cash used in<br>investing activities   | (102,098 )                     | (22,915 )  |
| Cash Flows From<br>Financing Activities:   |                                |            |
| Payment of dividends   | (52,244 )                      | (48,044 )  |



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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Purchase of treasury stock                       | (5,032  | )       | (1,102  | )       |
| Tax withholdings for stock-based compensation    | (2,209  | )       | (552    | )       |
| Other-net  | (203    | )       | —       |         |
| Net cash used in financing activities            | (59,688 | )       | (49,698 | )       |
| Net change in cash and equivalents               | (18,363 | )       | 44,226  |         |
| Cash and equivalents at beginning of year        | 205,752 |         | 143,104 |         |
| Cash and equivalents at end of period            | \$      | 187,389 | \$      | 187,330 |
| Supplemental Disclosure of Operating Cash Flows: |         |         |         |         |
| Net cash payments for income taxes               | \$      | 25,373  | \$      | 37,196  |

See accompanying notes to condensed consolidated financial statements.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(UNAUDITED)

| (Amounts in thousands,<br>except per share data)                     | Nine Months Ended March 31, 2019 |            |                      |   |                   | Total<br>Shareholders'<br>Equity |
|--|----------------------------------|------------|----------------------|---|-------------------|----------------------------------|
|  | Common Stock<br>Outstanding      |            | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock |                                  |
|  | Shares                           | Amount     |                      |   |                   |                                  |
| Balance, June 30, 2018   | 27,488                           | \$ 119,232 | \$ 1,279,343         | \$ (8,259 )                                   | \$(738,034)       | \$ 652,282                       |
| Net income   |                                  |            | 39,028               |   |                   | 39,028                           |
| Net pension and postretirement benefit gains, net of \$13 tax effect |                                  |            |                      | 44  |                   | 44                               |
| Cash dividends - common stock (\$0.60 per share)                     |                                  |            | (16,495 )            |   |                   | (16,495 )                        |
| Purchase of treasury stock   | (10 )                            |            |                      |   | (1,593 )          | (1,593 )                         |
| Stock-based plans  | 12                               | (778 )     |                      |   |                   | (778 )                           |
| Stock-based compensation expense                                     |                                  | 1,531      |                      |   |                   | 1,531                            |
| Balance, September 30, 2018  | 27,490                           | 119,985    | 1,301,876            | (8,215 )                                      | (739,627 )        | 674,019                          |
| Net income   |                                  |            | 47,907               |   |                   | 47,907                           |
| Net pension and postretirement benefit gains, net of \$14 tax effect |                                  |            |                      | 43  |                   | 43                               |
| Cash dividends - common stock (\$0.65 per share)                     |                                  |            | (17,875 )            |   |                   | (17,875 )                        |
| Purchase of treasury stock   | (1 )                             |            |                      |   | (166 )            | (166 )                           |
| Stock-based plans  | 16                               | (988 )     |                      |   |                   | (988 )                           |
| Stock-based compensation expense                                     |                                  | 1,831      |                      |   |                   | 1,831                            |
| Balance, December 31, 2018   | 27,505                           | 120,828    | 1,331,908            | (8,172 )                                      | (739,793 )        | 704,771                          |
| Net income   |                                  |            | 30,604               |   |                   | 30,604                           |
| Net pension and postretirement benefit gains, net of \$13 tax effect |                                  |            |                      | 43  |                   | 43                               |
| Cash dividends - common stock (\$0.65 per share)                     |                                  |            | (17,874 )            |   |                   | (17,874 )                        |
| Purchase of treasury stock   | (21 )                            |            |                      |   | (3,273 )          | (3,273 )                         |
| Stock-based plans  | 21                               | (443 )     |                      |   |                   | (443 )                           |
| Stock-based compensation expense                                     |                                  | 1,180      |                      |   |                   | 1,180                            |
| Balance, March 31, 2019  | 27,505                           | \$ 121,565 | \$ 1,344,638         | \$ (8,129 )                                   | \$(743,066)       | \$ 715,008                       |

See accompanying notes to condensed consolidated financial statements.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (continued)  
 (UNAUDITED)

| (Amounts in thousands,<br>except per share data)  | Nine Months Ended March 31, 2018 |           |                      |   |                   | Total<br>Shareholders'<br>Equity |
|---|----------------------------------|-----------|----------------------|---|-------------------|----------------------------------|
|   | Common Stock<br>Outstanding      |           | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock |                                  |
|   | Shares                           | Amount    |                      |   |                   |                                  |
| Balance, June 30, 2017  | 27,448                           | \$115,174 | \$1,206,671          | \$ (8,936 )                                   | \$(736,932)       | \$ 575,977                       |
| Net income  |                                  |           | 29,386               |   |                   | 29,386                           |
| Net pension and postretirement benefit gains, net of \$33 tax effect  |                                  |           |                      | 56  |                   | 56                               |
| Cash dividends - common stock (\$0.55 per share)  |                                  |           | (15,092 )            |   |                   | (15,092 )                        |
| Purchase of treasury stock  | (7 )                             |           |                      |   | (849 )            | (849 )                           |
| Stock-based plans   | 1                                | (95 )     |                      |   |                   | (95 )                            |
| Stock-based compensation expense  |                                  | 1,163     |                      |   |                   | 1,163                            |
| Balance, September 30, 2017   | 27,442                           | 116,242   | 1,220,965            | (8,880 )                                      | (737,781 )        | 590,546                          |
| Net income  |                                  |           | 45,920               |   |                   | 45,920                           |
| Net pension and postretirement benefit gains, net of \$33 tax effect  |                                  |           |                      | 55  |                   | 55                               |
| Cash dividends - common stock (\$0.60 per share)  |                                  |           | (16,469 )            |   |                   | (16,469 )                        |
| Purchase of treasury stock  | —                                |           |                      |   | (4 )              | (4 )                             |
| Stock-based plans   | 9                                | (189 )    |                      |   |                   | (189 )                           |
| Stock-based compensation expense  |                                  | 1,150     |                      |   |                   | 1,150                            |
| Balance, December 31, 2017  | 27,451                           | 117,203   | 1,250,416            | (8,825 )                                      | (737,785 )        | 621,009                          |
| Net income  |                                  |           | 27,621               |   |                   | 27,621                           |
| Net pension and postretirement benefit gains, net of \$27 tax effect  |                                  |           |                      | 62  |                   | 62                               |
| Tax Cuts and Jobs Act of 2017,<br>Reclassification from accumulated other comprehensive loss to retained earnings |                                  |           | 1,889                | (1,889 )                                      |                   | —                                |
| Cash dividends - common stock (\$0.60 per share)  |                                  |           | (16,483 )            |   |                   | (16,483 )                        |
| Purchase of treasury stock  | (2 )                             |           |                      |   | (249 )            | (249 )                           |
| Stock-based plans   | 29                               | (268 )    |                      |   |                   | (268 )                           |
| Stock-based compensation expense  |                                  | 1,171     |                      |   |                   | 1,171                            |
| Balance, March 31, 2018   | 27,478                           | \$118,106 | \$1,263,443          | \$ (10,652 )                                  | \$(738,034)       | \$ 632,863                       |

See accompanying notes to condensed consolidated financial statements.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share data)

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Lancaster Colony Corporation and our wholly-owned subsidiaries, collectively referred to as “we,” “us,” “our,” “registrant” or the “Company” and have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and SEC Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, the interim condensed consolidated financial statements reflect all adjustments necessary for a fair presentation of the results of operations and financial position for such periods. All such adjustments reflected in the interim condensed consolidated financial statements are considered to be of a normal recurring nature. Intercompany transactions and accounts have been eliminated in consolidation. The results of operations for any interim period are not necessarily indicative of results for the full year. Accordingly, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in our 2018 Annual Report on Form 10-K. Unless otherwise noted, the term “year” and references to a particular year pertain to our fiscal year, which begins on July 1 and ends on June 30; for example, 2019 refers to fiscal 2019, which is the period from July 1, 2018 to June 30, 2019.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, except for those acquired as part of a business combination, which are recorded at fair value at the time of purchase. We use the straight-line method of computing depreciation for financial reporting purposes based on the estimated useful lives of the corresponding assets. Purchases of property, plant and equipment included in Accounts Payable and excluded from the property additions and the change in accounts payable in the Condensed Consolidated Statements of Cash Flows were as follows:

|  | March 31, |         |
|--|-----------|---------|
|  | 2019      | 2018    |
| Construction in progress in Accounts Payable | \$3,131   | \$1,279 |

Earnings Per Share

Earnings per share (“EPS”) is computed based on the weighted average number of shares of common stock and common stock equivalents (restricted stock and stock-settled stock appreciation rights) outstanding during each period. Unvested shares of restricted stock granted to employees are considered participating securities since employees receive nonforfeitable dividends prior to vesting and, therefore, are included in the earnings allocation in computing EPS under the two-class method. Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is computed by dividing income available to common shareholders by the diluted weighted average number of common shares outstanding during the period, which includes the dilutive potential common shares associated with nonparticipating restricted stock and stock-settled stock appreciation rights.

LANCASTER COLONY CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share data)

Basic and diluted net income per common share were calculated as follows:

|  | Three Months Ended March 31, |          | Nine Months Ended March 31, |           |
|--|------------------------------|----------|-----------------------------|-----------|
|  | 2019                         | 2018     | 2019                        | 2018      |
| Net income   | \$30,604                     | \$27,621 | \$117,539                   | \$102,927 |
| Net income available to participating securities     | (52 )                        | (58 )    | (212 )                      | (206 )    |
| Net income available to common shareholders          | \$30,552                     | \$27,563 | \$117,327                   | \$102,721 |
| Weighted average common shares outstanding – basic   | 27,448                       | 27,405   | 27,436                      | 27,399    |
| Incremental share effect from:                       |                              |          |                             |           |
| Nonparticipating restricted stock                    | 1                            | 2        | 3                           | 3         |
| Stock-settled stock appreciation rights              | 100                          | 51       | 104                         | 54        |
| Weighted average common shares outstanding – diluted | 27,549                       | 27,458   | 27,543                      | 27,456    |
| Net income per common share – basic                  | \$1.11                       | \$1.01   | \$4.28                      | \$3.75    |
| Net income per common share – diluted                | \$1.11                       | \$1.00   | \$4.26                      | \$3.74    |

Accumulated Other Comprehensive Loss

The following table presents the amounts reclassified out of accumulated other comprehensive loss by component:

|  | Three Months Ended March 31, |            | Nine Months Ended March 31, |            |
|--|------------------------------|------------|-----------------------------|------------|
|  | 2019                         | 2018       | 2019                        | 2018       |
| Accumulated other comprehensive loss at beginning of period  | \$(8,172)                    | \$(8,825 ) | \$(8,259)                   | \$(8,936 ) |
| Defined Benefit Pension Plan Items:  |                              |            |                             |            |
| Amortization of unrecognized net loss  | 111                          | 143        | 335                         | 429        |
| Postretirement Benefit Plan Items:   |                              |            |                             |            |
| Amortization of unrecognized net gain  | (9 )                         | (9 )       | (28 )                       | (27 )      |
| Amortization of prior service credit   | (46 )                        | (45 )      | (137 )                      | (136 )     |
| Total other comprehensive income, before tax   | 56                           | 89         | 170                         | 266        |
| Total tax expense  | (13 )                        | (27 )      | (40 )                       | (93 )      |
| Other comprehensive income, net of tax   | 43                           | 62         | 130                         | 173        |
| Tax Cuts and Jobs Act of 2017, Reclassification from accumulated other comprehensive loss to retained earnings | —                            | (1,889 )   | —                           | (1,889 )   |
| Accumulated other comprehensive loss at end of period  | \$(8,129)                    | \$(10,652) | \$(8,129)                   | \$(10,652) |

Significant Accounting Policies

There were no changes to our Significant Accounting Policies from those disclosed in our 2018 Annual Report on Form 10-K. See expanded disclosure of revenue recognition policies in Note 3.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance to require lessees to recognize a right-of-use asset and a lease liability for leases with terms of more than 12 months and issued subsequent clarifications of this new guidance. This guidance retains the two classifications of a lease as either an operating or finance lease (previously referred to as a capital lease). Both lease classifications require the lessee to record a right-of-use asset and a lease liability based upon the present value of the lease payments. Finance leases will reflect the financial arrangement by recognizing interest expense on the lease liability separately from the amortization

expense of the right-of-use asset. Operating leases will recognize lease expense (with no separate recognition of interest expense) on a straight-line basis over the term of the lease. The guidance requires expanded qualitative and quantitative disclosures, including additional information about the amounts recorded in the consolidated financial statements. The guidance will be effective for us in fiscal 2020, including interim periods. In July 2018, the FASB issued guidance that allows for an alternate transition method whereby companies can

LANCASTER COLONY CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share data)

recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than restating comparative periods. We expect to elect this alternate transition method. While the adoption of this guidance will result in a significant increase in the balances of right-of-use assets and lease liabilities on our Consolidated Balance Sheet, we do not expect the adoption to impact our results of operations or cash flows. We are currently assessing the impact that this standard will have on our accounting policies, processes, system requirements, internal controls and disclosures. We have completed an initial review of our leases and have implemented lease accounting software, and we are preparing to calculate the adoption impact on our financial statements.

In August 2018, the FASB issued new accounting guidance related to the disclosure requirements for fair value measurements. The guidance removes, modifies and adds disclosures related to fair value. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. This guidance will be effective for us in fiscal 2021, including interim periods. As the guidance only relates to disclosures, there will be no impact on our financial position or results of operations.

Recently Adopted Accounting Standards

In May 2014, the FASB issued new accounting guidance for the recognition of revenue and issued subsequent clarifications of this new guidance in 2016 and 2017. The core principle of the new guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This model is based on a control approach. We completed a review of customer contracts and evaluated the impact of the new standard on certain common practices employed by us. We also finalized our assessment of the impact on our accounting policies, processes, system requirements, internal controls and disclosures using internal resources and the assistance of a qualified third party expert. We adopted the new guidance on July 1, 2018 using a modified retrospective approach; however, we did not record a cumulative-effect adjustment from initially applying the standard as the adoption did not have a material impact on our financial position or results of operations. See additional revenue recognition disclosures in Note 3.

In March 2017, the FASB issued new accounting guidance to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost by disaggregating the service cost component from the other components of net periodic benefit cost. The amendments require an employer to present service cost in the same line item(s) as compensation costs for the pertinent employees whereas the other components of net periodic benefit cost must be reported separately from service cost and outside of income from operations. The amendments also allow only the service cost component to be eligible for capitalization. The amendments require retrospective application for the income statement presentation provisions and prospective application for the capitalization of the service cost component. However, as a result of prior years' restructuring activities, we no longer have any active employees continuing to accrue service cost. Therefore, the service cost provisions are not applicable to us. We adopted the new guidance on July 1, 2018, and this adoption resulted in changes in classification on the income statement for all periods presented. The changes were not material.

In August 2018, the FASB issued new accounting guidance to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Costs for implementation activities in the application development stage are capitalized depending on the nature of the costs, while costs incurred during the preliminary project and postimplementation stages are expensed as the activities are performed. The guidance also requires such capitalized implementation costs to be expensed over the term of the hosting arrangement and advises on related presentation within the statement of financial position, the statement of income and statement of cash flows. The

guidance will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2019 and should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Early adoption is permitted. We adopted this guidance in the first quarter of fiscal 2019 on a prospective basis. The adoption resulted in a change in accounting principle, to capitalize certain costs instead of expensing them immediately. The costs capitalized under this new guidance were not material to our condensed consolidated financial statements.

In August 2018, the FASB issued new accounting guidance related to the disclosure requirements for defined benefit plans. The guidance removes, adds and clarifies disclosure requirements related to defined benefit pension or other postretirement plans. The guidance will be effective for fiscal years ending after December 15, 2020 and should be applied on a retrospective basis to all periods presented. Early adoption is permitted. We adopted this guidance in the first quarter of fiscal 2019. As the guidance only relates to disclosures, there was no impact on our financial position or results of operations. Changes to our annual disclosures for defined benefit pension plans will be included in our 2019 Annual Report on Form 10-K.



LANCASTER COLONY CORPORATION AND SUBSIDIARIES  
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(Tabular amounts in thousands, except per share data)

Note 2 – Acquisitions

Bantam Bagels, LLC

On October 19, 2018, we acquired all the assets of Bantam Bagels, LLC (“Bantam”). Bantam, a producer and marketer of frozen mini stuffed bagels and mini stuffed pancakes sold to both the retail and foodservice channels, is based in New York, New York. The base purchase price of \$33.1 million, which includes the post-closing working capital adjustment, was funded with cash on hand. This purchase price excludes contingent consideration relating to an additional earn-out payment which is tied to performance-based conditions. In general, the terms of the acquisition specify that the sellers will receive an earn-out based upon a pre-determined multiple of the defined adjusted EBITDA of Bantam for the twelve months ending December 31, 2023. We are unable to provide a range for the amount of this earn-out because it is based on the future adjusted EBITDA of Bantam, and the earn-out does not contain a minimum or maximum value. See further discussion of the earn-out in Note 4. Bantam’s results of operations are allocated between our Retail and Foodservice segments in a manner consistent with our current segment allocations. These results have been included in our condensed consolidated financial statements from the date of acquisition. This acquisition is not significant to our financial position or results of operations.

The following table summarizes the consideration related to the acquisition and the purchase price allocation based on the fair value of the net assets acquired. The initial fair value of the contingent consideration is a noncash investing activity.

Consideration

|  |          |
|--|----------|
| Cash paid for acquisition  | \$33,111 |
| Contingent consideration - fair value of earn-out at date of closing | 8,000    |
| Fair value of total consideration                                    | \$41,111 |

Purchase Price Allocation

|                              |          |
|------------------------------|----------|
| Receivables                  | \$1,937  |
| Inventories                  | 684      |
| Other current assets         | 95       |
| Machinery and equipment      | 1,896    |
| Goodwill (tax deductible)    | 20,677   |
| Other intangible assets      | 18,700   |
| Current liabilities          | (2,256 ) |
| Other noncurrent liabilities | (622 )   |
| Net assets acquired          | \$41,111 |

Further adjustments are not expected to the allocation above.

The goodwill recognized above arose because the purchase price for Bantam reflects a number of factors including the future earnings and cash flow potential of Bantam, as well as the impact of the inclusion of the initial fair value of the earn-out associated with the acquisition. Bantam is a fast growing, on-trend business with distribution in traditional grocery, club stores, e-commerce and foodservice. Notably, in the foodservice channel, Bantam Bagels® bagel bites are available at corporate-owned Starbucks® cafes nationwide. Bantam also provides innovation opportunities within and beyond our present product lines. A small amount of goodwill also resulted from the workforce acquired with Bantam.

We have determined values and lives of the other intangible assets listed in the allocation above as: \$12.8 million for the tradename with a 20-year life; \$3.3 million for the customer relationships with a 10-year life and \$2.6 million for the technology / know-how with a 10-year life.

Pro forma results of operations have not been presented herein as the acquisition was not material to our results of operations.



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Omni Baking Company LLC

On November 16, 2018, we acquired all the assets of Omni Baking Company LLC (“Omni”). Omni has been a long-time supplier of products to our frozen garlic bread operations and is based in Vineland, New Jersey. The purchase price of \$24.4 million, which is subject to post-closing adjustments, was funded with cash on hand. Omni’s results of operations are allocated between our Retail and Foodservice segments in a manner consistent with our current segment allocations. These results have been included in our condensed consolidated financial statements from the date of acquisition. This acquisition is not significant to our financial position or results of operations.

The following table summarizes the preliminary purchase price allocation based on the fair value of the net assets acquired.

Preliminary Purchase Price Allocation

|                           |          |
|---------------------------|----------|
| Inventories               | \$809    |
| Other current assets      | 180      |
| Machinery and equipment   | 4,777    |
| Goodwill (tax deductible) | 21,722   |
| Current liabilities       | (3,059 ) |
| Net assets acquired       | \$24,429 |

Further adjustments may occur to the allocation above as certain aspects of the transaction are finalized during the measurement period, including the post-closing working capital adjustment. In addition to the machinery and equipment acquired, we also assumed an operating lease for Omni’s production facility with future minimum rental commitments totaling \$7.2 million as of the date of acquisition. This lease continues through December 2026.

The goodwill recognized above arose because the purchase price for Omni reflects a number of factors including the production capabilities of the leased facility and the ability to expand production in the future. Goodwill also resulted from the workforce acquired with Omni. Due to the transitional nature of the foodservice operations, which are related to an interim supply agreement, no goodwill was allocated to the Foodservice segment.

Due to the unique nature of this acquisition, we did not identify any intangible assets apart from goodwill.

Pro forma results of operations have not been presented herein as the acquisition was not material to our results of operations.

Note 3 – Revenue Recognition

We adopted the new revenue recognition guidance on July 1, 2018 using a modified retrospective approach; however, we did not record a cumulative-effect adjustment from initially applying the standard as the adoption did not have a material impact on our financial position or results of operations. We completed a review of customer contracts and evaluated the impact of the new standard on certain common practices employed by us. We also finalized our assessment of the impact on our accounting policies, processes, system requirements, internal controls and disclosures using internal resources and the assistance of a qualified third party expert.

When Performance Obligations Are Satisfied

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account for revenue recognition. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The singular performance obligation of our customer contracts is determined by each individual purchase order and the respective food products ordered, with revenue being recognized at a point-in-time when the obligation under the terms of the agreement is satisfied and product control is transferred to our customer. Specifically, control transfers to our customers when the product is delivered to or picked up by our customers based upon applicable shipping terms, as our customers can direct the use and obtain substantially all of the remaining benefits from the asset at this point in time. The performance obligations in our customer contracts are generally satisfied within 30 days. As such, we have not disclosed the transaction price allocated to remaining performance obligations as of March 31, 2019.



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Significant Payment Terms

In general, within our customer contracts, the purchase order identifies the product, quantity, price, pick-up allowances, payment terms and final delivery terms. Payment terms usually include early pay discounts. We grant payment terms consistent with industry standards. Although some payment terms may be more extended, presently the majority of our payment terms are less than 60 days. As a result, we have used the available practical expedient and, consequently, do not adjust our revenues for the effects of a significant financing component.

Shipping

All shipping and handling costs associated with outbound freight are accounted for as fulfillment costs and are included in our cost of sales; this includes shipping and handling costs incurred after control over a product has transferred to a customer, as we have chosen to use the available practical expedient to account for these costs within our cost of sales.

Variable Consideration

In addition to fixed contract consideration, our contracts include some form of variable consideration, including sales discounts, returns, trade promotions and certain other sales and consumer incentives, including rebates and coupon redemptions. In general, variable consideration is treated as a reduction in revenue when the related revenue is recognized. Depending on the specific type of variable consideration, we use either the expected value or most likely amount method to determine the variable consideration. We believe there will be no significant changes to our estimates of variable consideration when any related uncertainties are resolved with our customers. We review and update our estimates and related accruals of variable consideration each period based on historical experience and any recent changes in the market.

Warranties & Returns

We provide all customers with a standard or assurance type warranty. Either stated or implied, we provide assurance the related products will comply with all agreed-upon specifications and other warranties provided under the law. No services beyond an assurance warranty are provided to our customers.

We do not grant a general right of return. However, customers may return defective or non-conforming products. Customer remedies may include either a cash refund or an exchange of the product. As a result, the right of return and related refund liability is estimated and recorded as a reduction in revenue. This return estimate is reviewed and updated each period and is based on historical sales and return experience.

Contract Balances

We do not have deferred revenue or unbilled receivable balances and thus do not have any related contract asset and liability balances as of March 31, 2019.

Contract Costs

We have identified sales commissions as an incremental cost incurred to obtain a customer contract. These costs are required to be capitalized under the new revenue recognition standard. We have chosen to use the available practical expedient to continue to expense these costs as incurred as the amortization period for such costs is one year or less. We do not incur significant fulfillment costs related to customer contracts which would require capitalization.

Disaggregation of Revenue

See Note 9 for disaggregation of our net sales by class of similar product and type of customer.

Note 4 – Fair Value

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. GAAP sets forth a three-level fair value hierarchy, which prioritizes the inputs used in measuring fair value. The three levels are as follows:

Level 1 – defined as observable inputs, such as quoted market prices in active markets.

Level 2 – defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3 – defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

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Our financial assets and liabilities subject to the three-level fair value hierarchy consist principally of cash and equivalents, accounts receivable, accounts payable, contingent consideration payable and defined benefit pension plan assets. The estimated fair value of cash and equivalents, accounts receivable and accounts payable approximates their carrying value.

Our contingent consideration, which resulted from the earn-outs associated with our acquisitions of Bantam and Angelic Bakehouse, Inc. (“Angelic”), is measured at fair value on a recurring basis and is included in Other Noncurrent Liabilities on the Condensed Consolidated Balance Sheets. The following table summarizes our contingent consideration:

|                                    | Fair Value Measurements<br>at March 31, 2019 |       |               |
|------------------------------------|--|-------|---------------|
|                                    | Level  |       | Level 3 Total |
|                                    | 1  | 2     |               |
| Contingent consideration - Bantam  | \$—  | —     | \$8,183       |
| Contingent consideration - Angelic | —  | 7,380 | 7,380         |
| Total contingent consideration     | \$—  | —     | \$15,563      |

|                                    | Fair Value Measurements<br>at June 30, 2018 |        |               |
|------------------------------------|---|--------|---------------|
|                                    | Level                                       |        | Level 3 Total |
|                                    | 1   | 2      |               |
| Contingent consideration - Bantam  | \$—   | —      | \$—           |
| Contingent consideration - Angelic | —   | 17,080 | 17,080        |
| Total contingent consideration     | \$—   | —      | \$17,080      |

**Bantam Contingent Consideration**

This contingent consideration resulted from the earn-out associated with our October 19, 2018 acquisition of Bantam. In general, the terms of the acquisition specify the sellers will receive an earn-out based upon a pre-determined multiple of the defined adjusted EBITDA of Bantam for the twelve months ending December 31, 2023. The initial fair value of the contingent consideration was determined to be \$8.0 million, which includes a refinement to the purchase price allocation in the current quarter related to a change in assumptions. The fair value is measured on a recurring basis using a Monte Carlo simulation that randomly changes revenue, EBITDA and other uncertain variables to estimate an expected value. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy.

The following table represents our Level 3 fair value measurements using significant other unobservable inputs for Bantam’s contingent consideration:

|   | Three Months Ended |                | Nine Months Ended |                |
|---|--------------------|----------------|-------------------|----------------|
|   | March 31, 2019     | March 31, 2018 | March 31, 2019    | March 31, 2018 |
| Contingent consideration at beginning of period                 | \$8,995            | \$—            | \$—               | \$—            |
| Initial fair value - (reductions)/additions                     | (900)              | —              | 8,000             | —              |
| Change in contingent consideration included in operating income | 88                 | —              | 183               | —              |
| Contingent consideration at end of period                       | \$8,183            | \$—            | \$8,183           | \$—            |

**Angelic Contingent Consideration**

This contingent consideration resulted from the earn-out associated with our November 17, 2016 acquisition of Angelic. In general, the terms of the acquisition specify the sellers will receive an earn-out based upon a

pre-determined multiple of the defined adjusted EBITDA of Angelic for fiscal 2021. The initial fair value of the contingent consideration was determined to be \$13.9 million. The fair value is measured on a recurring basis using a present value approach, which incorporates factors such as business risks and projections, to estimate an expected value. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. Our December 31, 2018 fair value measurement resulted in a \$9.7 million reduction in the fair value of Angelic's contingent consideration based on a change in Angelic's forecasted adjusted EBITDA for fiscal 2021. This adjustment was recorded in our Retail segment.



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The following table represents our Level 3 fair value measurements using significant other unobservable inputs for Angelic's contingent consideration:

|   | Three Months<br>Ended<br>March 31,<br>2019 |          | Nine Months<br>Ended<br>March 31,<br>2018 |          |
|---|--|----------|---|----------|
| Contingent consideration at beginning of period                 | \$7,380                                    | \$16,021 | \$17,080                                  | \$15,028 |
| Change in contingent consideration included in operating income | —  | 521      | (9,700)                                   | 1,514    |
| Contingent consideration at end of period                       | \$7,380                                    | \$16,542 | \$7,380                                   | \$16,542 |

Note 5 – Long-Term Debt

At March 31, 2019 and June 30, 2018, we had an unsecured credit facility (“Facility”) under which we could borrow, on a revolving credit basis, up to a maximum of \$150 million at any one time, with potential to expand the total credit availability to \$225 million subject to us obtaining consent of the issuing banks and certain other conditions. The Facility expires on April 8, 2021, and all outstanding amounts are then due and payable. Interest is variable based upon formulas tied to LIBOR or an alternative base rate defined in the Facility, at our option. We must also pay facility fees that are tied to our then-applicable consolidated leverage ratio. Loans may be used for general corporate purposes. Due to the nature of its terms, when we have outstanding borrowings under the Facility, they will be classified as long-term debt.

At March 31, 2019 and June 30, 2018, we had no borrowings outstanding under the Facility. At March 31, 2019 and June 30, 2018, we had \$5.1 million of standby letters of credit outstanding, which reduced the amount available for borrowing on the Facility. We paid no interest for the three and nine months ended March 31, 2019 and 2018.

The Facility contains certain restrictive covenants, including limitations on indebtedness, asset sales and acquisitions. There are two principal financial covenants: an interest expense test that requires us to maintain an interest coverage ratio not less than 2.5 to 1 at the end of each fiscal quarter; and an indebtedness test that requires us to maintain a consolidated leverage ratio not greater than 3 to 1 at all times. The interest coverage ratio is calculated by dividing Consolidated EBIT by Consolidated Interest Expense, and the leverage ratio is calculated by dividing Consolidated Debt by Consolidated EBITDA. All financial terms used in the covenant calculations are defined more specifically in the Facility.

Note 6 – Commitments and Contingencies

At March 31, 2019, we were a party to various claims and litigation matters arising in the ordinary course of business. Such matters did not have a material effect on the current-year results of operations and, in our opinion, their ultimate disposition will not have a material effect on our consolidated financial statements.

We have a significant commitment of approximately \$40 million related to a capacity expansion project at our frozen dinner roll facility in Horse Cave, Kentucky.

With our acquisitions of Angelic and Bantam, we have contingent liabilities recorded for the earn-outs associated with these transactions. See further discussion in Note 4.

Note 7 – Goodwill and Other Intangible Assets

Goodwill attributable to the Retail and Foodservice segments was \$159.5 million and \$51.0 million, respectively, at March 31, 2019 compared to \$119.3 million and \$48.7 million, respectively, at June 30, 2018. The increase in goodwill is the result of the acquisitions of Bantam in October 2018 and Omni in November 2018. See further discussion in Note 2.

The following table is a rollforward of goodwill by reportable segment from June 30, 2018 to March 31, 2019:

|  | Retail    | Foodservice | Total     |
|--|-----------|-------------|-----------|
| Goodwill at beginning of year                | \$119,301 | \$48,729    | \$168,030 |
| Goodwill acquired during the period - Bantam | 18,431    | 2,246       | 20,677    |

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|  |            |           |            |
|--|------------|-----------|------------|
| Goodwill acquired during the period - Omni | 21,722     | —         | 21,722     |
| Goodwill at end of period                  | \$ 159,454 | \$ 50,975 | \$ 210,429 |

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The following table summarizes our identifiable other intangible assets. The intangible asset values and lives related to the acquisition of Bantam are included in the table below. See further discussion in Note 2.

|   | March<br>31,<br>2019 | June 30,<br>2018 |
|---|----------------------|------------------|
| Tradenames (20 to 30-year life)             |                      |                  |
| Gross carrying value                        | \$63,121             | \$50,321         |
| Accumulated amortization                    | (6,688 )             | (5,071 )         |
| Net carrying value                          | \$56,433             | \$45,250         |
| Customer Relationships (10 to 15-year life) |                      |                  |
| Gross carrying value                        | \$17,507             | \$14,207         |
| Accumulated amortization                    | (9,277 )             | (8,283 )         |
| Net carrying value                          | \$8,230              | \$5,924          |
| Technology / Know-how (10-year life)        |                      |                  |
| Gross carrying value                        | \$8,950              | \$6,350          |
| Accumulated amortization                    | (2,277 )             | (1,682 )         |
| Net carrying value                          | \$6,673              | \$4,668          |
| Non-compete Agreements (5-year life)        |                      |                  |
| Gross carrying value                        | \$791                | \$791            |
| Accumulated amortization                    | (576 )               | (457 )           |
| Net carrying value                          | \$215                | \$334            |
| Total net carrying value                    | \$71,551             | \$56,176         |

Amortization expense for our other intangible assets, which is reflected in Selling, General and Administrative Expenses, was as follows:

|                      | Three Months<br>Ended<br>March 31,<br>2019 |         | Nine Months<br>Ended<br>March 31,<br>2018 |         |
|----------------------|--|---------|---|---------|
| Amortization expense | \$1,273                                    | \$1,007 | \$3,325                                   | \$2,980 |

Total annual amortization expense for each of the next five years is estimated to be as follows:

|      |         |
|------|---------|
| 2020 | \$5,061 |
| 2021 | \$4,976 |
| 2022 | \$4,902 |
| 2023 | \$4,343 |
| 2024 | \$4,343 |

Note 8 – Income Taxes

The Tax Cuts and Jobs Act of 2017 (“Tax Act”) was signed into law on December 22, 2017 with an effective date of January 1, 2018. Most notably, the Tax Act reduced the statutory federal income tax rate for corporations from 35% to 21%. The statutory federal income tax rate for our 2019 tax return will be 21%.

The SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”) on December 22, 2017. SAB 118 allowed for a measurement period in which companies can either use provisional estimates for changes resulting from the Tax Act or apply the tax laws that were in effect immediately prior to the Tax Act being enacted if estimates cannot be determined at the time of the preparation of the financial statements until the actual impacts can be determined. We recorded an initial estimate of the impact of the Tax Act within our December 31, 2017 financial statements, and the

adjustments recorded in the second half of 2018 were not material. The measurement period has ended, and we have completed the accounting for all the impacts of the Tax Act.

Accrued federal income taxes of \$1.1 million were included in Accrued Liabilities at March 31, 2019. Prepaid federal income taxes of \$3.6 million and prepaid state and local income taxes of \$0.9 million were included in Other Current Assets at June 30, 2018. Prepaid state and local income taxes were an immaterial amount at March 31, 2019.

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Note 9 – Business Segment Information

Our financial results are presented as two reportable segments: Retail and Foodservice. Costs that are directly attributable to either Retail or Foodservice are charged directly to the appropriate segment. Costs that are deemed to be indirect, excluding corporate expenses and other unusual significant transactions, are allocated to the two reportable segments using a reasonable methodology that is consistently applied.

Retail - The vast majority of the products we sell in the Retail segment are sold through sales personnel, food brokers and distributors in the United States. We have placement of products in grocery produce departments through our refrigerated salad dressings, vegetable dips and fruit dips. Our flatbread products and sprouted grain bakery products are generally placed in the specialty bakery/deli section of the grocery store. We also have products typically marketed in the shelf-stable section of the grocery store, which include salad dressing, slaw dressing and croutons. Within the frozen food section of the grocery store, we sell yeast rolls, garlic breads and mini stuffed bagels.

Foodservice - The vast majority of the products we sell in the Foodservice segment are sold through sales personnel, food brokers and distributors in the United States. Most of the products we sell in the Foodservice segment are custom-formulated and include salad dressings, sandwich and dipping sauces, frozen breads and yeast rolls. The majority of our Foodservice sales are products sold under private label to restaurants. We also manufacture and sell various branded Foodservice products to distributors. Finally, within this segment, we sell other roll products under a transitional co-packing arrangement resulting from the Omni acquisition.

As many of our products are similar between our two segments, our procurement, manufacturing, warehousing and distribution activities are substantially integrated across our operations in order to maximize efficiency and productivity. Consequently, we do not prepare, and our Chief Operating Decision Maker does not review, separate balance sheets for the reportable segments. As such, our external reporting does not include the presentation of identifiable assets by reportable segment. The composition of our identifiable assets at March 31, 2019 is generally consistent with that of June 30, 2018. However, due to the acquisitions of Bantam in October 2018 and Omni in November 2018, the amount of Retail and Foodservice assets increased as compared to June 30, 2018.

We continue to evaluate our Retail and Foodservice segments based on net sales and operating income which follow:

|                    | Three Months Ended |           | Nine Months Ended |           |
|--------------------|--------------------|-----------|-------------------|-----------|
|                    | March 31,          |           | March 31,         |           |
|                    | 2019               | 2018      | 2019              | 2018      |
| Net Sales          |                    |           |                   |           |
| Retail             | \$153,038          | \$152,011 | \$502,088         | \$493,441 |
| Foodservice        | 164,844            | 144,163   | 482,029           | 421,314   |
| Total              | \$317,882          | \$296,174 | \$984,117         | \$914,755 |
| Operating Income   |                    |           |                   |           |
| Retail             | \$24,082           | \$26,324  | \$102,815         | \$96,511  |
| Foodservice        | 17,124             | 14,297    | 55,390            | 42,398    |
| Corporate Expenses | (3,878 )           | (3,106 )  | (10,602 )         | (10,103 ) |
| Total              | \$37,328           | \$37,515  | \$147,603         | \$128,806 |

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The following table sets forth net sales disaggregated by class of similar products for the Retail and Foodservice segments:

|  | Three Months<br>Ended<br>March 31,<br>2019 |           | Nine Months<br>Ended<br>March 31,<br>2019 |           |
|--|--|-----------|---|-----------|
|  | 2018                                       | 2018      | 2018                                      | 2018      |
| <b>Retail</b>                          |  |           |   |           |
| Frozen breads                          | \$59,846                                   | \$56,360  | \$207,256                                 | \$202,843 |
| Refrigerated dressings, dips and other | 47,900                                     | 50,327    | 164,973                                   | 164,785   |
| Shelf-stable dressings and croutons    | 45,292                                     | 45,324    | 129,859                                   | 125,813   |
| Total Retail net sales                 | \$153,038                                  | \$152,011 | \$502,088                                 | \$493,441 |
| <b>Foodservice</b>                     |  |           |   |           |
| Dressings and sauces                   | \$115,746                                  | \$108,757 | \$347,583                                 | \$316,202 |
| Frozen breads and other                | 41,230                                     | 35,406    | 122,742                                   | 105,112   |
| Other roll products                    | 7,868                                      | —         | 11,704                                    | —         |
| Total Foodservice net sales            | \$164,844                                  | \$144,163 | \$482,029                                 | \$421,314 |
| Total net sales                        | \$317,882                                  | \$296,174 | \$984,117                                 | \$914,755 |

The following table provides an additional disaggregation of Foodservice net sales by type of customer:

|                             | Three Months<br>Ended<br>March 31,<br>2019 |           | Nine Months<br>Ended<br>March 31,<br>2019 |           |
|-----------------------------|--|-----------|---|-----------|
|                             | 2018                                       | 2018      | 2018                                      | 2018      |
| <b>Foodservice</b>          |  |           |   |           |
| National accounts           | \$119,875                                  | \$108,406 | \$356,102                                 | \$314,180 |
| Branded and other           | 37,101                                     | 35,757    | 114,223                                   | 107,134   |
| Other roll products         | 7,868                                      | —         | 11,704                                    | —         |
| Total Foodservice net sales | \$164,844                                  | \$144,163 | \$482,029                                 | \$421,314 |

Note 10 – Stock-Based Compensation

There have been no changes to our stock-based compensation plans from those disclosed in our 2018 Annual Report on Form 10-K.

Our stock-settled stock appreciation rights (“SSSARs”) compensation expense was \$0.7 million and \$0.6 million for the three months ended March 31, 2019 and 2018, respectively. Year-to-date SSSARs compensation expense was \$2.3 million for the current-year period compared to \$1.7 million for the prior-year period. At March 31, 2019, there was \$5.5 million of unrecognized compensation expense related to SSSARs that we will recognize over a weighted-average period of 2 years.

Our restricted stock compensation expense was \$0.5 million and \$0.6 million for the three months ended March 31, 2019 and 2018, respectively. Year-to-date restricted stock compensation expense was \$2.2 million for the current-year period compared to \$1.8 million for the prior-year period. At March 31, 2019, there was \$4.2 million of unrecognized compensation expense related to restricted stock that we will recognize over a weighted-average period of 2 years.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our fiscal year begins on July 1 and ends on June 30. Unless otherwise noted, references to "year" pertain to our fiscal year; for example, 2019 refers to fiscal 2019, which is the period from July 1, 2018 to June 30, 2019.

The following discussion should be read in conjunction with our condensed consolidated financial statements and the notes thereto, all included elsewhere in this report, and our 2018 Annual Report on Form 10-K. The forward-looking statements in this section and other parts of this report involve risks, uncertainties and other factors, including statements regarding our plans, objectives, goals, strategies, and financial performance. Our actual results could differ materially from the results anticipated in these forward-looking statements due to these factors. For more information, see the section below entitled "Forward-Looking Statements."

### OVERVIEW

#### Business Overview

Lancaster Colony Corporation is a manufacturer and marketer of specialty food products for the retail and foodservice channels.

Our financial results are presented as two reportable segments: Retail and Foodservice. Costs that are directly attributable to either Retail or Foodservice are charged directly to the appropriate segment. Costs that are deemed to be indirect, excluding corporate expenses and other unusual significant transactions, are allocated to the two reportable segments using a reasonable methodology that is consistently applied.

Over 95% of our products are sold in the United States. Foreign operations and export sales have not been significant in the past and are not expected to be significant in the future based upon existing operations. We do not have any fixed assets located outside of the United States.

Our business has the potential to achieve future growth in sales and profitability due to attributes such as:

- leading Retail market positions in several product categories with a high-quality perception;
- recognized innovation in Retail products;
- a broad customer base in both Retail and Foodservice accounts;
- well-regarded culinary expertise among Foodservice customers;
- recognized leadership in Foodservice product development;
- experience in integrating complementary business acquisitions; and
- historically strong cash flow generation that supports growth opportunities.

Our goal is to grow both Retail and Foodservice segment sales over time by:

- introducing new products and expanding distribution;
- leveraging the strength of our Retail brands to increase current product sales;
- continuing to rely upon the strength of our reputation in Foodservice product development and quality; and
- acquiring complementary businesses.

We continue to review potential acquisitions that we believe will complement our existing product lines, enhance our profitability and/or offer good expansion opportunities in a manner that fits our overall strategic goals.

Consistent with this acquisition strategy, in October 2018 we acquired, using available cash on hand, all the assets of Bantam Bagels, LLC ("Bantam"), a producer and marketer of frozen mini stuffed bagels and mini stuffed pancakes sold to both the retail and foodservice channels. Also, in November 2018 we acquired, using available cash on hand, all the assets of Omni Baking Company LLC ("Omni"), a long-time supplier of products to our frozen garlic bread operations. See further discussion of these acquisitions in Note 2 to the condensed consolidated financial statements.

We have made substantial capital investments to support our existing operations and future growth opportunities.

Based on our current plans and expectations, we believe our capital expenditures for 2019 will total approximately \$70 million, which includes a substantial investment for a capacity expansion project at our frozen dinner roll facility in Horse Cave, Kentucky that we expect to complete in mid-2020. We are nearing the completion of a dedicated R&D center in central Ohio that will benefit both the Retail and Foodservice segments, and we are also investing in production capacity and increased automation at Angelic Bakehouse, Inc. ("Angelic") to improve efficiencies in production. We have recently commenced several projects to expand packaging capacity and end-of-line automation for both segments. We will fund our remaining capital needs in 2019 with cash generated from operations and cash on

hand.

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## RESULTS OF CONSOLIDATED OPERATIONS

## Net Sales and Gross Profit

| (Dollars in thousands) | Three Months Ended<br>March 31, |           |              | Nine Months Ended<br>March 31, |           |              |
|------------------------|---------------------------------|-----------|--------------|--------------------------------|-----------|--------------|
|                        | 2019                            | 2018      | Change       | 2019                           | 2018      | Change       |
| Net Sales              |                                 |           |              |                                |           |              |
| Retail                 | \$153,038                       | \$152,011 | \$1,027 1 %  | \$502,088                      | \$493,441 | \$8,647 2 %  |
| Foodservice            | 164,844                         | 144,163   | 20,681 14 %  | 482,029                        | 421,314   | 60,715 14 %  |
| Total                  | \$317,882                       | \$296,174 | \$21,708 7 % | \$984,117                      | \$914,755 | \$69,362 8 % |
| Gross Profit           | \$75,397                        | \$67,911  | \$7,486 11 % | \$247,988                      | \$227,325 | \$20,663 9 % |
| Gross Margin           | 23.7 %                          | 22.9 %    |              | 25.2 %                         | 24.9 %    |              |

Consolidated net sales for the three months ended March 31, 2019 increased 7% to a third quarter record \$317.9 million versus \$296.2 million last year. Excluding net sales attributed to the acquisitions of Bantam and Omni, consolidated net sales increased 3% for the quarter. Consolidated net sales for the nine months ended March 31, 2019 increased 8%. Excluding net sales attributed to the acquisitions of Bantam and Omni, consolidated net sales increased 6% for the year-to-date period.

Consolidated gross margins for the three and nine months ended March 31, 2019 increased compared to the prior-year periods. The increases were driven by higher sales volumes, the impact of pricing actions and continued cost savings in manufacturing and procurement attributed to our lean six sigma program partially offset by integration costs associated with the Omni operations, investments to support expanding retail distribution of Bantam and higher warehousing costs. Consolidated gross margins for the nine months ended March 31, 2019 also reflect expenses resulting from our discontinuation of the Marzetti® Simple Harvest® line of refrigerated dips and increased freight costs.

## Selling, General and Administrative Expenses

| (Dollars in thousands)                     | Three Months Ended<br>March 31, |          |              | Nine Months Ended<br>March 31, |          |               |
|--|---------------------------------|----------|--------------|--------------------------------|----------|---------------|
|  | 2019                            | 2018     | Change       | 2019                           | 2018     | Change        |
| SG&A Expenses                              | \$37,981                        | \$29,875 | \$8,106 27 % | \$109,902                      | \$97,005 | \$12,897 13 % |
| SG&A Expenses as a Percentage of Net Sales | 11.9 %                          | 10.1 %   |              | 11.2 %                         | 10.6 %   |               |

Selling, general and administrative (“SG&A”) expenses increased 27% for the three months ended March 31, 2019. The increase in these costs was driven by a higher level of investment in retail brand marketing, most notably for New York BRAND Bakery® as we withheld spending behind that brand in the prior year due to disruptions in the supply of our frozen garlic bread products. SG&A expenses also reflect increased investments in personnel and the impact of recent acquisitions, including salaries, consumer spending and amortization.

SG&A expenses increased 13% for the nine months ended March 31, 2019 and also include the impact of transaction expenses for the Bantam and Omni acquisitions in addition to severance costs incurred during our fiscal second quarter.

## Change in Contingent Consideration

The change in contingent consideration resulted in expense of \$0.1 million for the three months ended March 31, 2019 and a net benefit of \$9.5 million for the nine months ended March 31, 2019. The net benefit for the current year-to-date period reflects a \$9.7 million reduction in the fair value of Angelic’s contingent consideration liability as a result of our December 31, 2018 fair value measurement. See further discussion in Note 4 to the condensed consolidated financial statements.

Given the nature of Angelic’s sales and historical accounting treatment, the entire adjustment related to Angelic’s contingent consideration was reflected within the Retail segment.



## Operating Income

The foregoing factors contributed to consolidated operating income totaling \$37.3 million and \$147.6 million for the three and nine months ended March 31, 2019, respectively. Our operating income by segment was as follows:

|                        | Three Months Ended |          |           | Nine Months Ended |           |           |          |     |
|------------------------|--------------------|----------|-----------|-------------------|-----------|-----------|----------|-----|
|                        | March 31,          |          |           | March 31,         |           |           |          |     |
| (Dollars in thousands) | 2019               | 2018     | Change    | 2019              | 2018      | Change    |          |     |
| Operating Income       |                    |          |           |                   |           |           |          |     |
| Retail                 | \$24,082           | \$26,324 | \$(2,242) | (9)%              | \$102,815 | \$96,511  | \$6,304  | 7%  |
| Foodservice            | 17,124             | 14,297   | 2,827     | 20%               | 55,390    | 42,398    | 12,992   | 31% |
| Corporate Expenses     | (3,878)            | (3,106)  | (772)     | 25%               | (10,602)  | (10,103)  | (499)    | 5%  |
| Total                  | \$37,328           | \$37,515 | \$(187)   | —%                | \$147,603 | \$128,806 | \$18,797 | 15% |
| Operating Margin       |                    |          |           |                   |           |           |          |     |
| Retail                 | 15.7%              | 17.3%    |           |                   | 20.5%     | 19.6%     |          |     |
| Foodservice            | 10.4%              | 9.9%     |           |                   | 11.5%     | 10.1%     |          |     |
| Total                  | 11.7%              | 12.7%    |           |                   | 15.0%     | 14.1%     |          |     |

See discussion of operating results by segment following the discussion of “Net Income” below.

## Income Before Income Taxes

As impacted by the factors discussed above, coupled with higher levels of interest income, income before income taxes for the three months ended March 31, 2019 increased by \$0.7 million to \$38.7 million from the prior-year total of \$38.0 million. Income before income taxes for the nine months ended March 31, 2019 and 2018 was \$151.3 million and \$130.4 million, respectively.

## Taxes Based on Income

Taxes based on income increased to \$33.7 million for the nine months ended March 31, 2019 from the prior-year total of \$27.5 million. Our effective tax rate was 22.3% and 21.1% for the nine months ended March 31, 2019 and 2018, respectively. The current-year and prior-year income tax expense and rate were favorably impacted by the Tax Cuts and Jobs Act of 2017 (“Tax Act”), which was signed into law on December 22, 2017 with an effective date of January 1, 2018. Most notably, the Tax Act reduced the statutory federal income tax rate for corporations from 35% to 21%. The statutory federal income tax rate for our 2019 tax return will be 21% as compared to a blended rate of 28.1% for our 2018 tax return. For the nine months ended March 31, 2019 and 2018, our effective tax rate varied from the statutory federal income tax rate as a result of the following factors:

|  | Nine Months Ended |       |
|--|-------------------|-------|
|  | March 31,         |       |
|  | 2019              | 2018  |
| Statutory rate   | 21.0%             | 28.1% |
| State and local income taxes                                     | 2.5               | 3.2   |
| One-time benefit on re-measurement of net deferred tax liability | —                 | (7.1) |
| Domestic manufacturing deduction for qualified income            | —                 | (2.4) |
| Net windfall tax benefits - stock-based compensation             | (1.0)             | (0.3) |
| Other  | (0.2)             | (0.4) |
| Effective rate   | 22.3%             | 21.1% |

We include the tax consequences related to stock-based compensation within the computation of income tax expense. We may experience increased volatility to our income tax expense and resulting net income dependent upon, among other variables, the price of our common stock and the timing and volume of share-based payment award activity such as employee exercises of stock-settled stock appreciation rights and vesting of restricted stock awards. For the nine months ended March 31, 2019, the impact of net windfall tax benefits from stock-based compensation reduced our effective tax rate by 1.0%.

The SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”) on December 22, 2017. SAB 118 allowed for a measurement period in which companies can either use provisional estimates for changes resulting from the Tax Act or apply the tax laws that were in effect immediately prior to the Tax Act being enacted if estimates cannot be determined at the time of the preparation of the financial statements until the actual impacts can be determined. We recorded an initial estimate of the impact of the Tax Act within our December 31, 2017 financial statements, and the adjustments recorded in the second half of

2018 were not material. The measurement period has ended, and we have completed the accounting for all the impacts of the Tax Act.

#### Net Income

As influenced by the factors noted above, third quarter net income for 2019 of \$30.6 million increased \$3.0 million from the preceding year's net income for the quarter of \$27.6 million and year-to-date net income of \$117.5 million was higher than the prior year-to-date total of \$102.9 million. Diluted weighted average common shares outstanding have remained relatively stable for the current and prior-year periods ended March 31. As a result, and due to the change in net income for each year, net income per share for the third quarter of 2019 totaled \$1.11 per diluted share, as compared to net income of \$1.00 per diluted share in the prior year. Year-to-date net income per share was \$4.26 per diluted share, as compared to \$3.74 per diluted share for the prior-year period.

For the nine months ended March 31, 2019, the after-tax benefit from the reduction in the fair value of Angelic's contingent consideration liability was \$7.4 million, or \$.27 per diluted share. For the nine months ended March 31, 2018, the Tax Act resulted in a one-time benefit of \$9.2 million, or \$.33 per diluted share, from the re-measurement of our net deferred tax liability.

### RESULTS OF OPERATIONS - SEGMENTS

#### Retail Segment

| (Dollars in thousands) | Three Months Ended<br>March 31, |           |                | Nine Months Ended<br>March 31, |           |             |
|------------------------|---------------------------------|-----------|----------------|--------------------------------|-----------|-------------|
|                        | 2019                            | 2018      | Change         | 2019                           | 2018      | Change      |
| Net Sales              | \$153,038                       | \$152,011 | \$1,027 1 %    | \$502,088                      | \$493,441 | \$8,647 2 % |
| Operating Income       | \$24,082                        | \$26,324  | \$(2,242) (9)% | \$102,815                      | \$96,511  | \$6,304 7 % |
| Operating Margin       | 15.7 %                          | 17.3 %    |                | 20.5 %                         | 19.6 %    |             |

For the three months ended March 31, 2019, Retail segment net sales increased 1% due to continued volume gains for shelf-stable dressings and sauces sold under license agreements, increased sales of frozen garlic bread, higher pricing, reduced trade spending and lower coupon expense, as well as incremental net sales attributed to Bantam. Offsets to these gains included reduced sales resulting from the impact of this year's later Easter holiday, lower flatbread sales and our decision to selectively exit some low-margin private-label business.

Year-to-date net sales for the Retail segment reached \$502.1 million, a 2% increase from the prior-year total of \$493.4 million driven by continued volume gains for shelf-stable dressings and sauces sold under license agreements, increased sales of frozen garlic bread and the incremental net sales attributed to Bantam.

For the three months ended March 31, 2019, Retail segment operating margin declined to 15.7% as impacted by integration costs associated with the Omni operations, increased consumer spending in support of expanded distribution for Bantam and higher warehousing costs partially offset by continued cost savings in manufacturing and procurement attributed to our lean six sigma program.

For the nine months ended March 31, 2019, Retail segment operating income was favorably impacted by the \$9.7 million reduction in the fair value of Angelic's contingent consideration liability. Excluding this fair value adjustment, Retail segment operating margin declined to 18.5% as influenced by integration costs associated with the Omni operations, higher freight and warehousing costs, expenses resulting from our discontinuation of the Marzetti Simple Harvest line of refrigerated dips and severance costs, as partially offset by cost savings generated by our lean six sigma program.

#### Foodservice Segment

| (Dollars in thousands) | Three Months Ended<br>March 31, |           |               | Nine Months Ended<br>March 31, |           |               |
|------------------------|---------------------------------|-----------|---------------|--------------------------------|-----------|---------------|
|                        | 2019                            | 2018      | Change        | 2019                           | 2018      | Change        |
| Net Sales              | \$164,844                       | \$144,163 | \$20,681 14 % | \$482,029                      | \$421,314 | \$60,715 14 % |
| Operating Income       | \$17,124                        | \$14,297  | \$2,827 20 %  | \$55,390                       | \$42,398  | \$12,992 31 % |
| Operating Margin       | 10.4 %                          | 9.9 %     |               | 11.5 %                         | 10.1 %    |               |

For the three and nine months ended March 31, 2019, Foodservice segment net sales grew 14% for both comparative periods driven by higher demand from our national chain restaurant accounts, increased sales of our frozen pasta products and incremental net sales attributed to Bantam and Omni. The nine months ended March 31, 2019 also benefited from added volume resulting from temporary supply and service issues experienced by some of our foodservice competitors and pricing

actions implemented in early January 2018 to help offset higher freight and commodity costs. As a result of the Omni acquisition, for an interim period of up to two years post-closing, we will be a supplier of bread products to an affiliated party of the seller. For the three and nine months ended March 31, 2019, the total net sales attributed to products sold under the interim supply agreement were \$7.9 million and \$11.7 million, respectively. Incremental Foodservice net sales from Bantam totaled \$2.6 million and \$4.5 million for the three and nine months ended March 31, 2019, respectively.

The increase in Foodservice operating income and related margins for the three and nine months ended March 31, 2019 was mainly due to increased sales volumes and the benefit from continued costs savings in manufacturing and procurement attributed to our lean six sigma program, as partially offset by higher warehousing costs. The nine months ended March 31, 2019 also reflected pricing actions and higher freight costs.

With regard to the impact of commodity and freight costs on Foodservice segment operating income, most of our supply contracts with national chain restaurant accounts incorporate pricing adjustments to account for changes in ingredient and freight costs. These supply contracts may vary by account with regard to the time lapse between the actual change in ingredient and freight costs we incur and the effective date of the associated price increase or decrease. As a result, the reported operating margins of the Foodservice segment are subject to increased volatility during periods of rapidly rising or falling ingredient and/or freight costs because at least some portion of the change in ingredient and/or freight costs is reflected in the segment's results prior to the impact of any associated change in pricing. In addition, the Foodservice segment has an inherently higher degree of margin volatility from changes in ingredient costs when compared to the Retail segment due to its overall lower margin profile and higher ratio of ingredient pounds to net sales.

#### LOOKING FORWARD

Looking forward to our fiscal fourth quarter, we expect Retail segment sales will benefit from the incremental Bantam sales, continued growth from shelf-stable dressings and sauces sold under license agreements and the sales shift due to the later Easter holiday. In the Foodservice segment, we anticipate continued volume growth from select national chain restaurant accounts and distributors of our branded products along with the added sales from the Omni and Bantam acquisitions. Based on current market conditions, we foresee packaging costs and certain commodity costs to be modestly inflationary. With regard to the Omni acquisition, we expect to incur some ongoing incremental costs related to operational improvements at the facility in Vineland, New Jersey as our supply chain team works to fully integrate that facility. We also anticipate continued incremental investments in SG&A in support of our strategic initiatives.

#### FINANCIAL CONDITION

For the nine months ended March 31, 2019, net cash provided by operating activities totaled \$143.4 million, as compared to \$116.8 million in the prior-year period. This increase was due to higher net income, a benefit from the change in deferred income taxes as a result of the prior-year impact of the Tax Act, and the year-over-year change in net working capital as offset by the reduction in the fair value of Angelic's contingent consideration liability.

Cash used in investing activities for the nine months ended March 31, 2019 was \$102.1 million, as compared to \$22.9 million in the prior year. This increase primarily reflects cash paid for the October 2018 acquisition of Bantam and the November 2018 acquisition of Omni, as well as a higher level of capital expenditures paid in 2019.

Cash used in financing activities for the nine months ended March 31, 2019 of \$59.7 million increased from the prior-year total of \$49.7 million. This increase was primarily due to the higher dividend payments and purchases of treasury stock, as well as increased tax withholdings related to stock-based compensation.

Under our unsecured revolving credit facility ("Facility"), we may borrow up to a maximum of \$150 million at any one time. We had no borrowings outstanding under the Facility at March 31, 2019. At March 31, 2019, we had \$5.1 million of standby letters of credit outstanding, which reduced the amount available for borrowing on the Facility. The Facility expires in April 2021, and all outstanding amounts are then due and payable. Interest is variable based upon formulas tied to LIBOR or an alternative base rate defined in the Facility, at our option. We must also pay facility fees that are tied to our then-applicable consolidated leverage ratio. Loans may be used for general corporate purposes. Due to the nature of its terms, when we have outstanding borrowings under the Facility, they will be

classified as long-term debt.

The Facility contains certain restrictive covenants, including limitations on indebtedness, asset sales and acquisitions, and financial covenants relating to interest coverage and leverage. At March 31, 2019, we were in compliance with all applicable provisions and covenants of this facility, and we exceeded the requirements of the financial covenants by substantial margins. At March 31, 2019, there were no events that would constitute a default under this facility.

We currently expect to remain in compliance with the Facility's covenants for the foreseeable future. However, a default under the Facility could accelerate the repayment of any then outstanding indebtedness and limit our access to \$75 million of additional credit available under the Facility. Such an event could require a reduction in or curtailment of cash dividends or



share repurchases, reduce or delay beneficial expansion or investment plans, or otherwise impact our ability to meet our obligations when due.

We believe that cash provided by operating activities and our existing balances in cash and equivalents should be adequate to meet our cash requirements, including projected higher levels of capital expenditures and our historic trend for annual dividend payments, through 2019 and the first half of 2020. At this point, we do not expect to borrow against our Facility during 2019. If we were to borrow outside of the Facility under current market terms, our average interest rate may increase significantly and have an adverse effect on our results of operations.

#### CONTRACTUAL OBLIGATIONS

We have various contractual obligations that are appropriately recorded as liabilities in our condensed consolidated financial statements. Certain other contractual obligations are not recognized as liabilities in our condensed consolidated financial statements. Examples of such items are commitments to purchase raw materials or packaging inventory that has not yet been received as of March 31, 2019 and future minimum lease payments for the use of property and equipment under operating lease agreements. There have been no significant changes to the contractual obligations disclosed in our 2018 Annual Report on Form 10-K aside from expected changes in raw-material costs associated with changes in product demand or pricing and our obligation related to a capacity expansion project at our frozen dinner roll facility in Horse Cave, Kentucky as further discussed below.

In November 2018, Sister Schubert's Homemade Rolls, Inc. ("SSHR"), an indirect wholly-owned subsidiary of ours, entered into a Design/Build Agreement (the "Agreement") with Shambaugh and Son, LP ("Shambaugh") under which Shambaugh will design, coordinate and build additional frozen roll manufacturing and warehousing capacity for the SSHR facility in Hart County, Kentucky (the "Project"). The Project will result in an expansion of the current facility footprint and freezer space. Subject to certain conditions in the Agreement, SSHR will pay Shambaugh no more than the guaranteed maximum price of approximately \$40 million for the Project. The Agreement contains other terms and conditions that are customary for this type of project. Expected to be completed in mid-2020, the Project is in its early stages, thus we are still obligated for the majority of the guaranteed maximum price as well as an additional \$14 million for equipment related to the Project.

#### CRITICAL ACCOUNTING POLICIES

There have been no changes in critical accounting policies from those policies disclosed in our 2018 Annual Report on Form 10-K. We adopted the new revenue recognition guidance on July 1, 2018. See expanded disclosure of revenue recognition policies in Note 3 to the condensed consolidated financial statements.

#### RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements and their impact on our consolidated financial statements are disclosed in Note 1 to the condensed consolidated financial statements.

#### FORWARD-LOOKING STATEMENTS

We desire to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 (the "PSLRA"). This Quarterly Report on Form 10-Q contains various "forward-looking statements" within the meaning of the PSLRA and other applicable securities laws. Such statements can be identified by the use of the forward-looking words "anticipate," "estimate," "project," "believe," "intend," "plan," "expect," "hope" or similar words. These statements discuss future expectations; contain projections regarding future developments, operations or financial conditions; or state other forward-looking information. Such statements are based upon assumptions and assessments made by us in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe to be appropriate. These forward-looking statements involve various important risks, uncertainties and other factors that could cause our actual results to differ materially from those expressed in the forward-looking statements. Actual results may differ as a result of factors over which we have no, or limited, control including, without limitation, the specific influences outlined below. Management believes these forward-looking statements to be reasonable; however, one should not place undue reliance on such statements that are based on current expectations. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update such forward-looking statements, except as required by law.

Items which could impact these forward-looking statements include, but are not limited to:

- the ability to successfully grow recently acquired businesses;
- the extent to which recent and future business acquisitions are completed and acceptably integrated;
- changes in estimates in critical accounting judgments;
- adverse changes in freight, energy or other costs of producing, distributing or transporting our products;

- price and product competition;
- the reaction of customers or consumers to price increases we may implement;
- fluctuations in the cost and availability of ingredients and packaging;
- the impact of customer store brands on our branded retail volumes;
- capacity constraints that may affect our ability to meet demand or may increase our costs;
- dependence on contract manufacturers, distributors and freight transporters;
- the success and cost of new product development efforts;
- dependence on key personnel and changes in key personnel;
- the effect of consolidation of customers within key market channels;
- the lack of market acceptance of new products;
- the possible occurrence of product recalls or other defective or mislabeled product costs;
- the potential for loss of larger programs or key customer relationships;
- changes in demand for our products, which may result from loss of brand reputation or customer goodwill;
- maintenance of competitive position with respect to other manufacturers;
- the impact of any regulatory matters affecting our food business, including any required labeling changes and their impact on consumer demand;
- the outcome of any litigation or arbitration;
- efficiencies in plant operations;
- adequate supply of skilled labor;
- stability of labor relations;
- the impact, if any, of certain contingent liabilities associated with our withdrawal from a multiemployer pension plan;
- the impact of fluctuations in our pension plan asset values on funding levels, contributions required and benefit costs; and
- certain other factors, including the information disclosed in our discussion of risk factors under Item 1A of our 2018 Annual Report on Form 10-K.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risks have not changed materially from those disclosed in our 2018 Annual Report on Form 10-K.

### Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this Quarterly Report on Form 10-Q, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2019 to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is 1) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and 2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting. No changes were made to our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

## Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed under Item 1A in our 2018 Annual Report on Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) In November 2010, our Board of Directors approved a share repurchase authorization of 2,000,000 common shares, of which 1,370,400 common shares remained authorized for future repurchases at March 31, 2019. This share repurchase authorization does not have a stated expiration date. In the third quarter, we made the following repurchases of our common stock:

| Period                             | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Number of Shares that May Yet be Purchased Under the Plans |
|------------------------------------|----------------------------------|------------------------------|--|--|
| January 1-31, 2019 <sup>(1)</sup>  | 120                              | \$ 172.76                    | 120  | 1,391,140  |
| February 1-28, 2019 <sup>(1)</sup> | 20,740                           | \$ 156.83                    | 20,740   | 1,370,400  |
| March 1-31, 2019                   | —                                | \$ —                         | —  | 1,370,400  |
| Total                              | 20,860                           | \$ 156.92                    | 20,860   | 1,370,400  |

Includes 120 shares in January 2019 and 5,740 shares in February 2019 that were repurchased in satisfaction of tax (1) withholding obligations arising from the vesting of restricted stock granted to employees under the Lancaster Colony Corporation 2015 Omnibus Incentive Plan.

## Item 6. Exhibits

See Index to Exhibits following Signatures.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**LANCASTER COLONY CORPORATION**

(Registrant)

Date: April 30, 2019 By: /s/ DAVID A. CIESINSKI

David A. Ciesinski  
President, Chief Executive Officer  
and Director  
(Principal Executive Officer)

Date: April 30, 2019 By: /s/ THOMAS K. PIGOTT

Thomas K. Pigott  
Chief Financial Officer and Assistant Secretary  
(Principal Financial and Accounting Officer)

LANCASTER COLONY CORPORATION AND SUBSIDIARIES  
 FORM 10-Q  
 MARCH 31, 2019  
 INDEX TO EXHIBITS

| Exhibit Number | Description   | Located at                |
|----------------|---|---------------------------|
| <u>10.1</u>    | <u>Form of Stock Appreciation Rights Agreement for Service Providers under the Lancaster Colony Corporation 2015 Omnibus Incentive Plan</u> | <u>Filed herewith</u>     |
| <u>31.1</u>    | <u>Certification of CEO under Section 302 of the Sarbanes-Oxley Act of 2002</u>   | <u>Filed herewith</u>     |
| <u>31.2</u>    | <u>Certification of CFO under Section 302 of the Sarbanes-Oxley Act of 2002</u>   | <u>Filed herewith</u>     |
| <u>32</u>      | <u>Certification of CEO and CFO under Section 906 of the Sarbanes-Oxley Act of 2002</u>   | <u>Furnished herewith</u> |
| 101.INS        | XBRL Instance Document  | Filed herewith            |
| 101.SCH        | XBRL Taxonomy Extension Schema Document   | Filed herewith            |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document   | Filed herewith            |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document  | Filed herewith            |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document   | Filed herewith            |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document  | Filed herewith            |