



Freshpet, Inc. Reports Second Quarter 2023 Financial Results

August 7, 2023

*Raises Adjusted EBITDA guidance; re-affirms net sales guidance
Volume growth is strong and accelerating
Strong operating performance on input costs, logistics and quality*

SECAUCUS, N.J., Aug. 07, 2023 (GLOBE NEWSWIRE) -- Freshpet, Inc. ("Freshpet" or the "Company") (Nasdaq: FRPT) today reported financial results for its second quarter ended June 30, 2023.

Second Quarter 2023 Financial Highlights Compared to Prior Year Period

- Net sales of \$183.3 million, an increase of 25.6%
- Net loss of \$17.0 million, compared with prior year net loss of \$20.6 million
- Adjusted EBITDA of \$9.0 million, compared to prior year of \$(1.9) million.¹

"The Freshpet business has real momentum. In the second quarter, we delivered strong volume and net sales growth, and significant improvements in our operating performance – particularly in quality and logistics – which is the basis for increasing our 2023 adjusted EBITDA guidance today," commented Billy Cyr, Freshpet's Chief Executive Officer. "With a strengthened organization in place, accelerating household ("HH") penetration growth, record levels of new fridge placements, and a successful start-up of the Ennis Kitchen, we are well-positioned to fulfill the long-term potential of Freshpet and change the way people nourish their pets forever."

Second Quarter 2023

Net sales increased 25.6% to \$183.3 million for the second quarter of 2023 compared to \$146.0 million for the second quarter of 2022. Net sales for the second quarter of 2023 were driven by both velocity gains, and higher pricing.

Gross profit was \$59.2 million, or 32.3% as a percentage of net sales, for the second quarter of 2023, compared to \$51.1 million, or 35.0% as a percentage of net sales, in the prior year period. The decrease in reported gross profit as a percentage of net sales was primarily due to increased depreciation expense associated with the Company's capacity expansion, unabsorbed plant cost and increased share-based compensation, partially offset by reduced input and quality cost as a percentage of net sales. For the second quarter of 2023, Adjusted Gross Profit was \$73.0 million, or 39.8% as a percentage of net sales, compared to \$56.5 million, or 38.7% as a percentage of net sales, in the prior year period. Adjusted Gross Profit is a non-GAAP financial measure defined under "Non-GAAP Measures" and is reconciled to gross profit in the financial tables that accompany this release.

Selling, general and administrative expenses ("SG&A") were \$76.0 million for the second quarter of 2023 compared to \$69.2 million in the prior year period. As a percentage of net sales, SG&A decreased to 41.5% for the second quarter of 2023 compared to 47.4% in the prior year period. The decrease of 590 basis points in SG&A as a percentage of net sales was mainly a result of reduced logistics cost as a percentage of net sales, leverage on media spend, decreased cost related to the ERP implementation, and increased leverage on depreciation and option expense as the business scales. Adjusted SG&A for the second quarter of 2023 was \$64.0 million, or 34.9% as a percentage of net sales, compared to \$58.5 million, or 40.0% as a percentage of net sales, in the prior year period. Adjusted SG&A is a non-GAAP financial measure defined under "Non-GAAP Measures" and is reconciled to SG&A in the financial tables that accompany this release.

Net loss was \$17.0 million for the second quarter of 2023 compared to net loss of \$20.6 million for the prior year period. The decrease in net loss was due to contribution profit from higher sales, partially offset by increased SG&A including, increased media spend of \$3.2 million, higher depreciation and increased unabsorbed plant cost.

¹ Adjusted EBITDA, as well as certain other measures in this release, is a non-GAAP financial measure. See "Non-GAAP Measures" for how the Company defines these measures and the financial tables that accompany this release for reconciliations of these measures to the closest comparable GAAP measures.

Adjusted EBITDA was \$9.0 million for the second quarter of 2023, compared to a loss of \$(1.9) million in the prior year period. The increase in Adjusted EBITDA was a result of higher Adjusted Gross Profit due to sales growth and leverage on quality and input costs, partially offset by higher Adjusted SG&A expenses. Adjusted EBITDA is a non-GAAP financial measure defined under "Non-GAAP Measures" and is reconciled to net loss in the financial tables that accompany this release.

First Six Months of 2023

Net sales increased 26.1% to \$350.9 million for the first six months of 2023 compared to \$278.2 million for the first six months of 2022. Net sales for the first six months of 2023 were driven by both velocity gains, and higher pricing.

Gross profit was \$110.0 million, or 31.4% as a percentage of net sales, for the first six months of 2023, compared to \$95.8 million, or 34.5% as a percentage of net sales, in the prior year period. The decrease in reported gross profit as a percentage of net sales was primarily due to increased depreciation expense associated with the Company's capacity expansion, unabsorbed plant cost and increased share-based compensation, partially offset by reduced input and quality cost as a percentage of net sales. For the first six months of 2023, Adjusted Gross Profit was \$137.5 million, or 39.2% as a percentage of net sales, compared to \$107.2 million, or 38.5% as a percentage of net sales, in the prior year period. Adjusted Gross Profit is a non-GAAP financial measure defined under "Non-GAAP Measures" and is reconciled to gross profit in the financial tables that accompany this

release.

Selling, general and administrative expenses ("SG&A") were \$148.3 million for the first six months of 2023 compared to \$129.8 million in the prior year period. As a percentage of net sales, SG&A decreased to 42.3% for the first six months of 2023 compared to 46.7% in the prior year period. The decrease of 440 basis points in SG&A as a percentage of net sales was mainly a result of reduced logistics cost as a percentage of net sales, leverage on media spend, decreased cost related to the ERP implementation, and increased leverage on depreciation and option expense as the business scales. Adjusted SG&A for the first six months of 2023 was \$125.5 million, or 35.8% as a percentage of net sales, compared to \$109.6 million, or 39.4% as a percentage of net sales, in the prior year period. Adjusted SG&A is a non-GAAP financial measure defined under "Non-GAAP Measures" and is reconciled to SG&A in the financial tables that accompany this release.

Net loss was \$41.7 million for the first six months of 2023 compared to net loss of \$38.1 million for the prior year period. The increase in net loss was due to increased SG&A including, increased media spend of \$7.4 million, higher depreciation and increased unabsorbed plant cost, partially offset by contribution profit from higher sales.

Adjusted EBITDA was \$12.0 million for the six months ended June 30, 2023, compared to a loss of \$2.2 million in the prior year period. The increase in Adjusted EBITDA was a result of increased Adjusted Gross Profit partially offset by higher Adjusted SGA expense. Adjusted EBITDA is a non-GAAP financial measure defined under "Non-GAAP Measures" and is reconciled to net loss in the financial tables that accompany this release.

Balance Sheet

As of June 30, 2023, the Company had cash and cash equivalents and short-term investments of \$358.5 million with \$391.9 million of debt outstanding net of \$10.6 million of fees. For the three months ended June 30, 2023, the interest gained on our cash and short-term investments was able to fully offset the \$3.5 million of interest expense incurred.

The Company will utilize its balance sheet to support its on-going capital needs in connection with its long-term capacity plan.

Outlook

For full year 2023, the Company updates its full year Adjusted EBITDA guidance and reiterates its Net Sales and capital expenditure guidance as follows:

- Net sales of ~\$750 million, an increase of ~26% from 2022, unchanged from previous guidance.
- Adjusted EBITDA of at least \$55 million, from previous guidance of at least \$50 million.
- Capital expenditures for 2023 of ~\$240 million, unchanged from previous guidance.

The Company does not provide guidance for the most directly comparable GAAP measure, net income, and similarly cannot provide a reconciliation between its forecasted adjusted EBITDA and net income metrics without unreasonable effort due to the unavailability of reliable estimates for certain components of net income and the respective reconciliations, including the timing of and amount of costs of goods sold and selling, general and administrative expenses. These items are not within the Company's control and may vary greatly between periods and could significantly impact future results.

Conference Call & Earnings Presentation Webcast Information

As previously announced, today, August 7, 2023, the Company will host a conference call beginning at 8:00 a.m. Eastern Time with members of its leadership team. The conference call webcast will be available live over the Internet through the "Investors" section of the Company's website at www.freshpet.com. To participate on the live call, listeners in North America may dial (877) 407-0792 and international listeners may dial (201) 689-8263.

A replay of the conference call will be archived on the Company's website and telephonic playback will be available from 12:00 p.m. Eastern Time today through August 21, 2023. North American listeners may dial (844) 512-2921 and international listeners may dial (412) 317-6671; the passcode is 13740259

About Freshpet

Freshpet's mission is to improve the lives of dogs and cats through the power of fresh, real food. Freshpet foods are blends of fresh meats, vegetables and fruits farmed locally and made at our Freshpet Kitchens. We thoughtfully prepare our foods using natural ingredients, cooking them in small batches at lower temperatures to preserve the natural goodness of the ingredients. Freshpet foods and treats are kept refrigerated from the moment they are made until they arrive at Freshpet Fridges in your local market.

Our foods are available in select mass, grocery (including online), natural food, club, and pet specialty retailers across the United States, Canada and Europe. From the care, we take to source our ingredients and make our food, to the moment it reaches your home, our integrity, transparency and social responsibility are the way we like to run our business. To learn more, visit www.freshpet.com.

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<https://www.youtube.com/user/freshpet400>

Forward Looking Statements

Certain statements in this release constitute “forward-looking” statements, including statements relating to our long-term capacity planning, net sales guidance and Adjusted EBITDA guidance. These statements are based on management’s current opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results. These forward-looking statements, including our updated guidance, are only predictions, not historical fact, and involve certain risks and uncertainties, as well as assumptions. Actual results, levels of activity, performance, achievements and events could differ materially from those stated, anticipated or implied by such forward-looking statements. While Freshpet believes that its assumptions are reasonable, it is very difficult to predict the impact of known factors, and, of course, it is impossible to anticipate all factors that could affect actual results. There are several risks and uncertainties that could cause actual results to differ materially from forward-looking statements made herein including, most prominently, the risks discussed under the heading “Risk Factors” in the Company’s latest annual report on Form 10-K and its quarterly reports on Form 10-Q filed with the Securities and Exchange Commission. Such forward-looking statements are made only as of the date of this release. Freshpet undertakes no obligation to publicly update or revise any forward-looking statement because of new information, future events or otherwise, except as otherwise required by law. If we do update one or more forward-looking statements, no inference should be made that we will make additional updates with respect to those or other forward-looking statements.

Non-GAAP Financial Measures

Freshpet uses the following non-GAAP financial measures in its financial communications. These non-GAAP financial measures should be considered as supplements to the GAAP reported measures, should not be considered replacements for, or superior to, the GAAP measures and may not be comparable to similarly named measures used by other companies.

- Adjusted Gross Profit
- Adjusted Gross Profit as a % of net sales (Adjusted Gross Margin)
- Adjusted SG&A
- Adjusted SG&A as a % of net sales
- EBITDA
- Adjusted EBITDA
- Adjusted EBITDA as a % of net sales

Adjusted Gross Profit: Freshpet defines Adjusted Gross Profit as gross profit before depreciation expense and non-cash share-based compensation.

Adjusted SG&A Expenses: Freshpet defines Adjusted SG&A as SG&A expenses before depreciation and amortization, non-cash share-based compensation, implementation and other costs associated with the implementation of an enterprise resource planning (“ERP”) system, fees related to the Capped Call Transactions purchases, loss on disposal of equipment, and advisory fees related to activism engagement.

EBITDA and Adjusted EBITDA: EBITDA represents net income (loss) plus interest expense net of interest income, income tax expense and depreciation and amortization expense, and Adjusted EBITDA represents EBITDA plus loss on equity method investment, non-cash share-based compensation expense, implementation and other costs associated with the implementation of an ERP system, loss on disposal of equipment, fees related to the Capped Call Transactions purchases, and advisory fees related to activism engagement.

Management believes that the non-GAAP financial measures are meaningful to investors because they provide a view of the Company with respect to ongoing operating results. The non-GAAP financial measures are shown as supplemental disclosures in this release because they are widely used by the investment community for analysis and comparative evaluation. They also provide additional metrics to evaluate the Company’s operations and, when considered with both the Company’s GAAP results and the reconciliation to the most comparable GAAP measures, provide a more complete understanding of the Company’s business than could be obtained absent this disclosure. The non-GAAP measures are not and should not be considered an alternative to the most comparable GAAP measures or any other figure calculated in accordance with GAAP, or as an indicator of operating performance. The Company’s calculation of the non-GAAP financial measures may differ from methods used by other companies. Management believes that the non-GAAP measures are important to an understanding of the Company’s overall operating results in the periods presented. The non-GAAP financial measures are not recognized in accordance with GAAP and should not be viewed as an alternative to GAAP measures of performance.

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FRESHPET, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited, in thousands, except per share data)

	June 30, 2023	December 31, 2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 244,048	\$ 132,735
Short-term investments	114,437	—
Accounts receivable, net of allowance for doubtful accounts	51,889	57,572
Inventories, net	65,269	58,290
Prepaid expenses	8,182	9,778
Other current assets	3,315	3,590

Total Current Assets	487,140	261,965
Property, plant and equipment, net	865,237	800,586
Deposits on equipment	2,429	3,823
Operating lease right of use assets	4,358	5,165
Equity method investment	—	25,418
Long term investment in equity securities	23,528	—
Other assets	27,679	28,426
Total Assets	\$ 1,410,371	\$ 1,125,383

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 32,389	\$ 55,088
Accrued expenses	43,477	33,016
Current operating lease liabilities	1,576	1,510
Total Current Liabilities	\$ 77,442	\$ 89,614
Convertible senior notes	392,048	—
Long term operating lease liabilities	3,097	4,200
Total Liabilities	\$ 472,587	\$ 93,814
Commitments and contingencies	—	—

STOCKHOLDERS' EQUITY:

Common stock — voting, \$0.001 par value, 200,000 shares authorized, 48,199 issued and 48,185 outstanding on June 30, 2023, and 48,051 issued and 48,037 outstanding on December 31, 2022	48	48
Additional paid-in capital	1,275,510	1,325,524
Accumulated deficit	(336,855)	(295,117)
Accumulated other comprehensive (loss) income	(663)	1,370
Treasury stock, at cost — 14 shares on June 30, 2023 and on December 31, 2022	(256)	(256)
Total Stockholders' Equity	937,784	1,031,569
Total Liabilities and Stockholders' Equity	\$ 1,410,371	\$ 1,125,383

FRESHPET, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited, in thousands, except per share data)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
NET SALES	\$ 183,331	\$ 146,007	\$ 350,853	\$ 278,179
COST OF GOODS SOLD	124,087	94,927	240,849	182,346
GROSS PROFIT	59,244	51,080	110,004	95,833
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	75,996	69,215	148,267	129,846
LOSS FROM OPERATIONS	(16,752)	(18,135)	(38,263)	(34,013)
OTHER INCOME (EXPENSES):				
Interest and Other Income (Expense), net	4,108	(21)	5,055	237
Interest Expense	(3,329)	(1,672)	(6,501)	(2,243)
	779	(1,693)	(1,446)	(2,006)
LOSS BEFORE INCOME TAXES	(15,972)	(19,828)	(39,708)	(36,019)
INCOME TAX EXPENSE	70	41	140	82
LOSS ON EQUITY METHOD INVESTMENT	910	717	1,890	2,027
LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (16,952)	\$ (20,586)	\$ (41,738)	\$ (38,128)
OTHER COMPREHENSIVE (LOSS) INCOME:				
Change in foreign currency translation	\$ (2,039)	1,849	\$ (2,033)	\$ 1,487
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(2,039)	1,849	(2,033)	1,487
TOTAL COMPREHENSIVE LOSS	\$ (18,991)	\$ (18,737)	\$ (43,771)	\$ (36,641)
NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS				
-BASIC	\$ (0.35)	\$ (0.45)	\$ (0.87)	\$ (0.85)
-DILUTED	\$ (0.35)	\$ (0.45)	\$ (0.87)	\$ (0.85)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING				
-BASIC	48,132	45,636	48,089	44,691
-DILUTED	48,132	45,636	48,089	44,691

FRESHPET, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited, in thousands)

For the Six Months Ended

	June 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (41,738)	\$ (38,128)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Provision for loss (gains) on accounts receivable	8	(14)
Loss on disposal of equipment	464	89
Share-based compensation	16,862	12,589
Inventory obsolescence	-	3,455
Depreciation and amortization	28,930	15,888
Write-off and amortization of deferred financing costs and loan discount	3,034	398
Change in operating lease right of use asset	807	675
Loss on equity method investment	1,890	2,027
Amortization of discount on short-term investments	(996)	—
Changes in operating assets and liabilities:		
Accounts receivable	5,675	(36,268)
Inventories	(6,979)	(28,560)
Prepaid expenses and other current assets	(430)	2,416
Other assets	(3,762)	(358)
Accounts payable	(7,488)	(421)
Accrued expenses	4,529	4,487
Operating lease liability	(1,037)	(677)
Net cash flows used in operating activities	<u>(231)</u>	<u>(62,402)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of short-term investments	(113,441)	(19,840)
Investments in equity method investment	—	(3,294)
Acquisitions of property, plant and equipment, software and deposits on equipment	<u>(102,507)</u>	<u>(94,872)</u>
Net cash flows used in investing activities	<u>(215,948)</u>	<u>(118,006)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from common shares issued in primary offering, net of issuance cost	—	337,849
Proceeds from exercise of options to purchase common stock	3,061	329
Tax withholdings related to net shares settlements of restricted stock units	(850)	(1,213)
Proceeds from borrowings under Credit Facility	—	78,000
Purchase of capped call option	(66,211)	—
Proceeds from issuance of convertible senior notes	393,518	—
Debt issuance costs	<u>(2,026)</u>	<u>—</u>
Net cash flows provided by financing activities	<u>327,492</u>	<u>414,965</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>111,313</u>	<u>234,557</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>132,735</u>	<u>72,788</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 244,048</u>	<u>\$ 307,345</u>

**FRESHPET, INC. AND SUBSIDIARIES
RECONCILIATION BETWEEN GROSS PROFIT AND ADJUSTED GROSS PROFIT**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
	(Dollars in thousands)			
Gross profit	\$ 59,244	\$ 51,080	\$ 110,004	\$ 95,833
Depreciation expense	10,618	4,295	21,339	8,996
Non-cash share-based compensation	3,161	1,170	6,117	2,339
Adjusted Gross Profit	<u>\$ 73,023</u>	<u>\$ 56,545</u>	<u>\$ 137,460</u>	<u>\$ 107,168</u>
Adjusted Gross Profit as a % of Net Sales	39.8 %	38.7 %	39.2 %	38.5 %

**FRESHPET, INC. AND SUBSIDIARIES
RECONCILIATION BETWEEN SG&A EXPENSES AND ADJUSTED SG&A EXPENSES**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
	(Dollars in thousands)			
SG&A expenses	\$ 75,996	\$ 69,215	\$ 148,267	\$ 129,846
Depreciation and amortization expense	3,820	3,585	7,591	6,871
Non-cash share-based compensation	5,286	5,124	10,745	10,250
Loss on disposal of equipment	196	48	464	91
Enterprise Resource Planning (a)	537	1,991	1,338	3,008

Capped Call Transactions fees (b)	—	—	113	—
Activism engagement (c)	2,241	—	2,630	—
Organization changes (d)	(67)	—	(67)	—
Adjusted SG&A Expenses	\$ 63,983	\$ 58,467	\$ 125,453	\$ 109,626
Adjusted SG&A Expenses as a % of Net Sales	34.9 %	40.0 %	35.8 %	39.4 %

(a) Represents implementation, amortization of deferred implementation costs and other costs associated with the implementation of an ERP system.

(b) Represents fees associated with the Capped Call Transactions purchases.

(c) Represents advisory fees related to activism engagement.

(d) Represents a true up to transition costs related to the organization changes designed to support growth, including several changes in organizational structure designed to enhance capabilities and support long-term growth objectives.

FRESHPET, INC. AND SUBSIDIARIES
RECONCILIATION BETWEEN NET (LOSS) AND ADJUSTED EBITDA

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(Dollars in thousands)			
Net loss	\$ (16,952)	\$ (20,586)	\$ (41,738)	\$ (38,128)
Depreciation and amortization	14,438	7,880	28,930	15,867
Interest expense, net of interest income	(779)	1,671	1,446	2,243
Income tax expense	70	41	140	82
EBITDA	\$ (3,223)	\$ (10,994)	\$ (11,222)	\$ (19,936)
Loss on equity method investment	910	717	\$ 1,890	2,027
Loss on disposal of equipment	196	48	464	91
Non-cash share-based compensation	8,447	6,294	16,862	12,589
Enterprise Resource Planning (a)	537	1,991	1,338	3,008
Capped Call Transactions fees (b)	—	—	113	—
Activism engagement (c)	2,240	—	2,629	—
Organization changes (d)	(67)	—	(67)	—
Adjusted EBITDA	\$ 9,040	\$ (1,944)	\$ 12,007	\$ (2,221)
Adjusted EBITDA as a % of Net Sales	4.9 %	-1.3 %	3.4 %	-0.8 %

(a) Represents implementation, amortization of deferred implementation costs and other costs associated with the implementation of an ERP system.

(b) Represents fees associated with the Capped Call Transactions purchases.

(c) Represents advisory fees related to activism engagement.

(d) Represents a true up to transition costs related to the organization changes designed to support growth, including several changes in organizational structure designed to enhance capabilities and support long-term growth objectives.



Source: Freshpet, Inc.