



pets. people. planet.

Q3 2020 Earnings Report  
November 2, 2020



# Forward Looking Statements & Non-GAAP Measures

## Forward-Looking Statements

Certain statements in this presentation constitute “forward-looking” statements, which include any statements related to the novel coronavirus (“COVID-19”), the Freshpet Kitchens Expansion, and the Company's general operating and economic environment. 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 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 many 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 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 presentation. 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 Measures

Freshpet uses certain non-GAAP financial measures, including EBITDA, Adjusted EBITDA, Adjusted EBITDA as a % of net sales, Adjusted Gross Profit, Adjusted Gross Profit as a % of net sales (Adjusted Gross Margin), Adjusted SG&A and Adjusted SG&A as a % of net sales. These non-GAAP financial measures should be considered as supplements to GAAP reported measures, should not be considered replacements for, or superior to, GAAP measures and may not be comparable to similarly named measures used by other companies.

Freshpet defines EBITDA as net income (loss) plus interest expense, income tax expense and depreciation and amortization expense, and Adjusted EBITDA as EBITDA plus gain (loss) on disposal of equipment, plant start-up expenses, non-cash share-based compensation, launch expense, fees related to equity offerings, COVID-19 expenses, and fees associated with due diligence of new enterprise resource planning (“ERP”) software.

# Forward Looking Statements & Non-GAAP Measures (cont.)

Freshpet defines Adjusted Gross Profit as gross profit before depreciation expense, plant start-up costs, COVID-19 expenses and non-cash share-based compensation, and Adjusted SG&A as SG&A expenses before depreciation and amortization expense, non-cash share-based compensation, launch expense, gain (loss) on disposal of equipment, fees related to equity offerings, and fees associated with due diligence of new ERP software..

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. Non-GAAP financial measures are shown as supplemental disclosures in this presentation 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. Adjusted EBITDA is also an important component of internal budgeting and setting management compensation. 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.

Certain of these measures present the company's guidance for fiscal year 2020, for which the Company has not yet completed its internal or external audit procedures. The Company does not provide guidance for the most directly comparable GAAP measure and similarly cannot provide a reconciliation to such measure without unreasonable effort due to the unavailability of reliable estimates for certain items. These items are not within the Company's control and may vary greatly between periods and could significantly impact future financial results.

10 million meals  
donated since  
2007

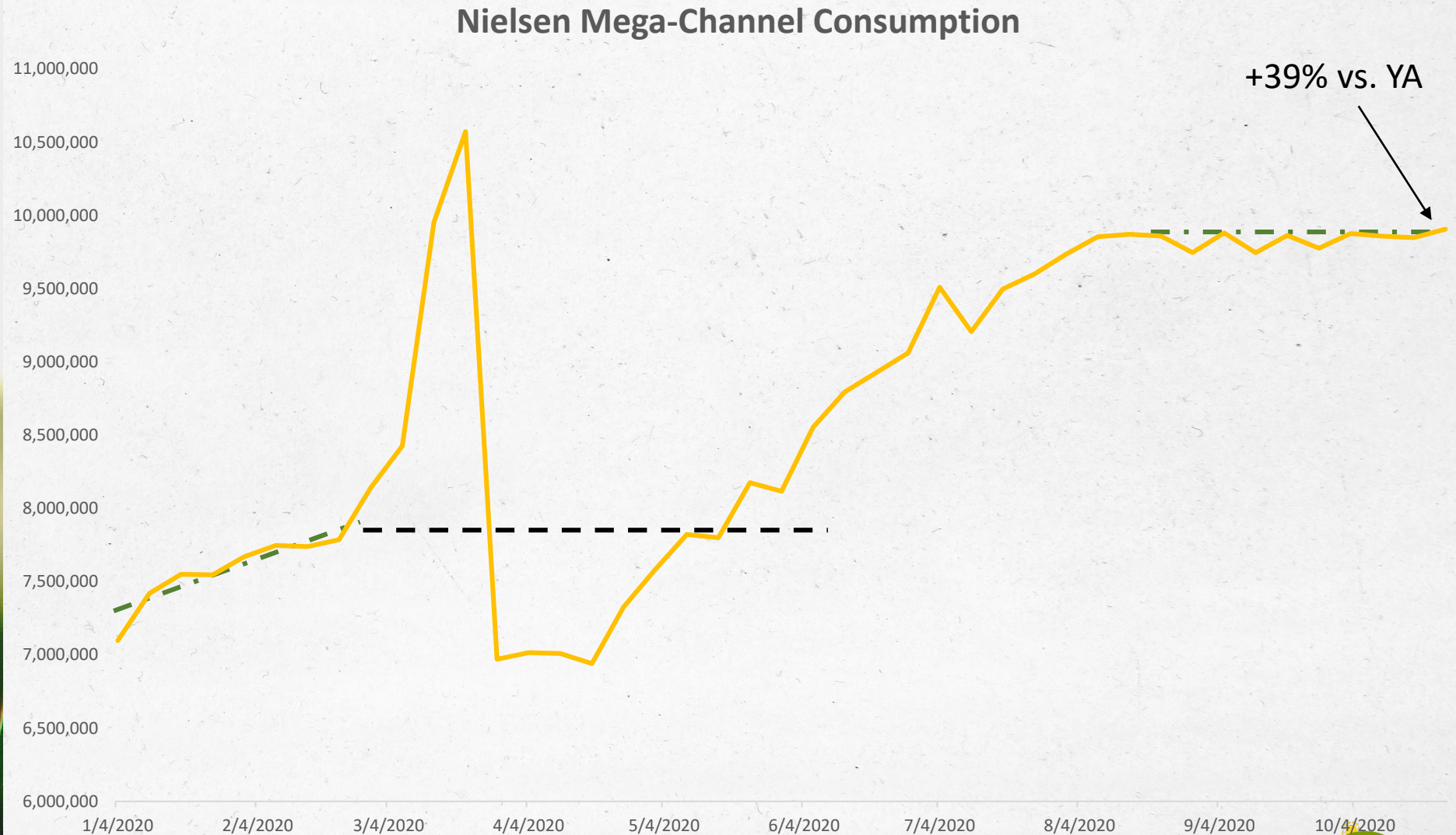


  
freshpet®  
pets. people.  
planet.

# Strong consumption leveled off due to capacity limits

Nielsen Mega-Channel consumption vs. YA thru 10/24/20:

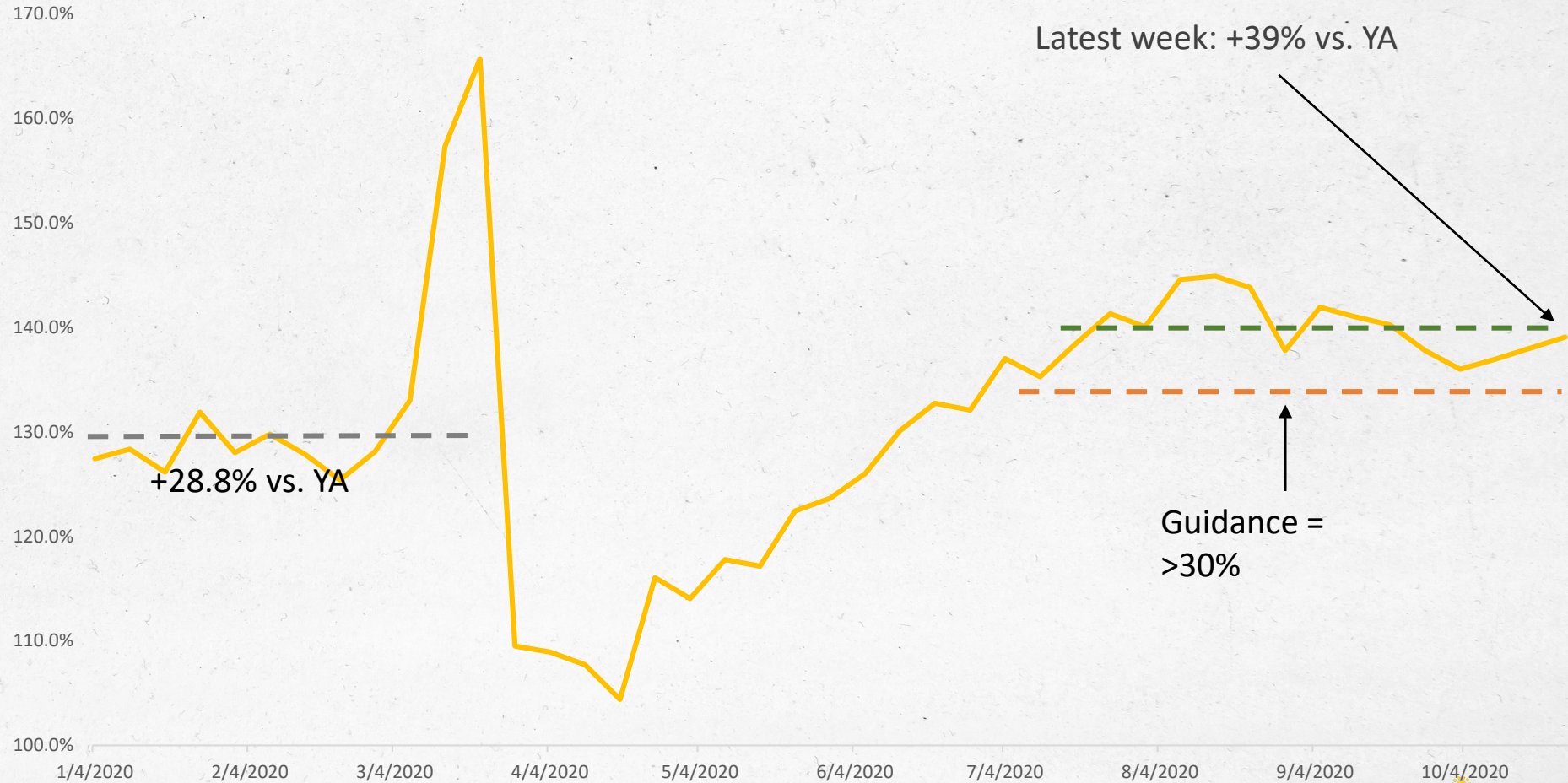
- Q3: +40%
- Latest week: +39%
- YTD: +31%



Source: Nielsen Mega-Channel Data thru 10/24/20

# Growth rate peaked in low 40's; out-of-stocks hurting growth rate

Nielsen Mega-Channel Consumption Growth  
(Index vs. YA)



Latest week: +39% vs. YA

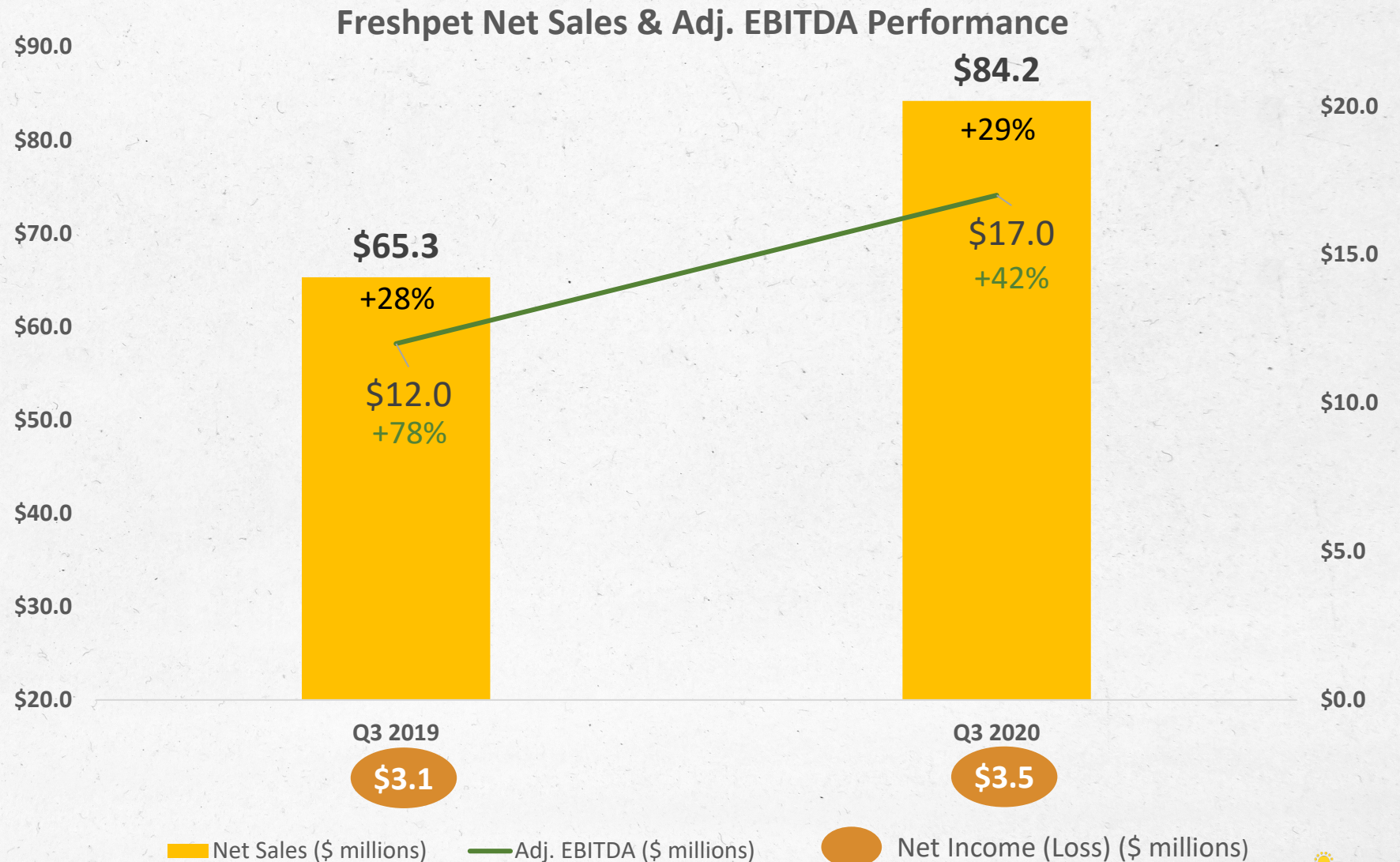
+28.8% vs. YA

Guidance = >30%

Continuous media on air May-October capitalized on lower media rates and higher viewership and drove strong growth

Source: Nielsen Mega-Channel Data thru 10/24/20

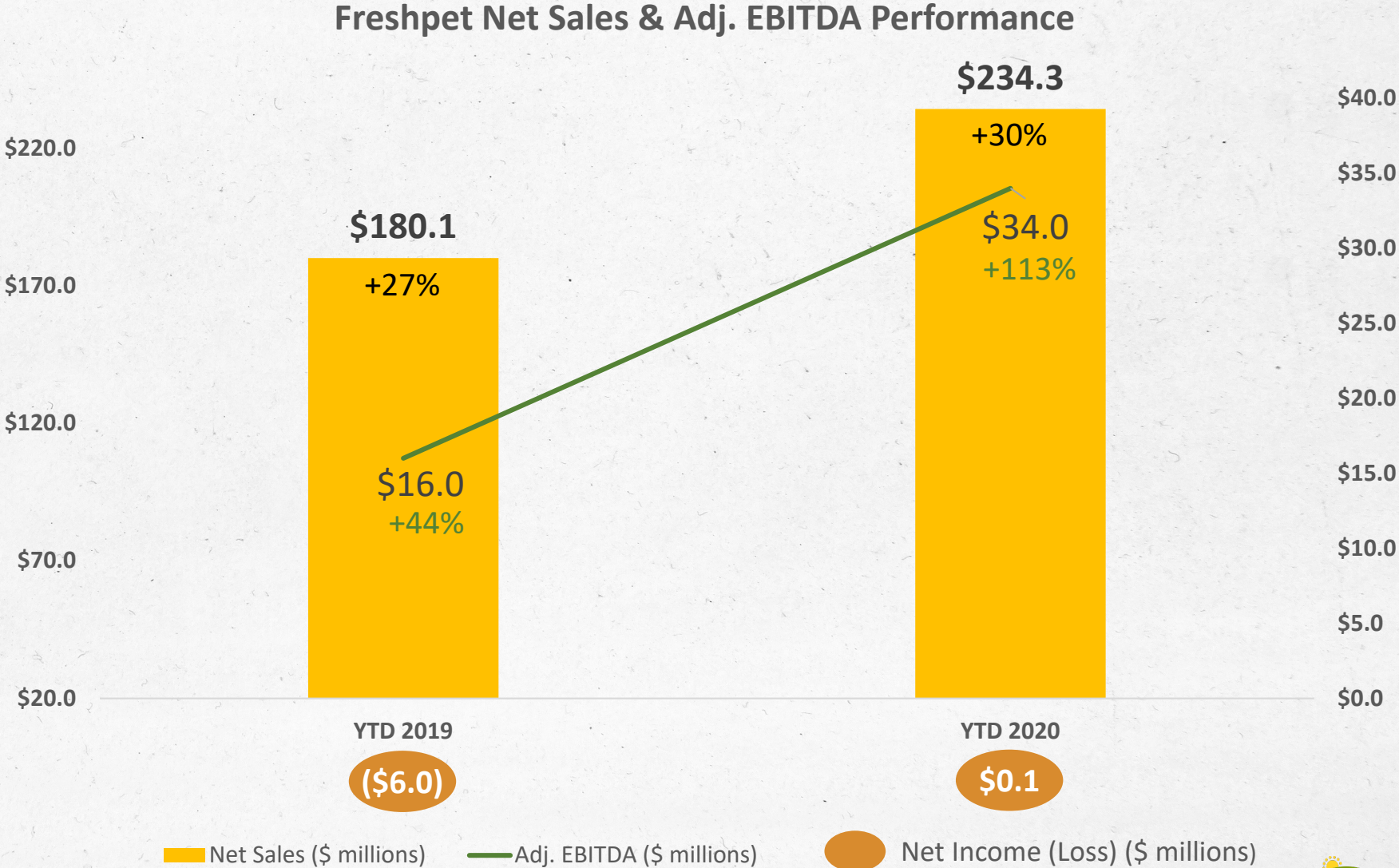
# Q3 2020: Strong growth and leverage from scale



10 of last 11 quarters  
>25% net sales  
growth

# YTD 2020: Strong performance despite the COVID crisis

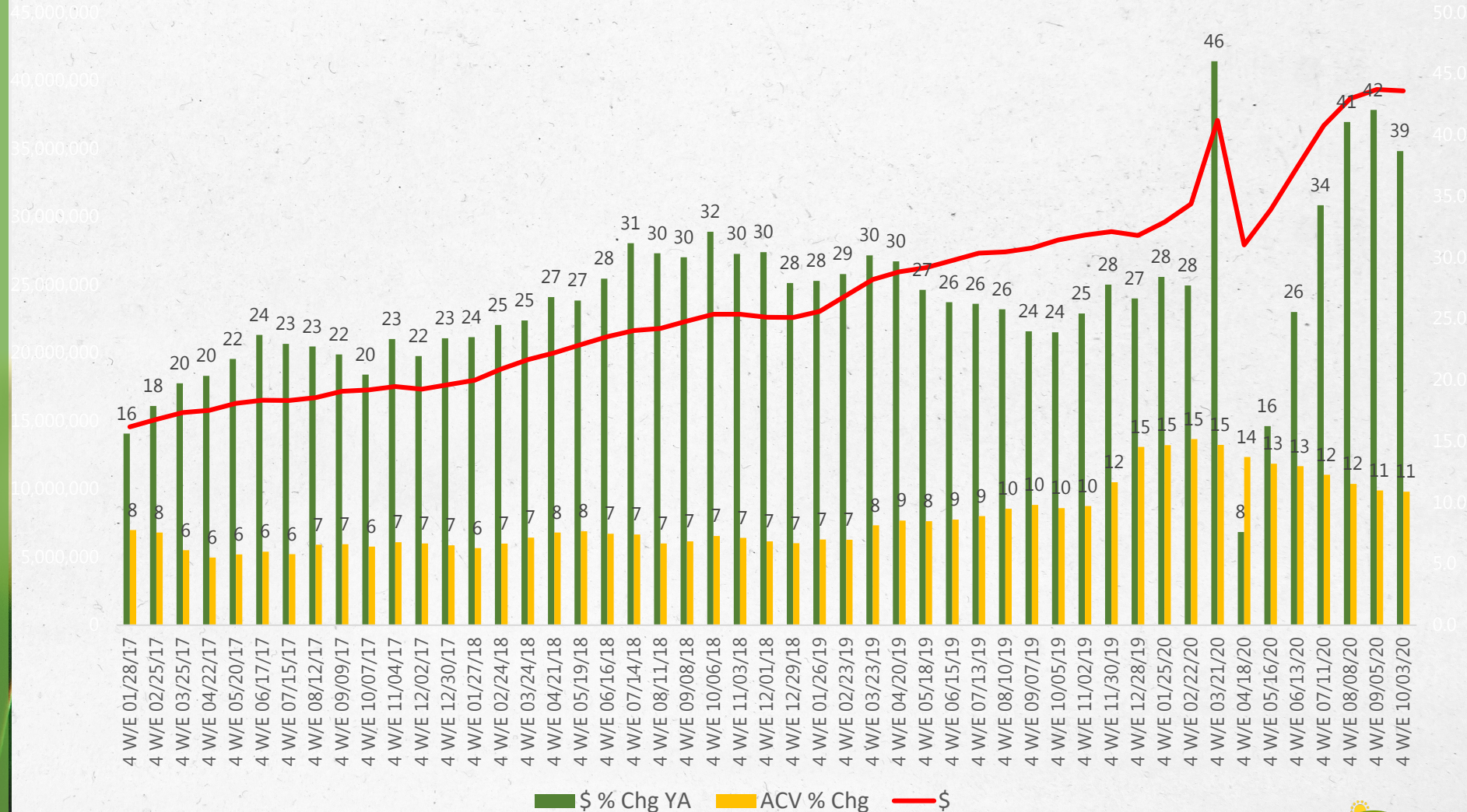
We anticipate delivering positive net income in 2020 for the first time





# Strong consumption growth prior to reaching capacity limits late in Q3

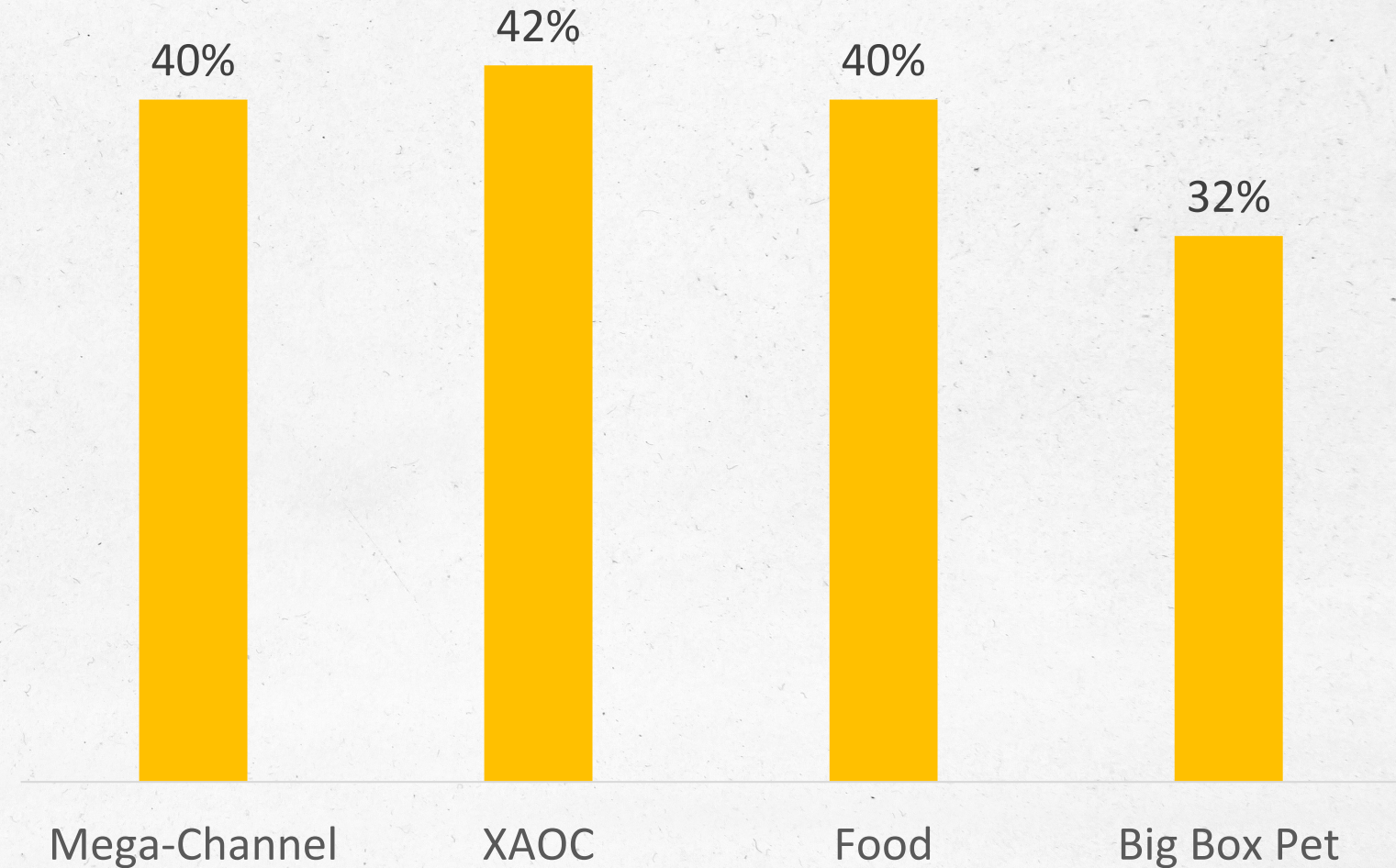
YTD consumption growth of 31%



Source: Nielsen Mega-Channel Data thru 10/3/20

# Q3 2020: Strong and balanced growth across all classes of trade

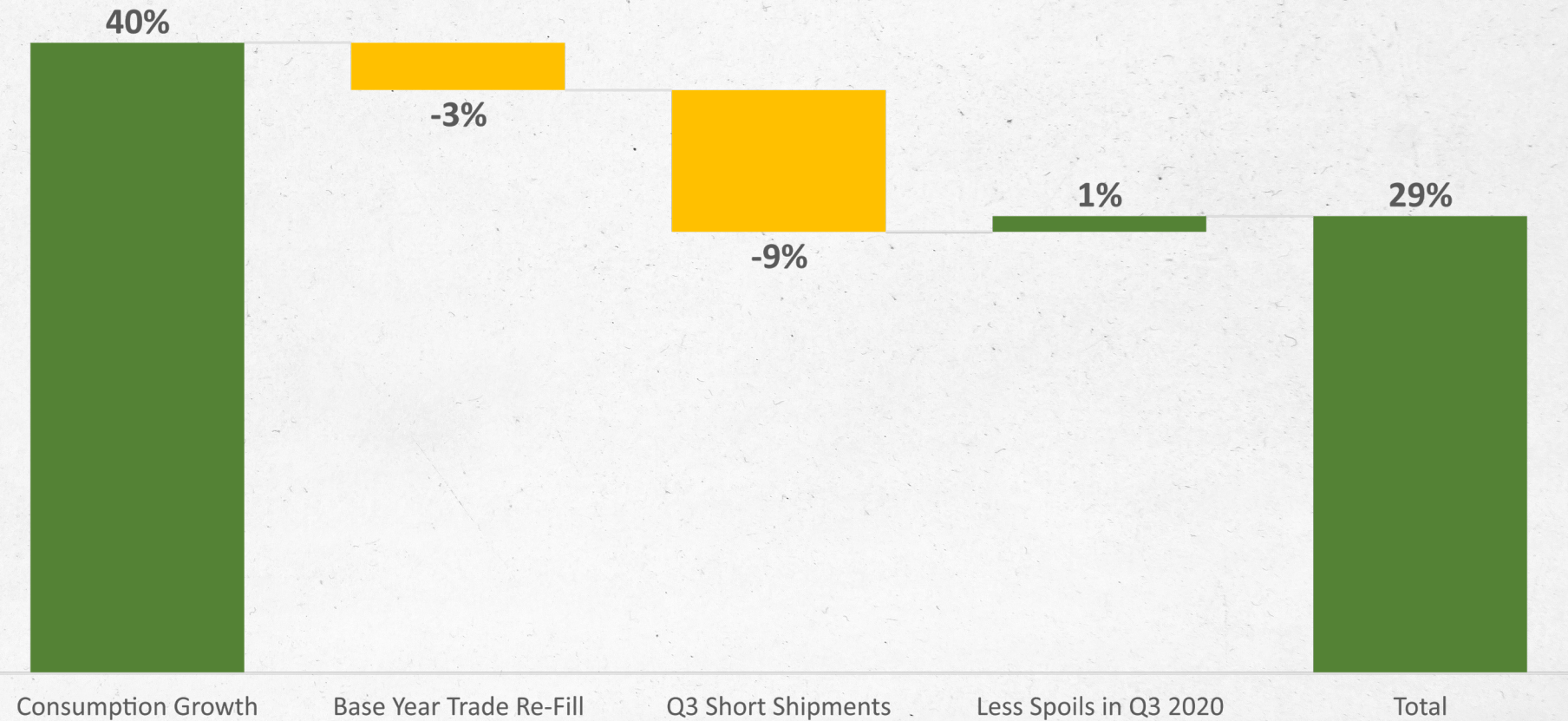
Q3 2020 Nielsen Consumption Growth



2<sup>nd</sup> Fridges delivered strong improvement in Big Box Pet consumption growth

# Q3: Consumption grew faster than net sales as we drew down trade inventory due to capacity limitations

## Q3 2020 Consumption to Net Sales Reconciliation



Consumption Growth      Base Year Trade Re-Fill      Q3 Short Shipments      Less Spoils in Q3 2020      Total

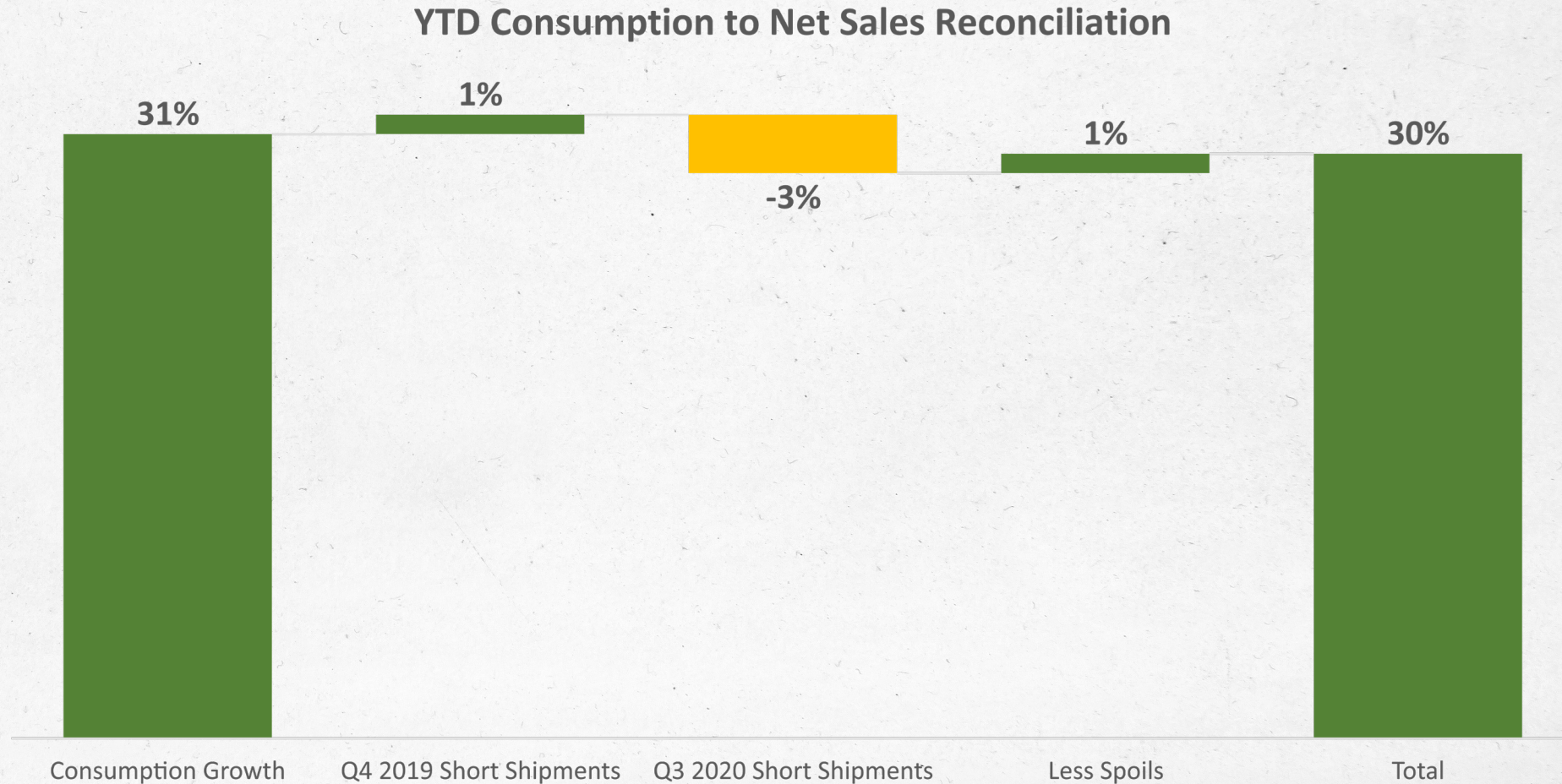
Source: Nielsen Q3 consumption data thru 10/3/20 and company estimates



Capacity limits resulted in ~\$7-8 million of net sales lost which will be recaptured in Q4 and Q1 2021

# YTD: Strong, consistent performance despite capacity limits

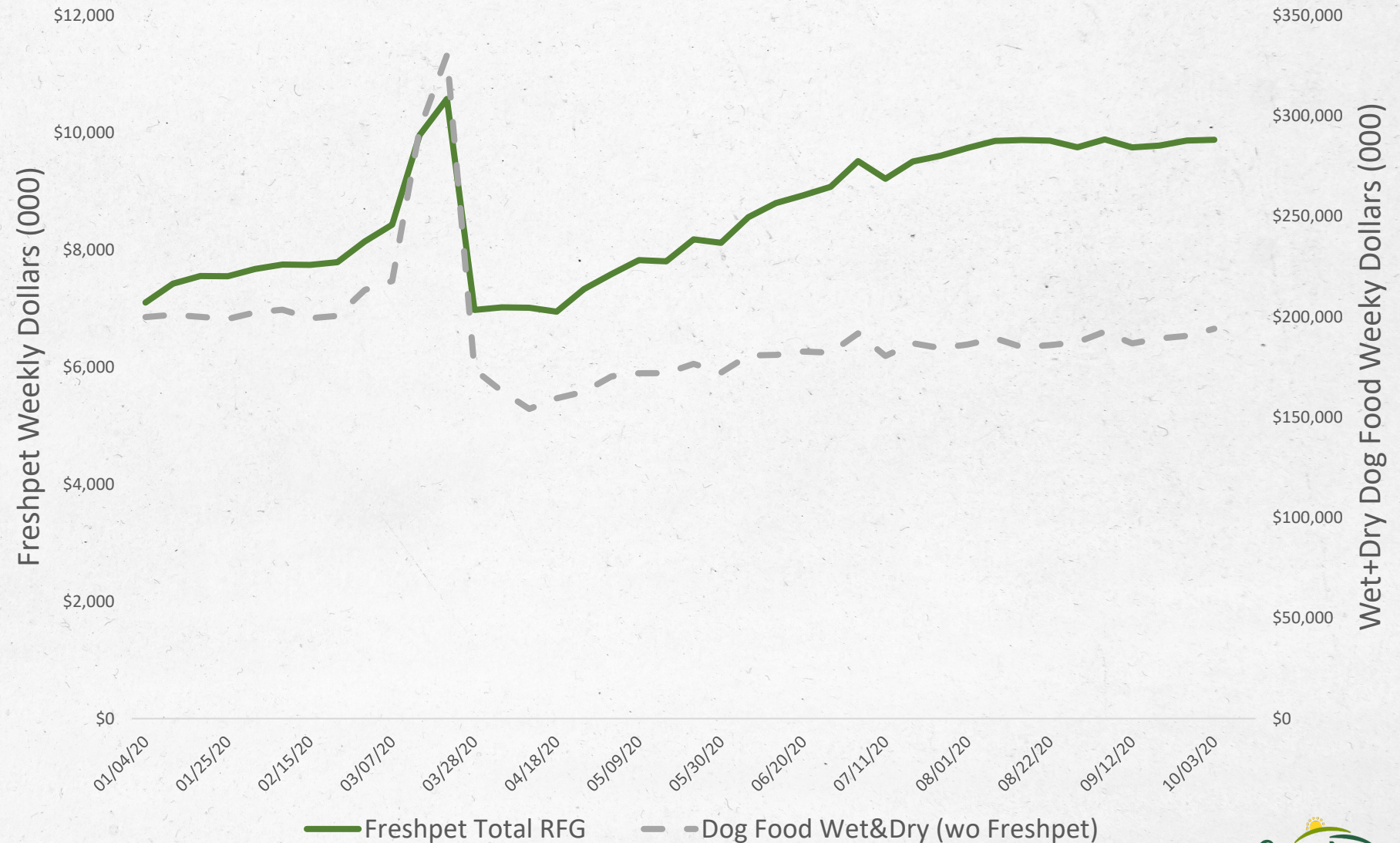
On track for strongest year of growth since 2015



Source: Nielsen YTD consumption data thru 10/3/20 and company estimates

# Freshpet consistently outperforming the category during the post-COVID period

Retailers recognize that Freshpet has dramatically outperformed the category in the post-COVID period

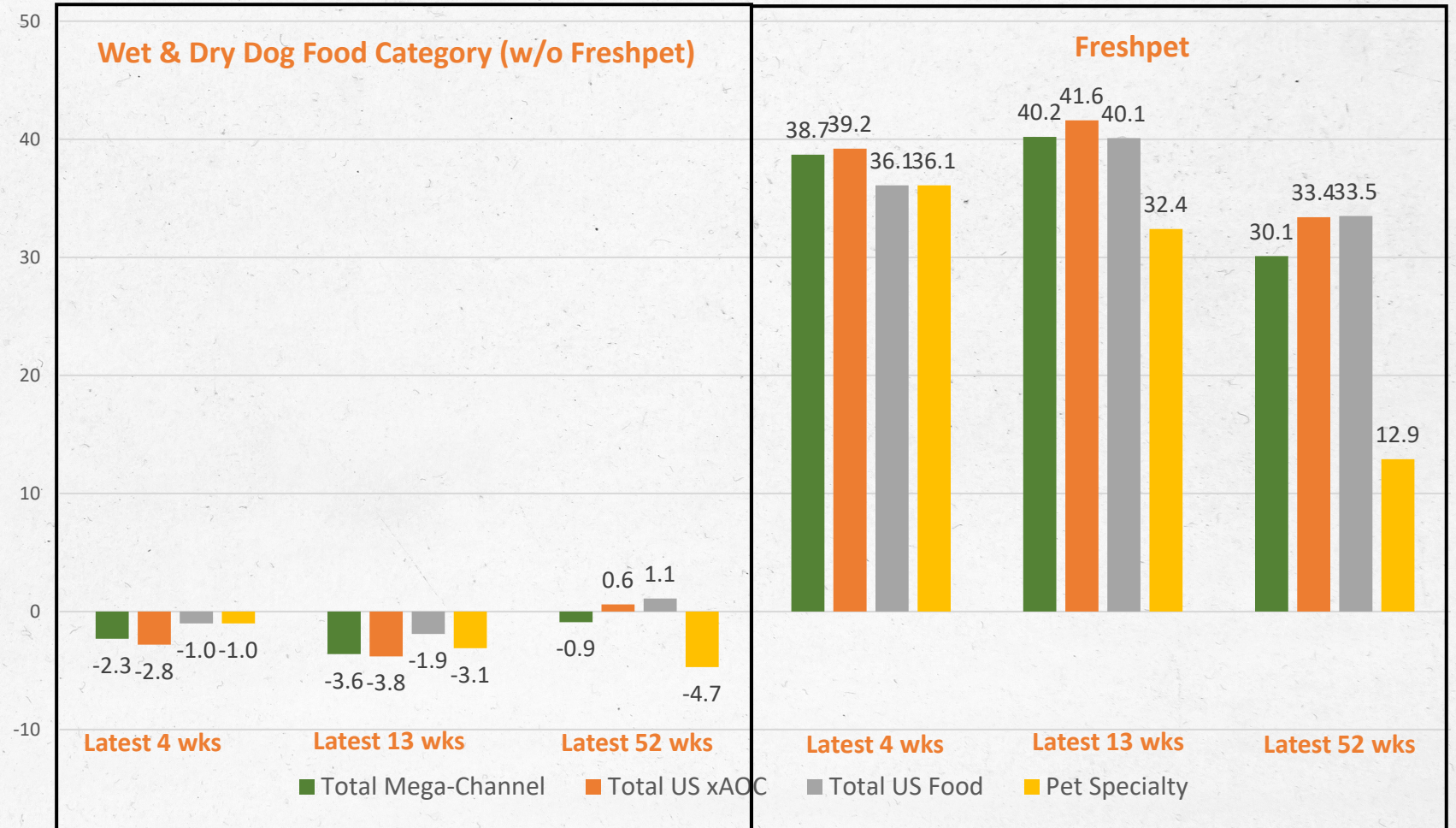


Source: Nielsen Mega-Channel Data thru 10/3/20

# Freshpet's growth significantly outperformed the category

Freshpet consumption grew >35 pts. faster than the balance of the category in all classes of trade in Q3

## Nielsen Consumption Growth vs. YA

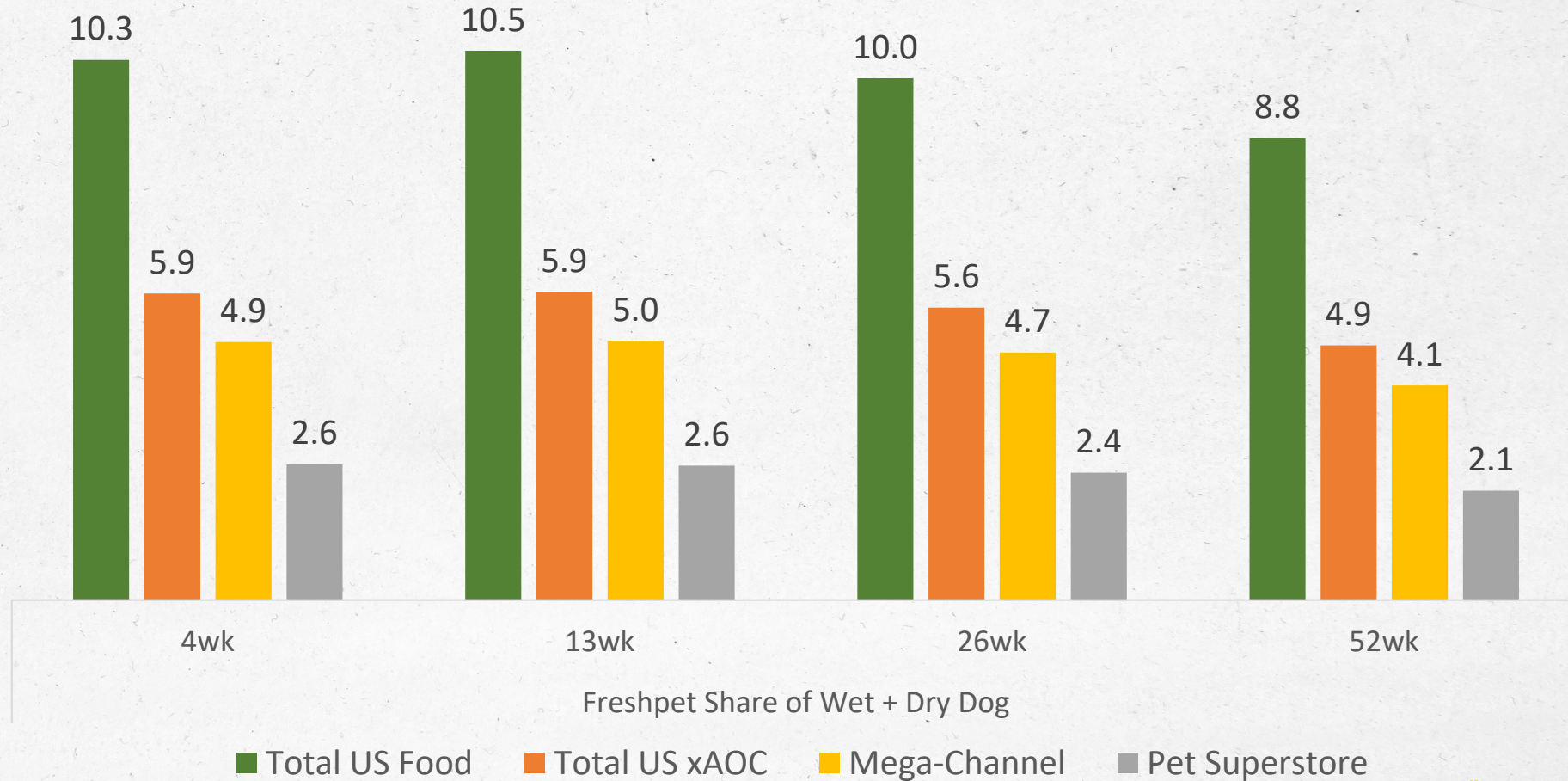


Source: Nielsen Data thru 10/3/20

# Consistently building market share across all classes of trade

Out-of-stocks limited growth in the last 4 weeks of Q3

## Freshpet \$ Share of Wet & Dry Dog

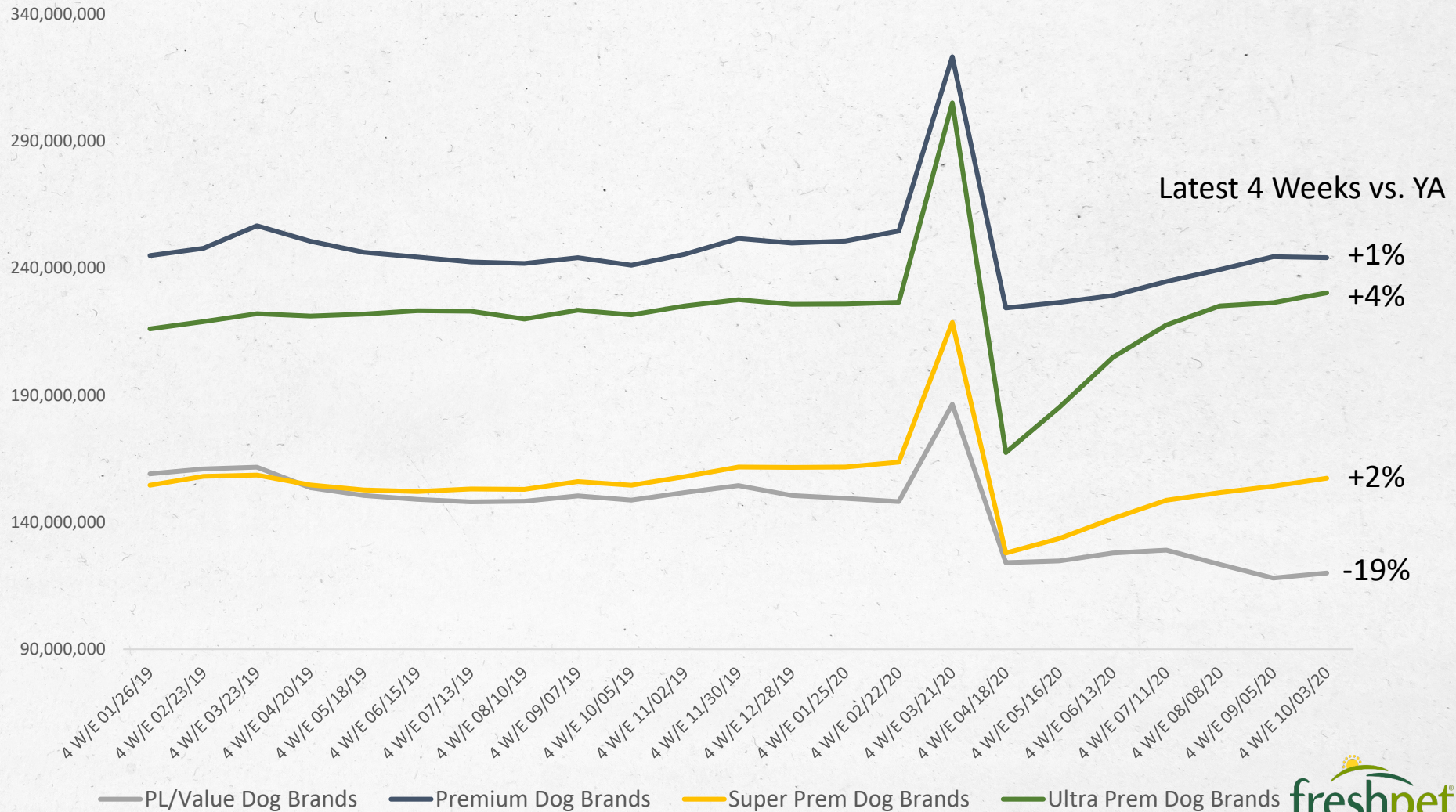


Source: Nielsen Data thru 10/3/20

# Category growth skewing towards more premium brands

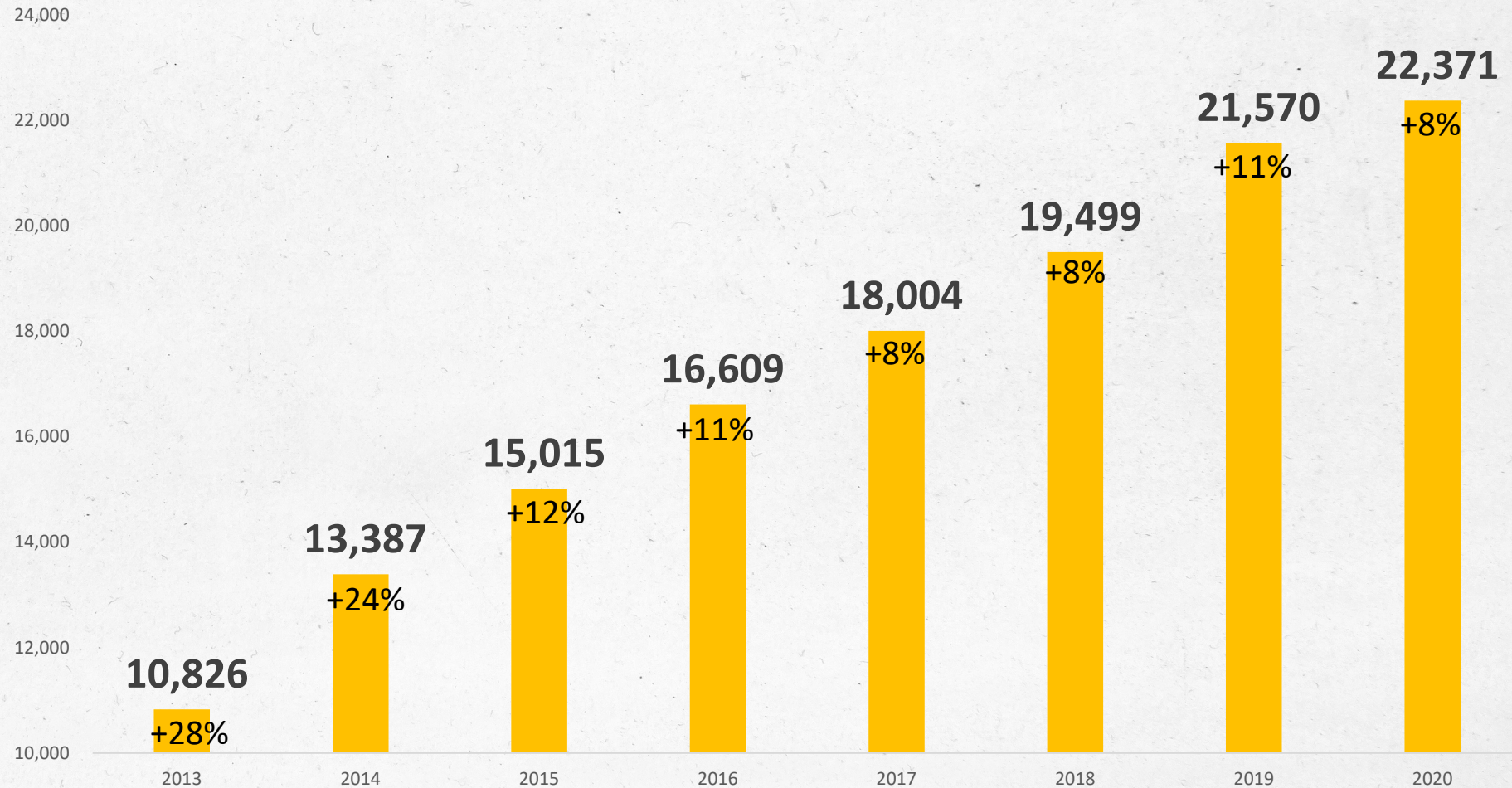
Pet food category – particularly premium brands – have performed well in previous economic downturns

### Nielsen Mega-Channel Consumption Trends





# Store count growth limited by COVID-19 related retail disruption

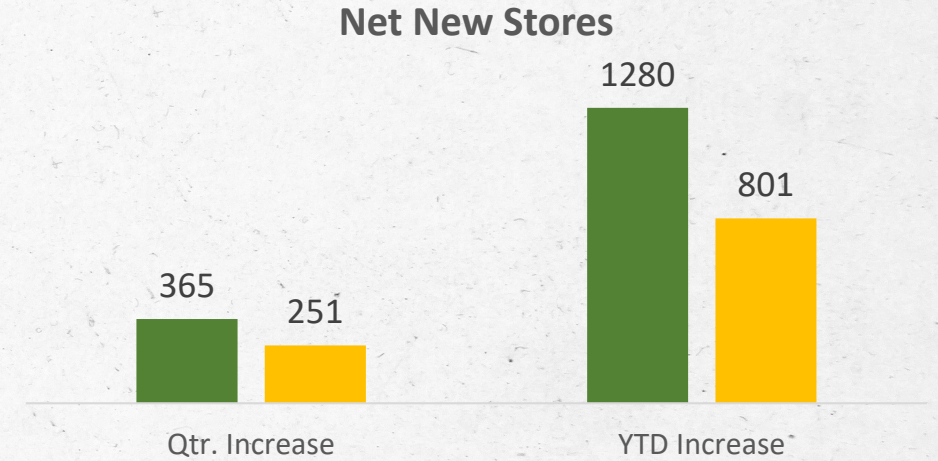
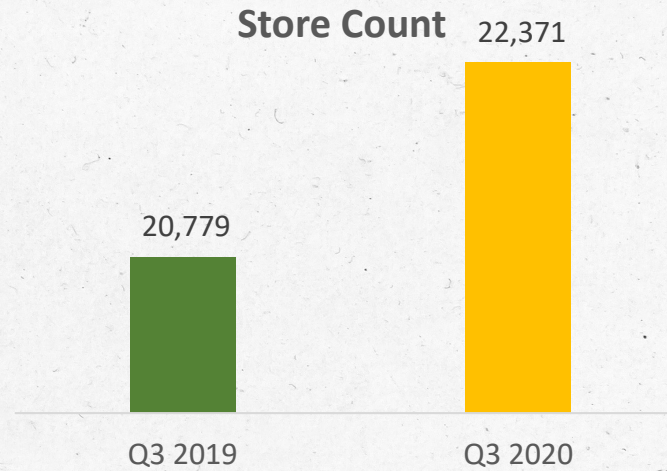


Q3: 251 net new stores

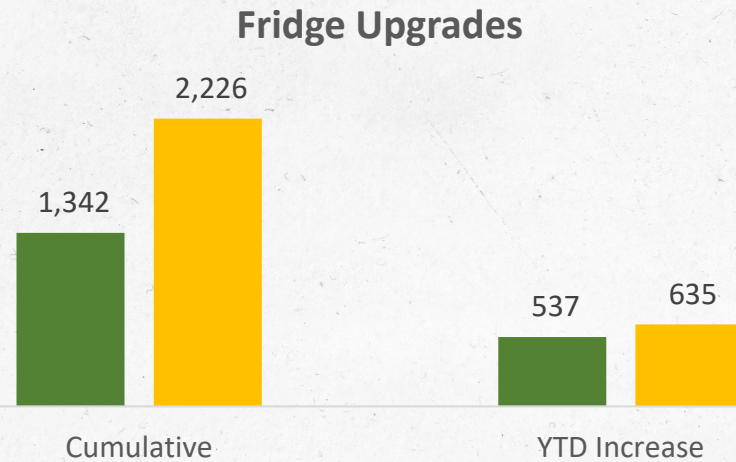
Source: Internal company data; all periods are ending 12/31 except 2020 which is quarter end 9/30/20 compared to YA

# Retail disruptions reduced new Fridge placements, but upgrades and 2<sup>nd</sup> Fridge placements accelerated

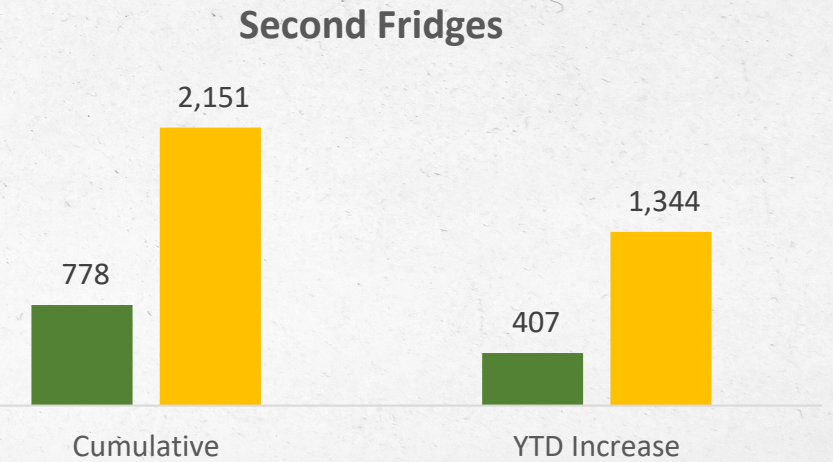
Upgrades and 2<sup>nd</sup> Fridges are increasingly becoming a significant enabler of growth



■ Q3 2019 ■ Q3 2020



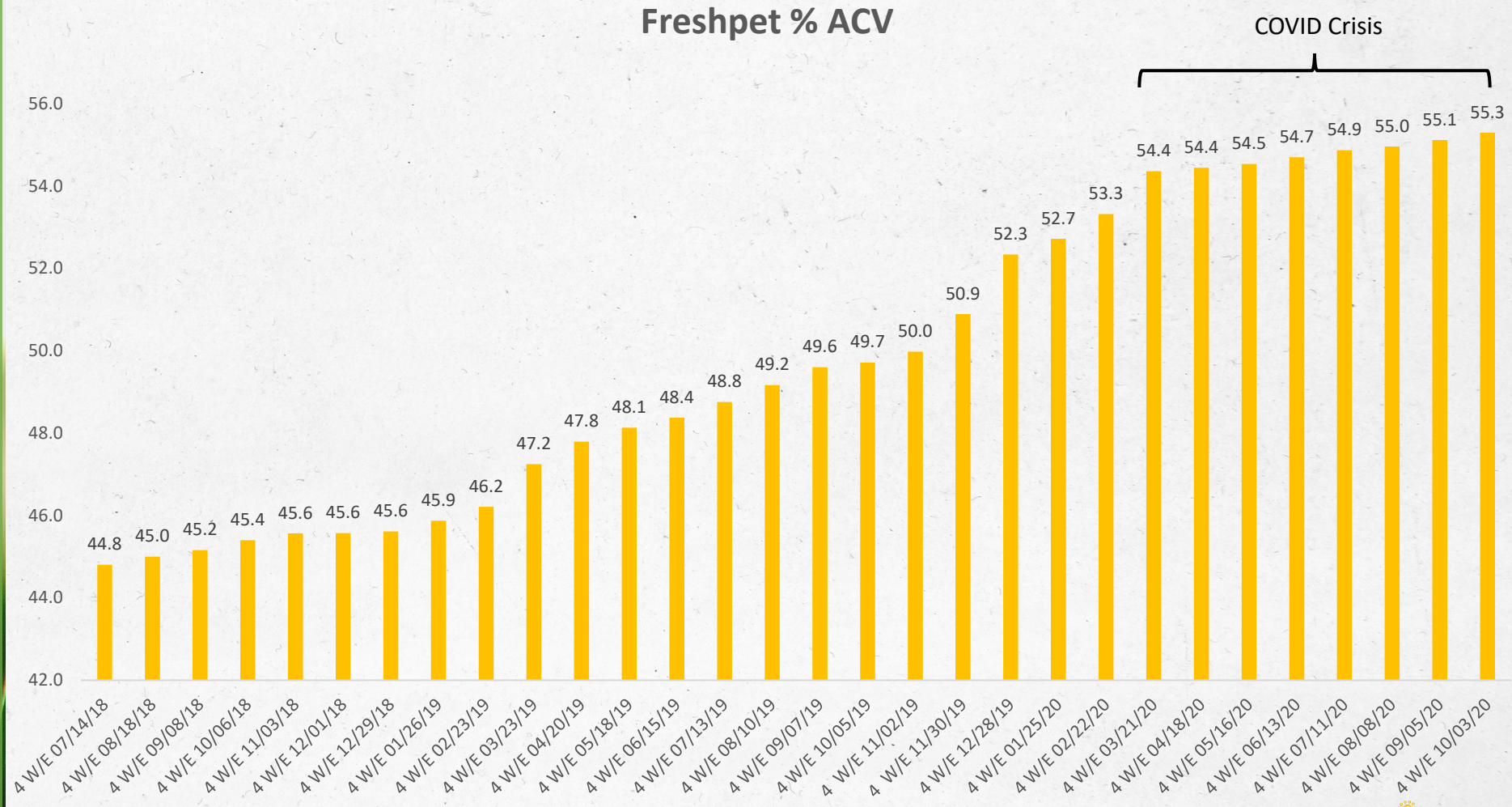
■ Q3 2019 ■ Q3 2020



■ Q3 2019 ■ Q3 2020

# Distribution gains slowed during COVID-19 crisis due to retailers' operating challenges

Added 251 net new stores in Q3 – now totaling 22,371



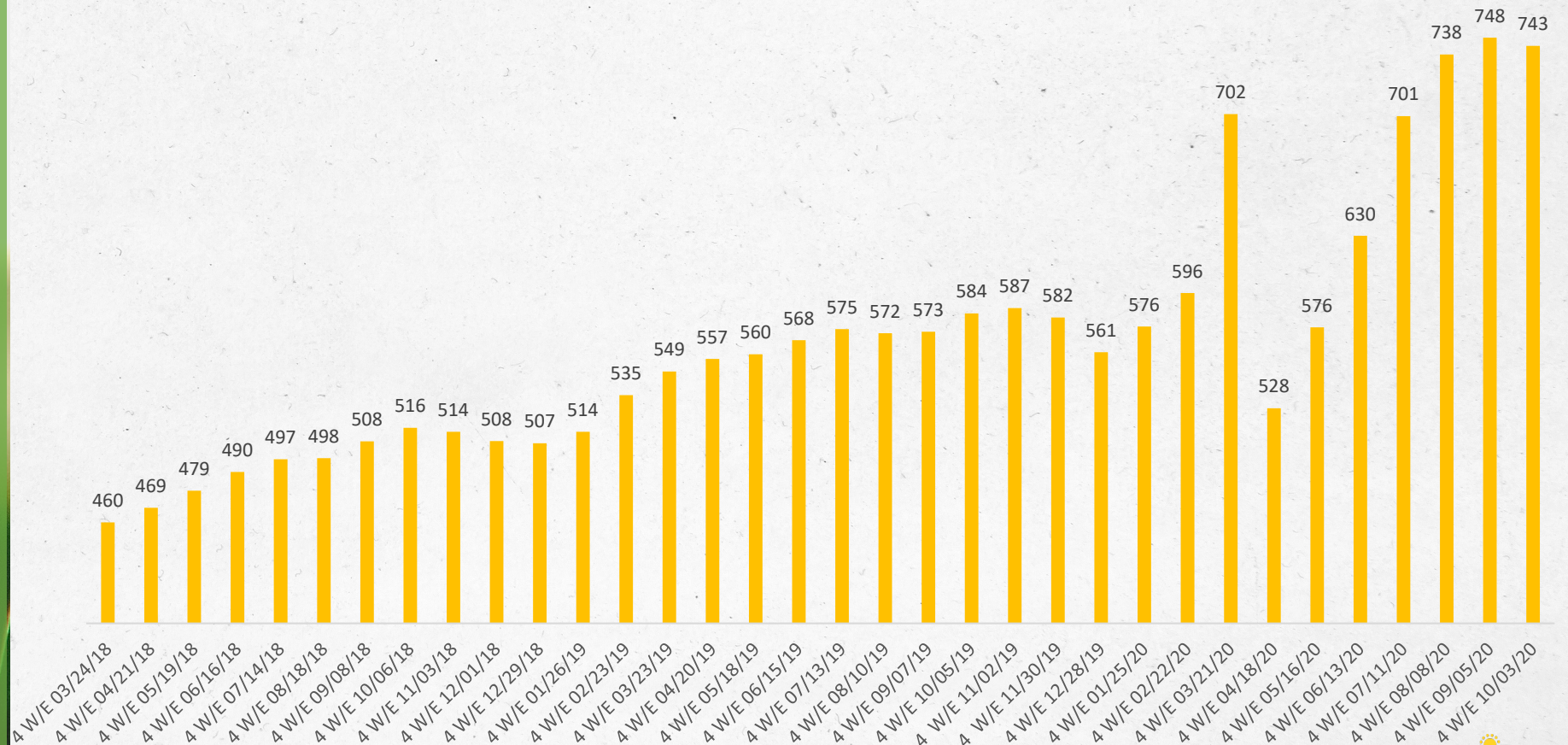
Source: Nielsen Mega-Channel Data thru 10/3/20



# Rapid velocity growth behind continuous media

Q3 velocity gains  
(\$/\$ million ACV):  
+29% vs. YA

Freshpet Velocity  
\$/ \$MM ACV



Source: Nielsen Mega-Channel Data thru 10/3/20

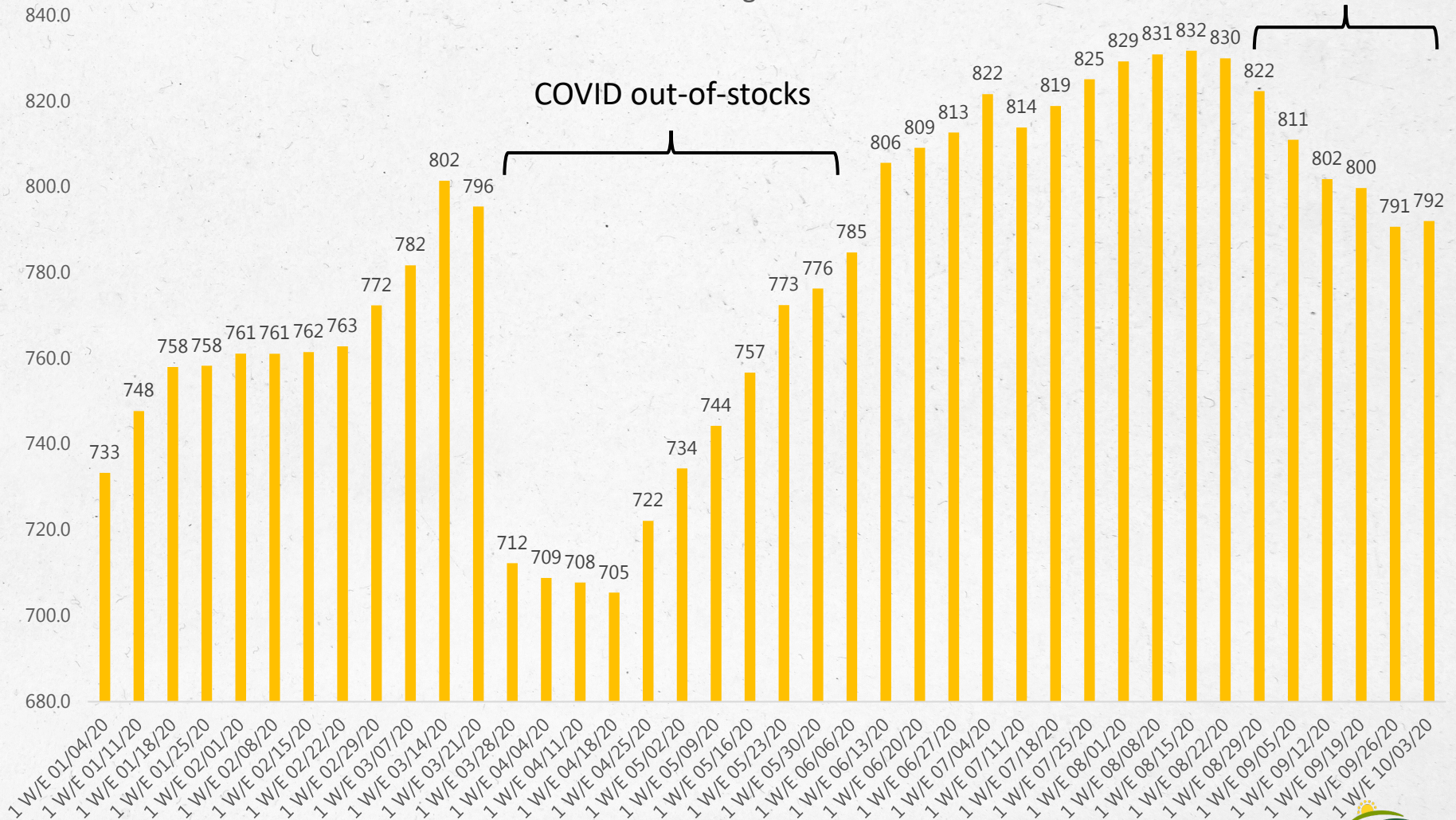


# Strong TDP growth limited by capacity constraints

## Freshpet Total Distribution Points (TDP's)

Nielsen Mega-Channel

Capacity driven  
out-of-stocks



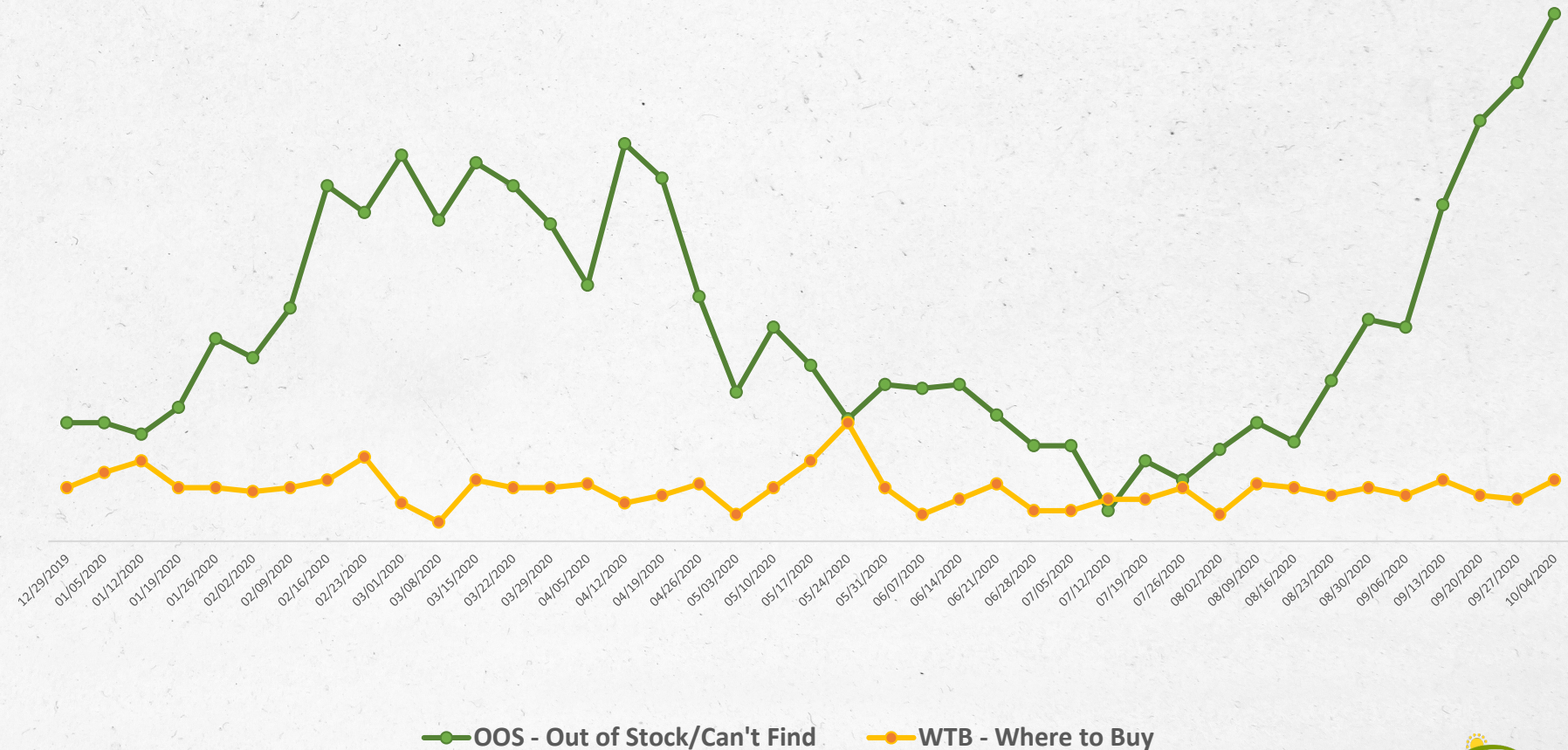
Source: Nielsen Mega-Channel Data thru 10/3/20

TDP growth = +21%  
in July due to  
upgraded and 2<sup>nd</sup>  
Fridges before  
capacity limits  
created out-of-stocks

# Better than anticipated media response drove out-of-stocks late in Q3

## Freshpet Availability Consumer Comments

With Kitchens 2.0 now producing, we will catch up on supply in Q4 and Q1 2021

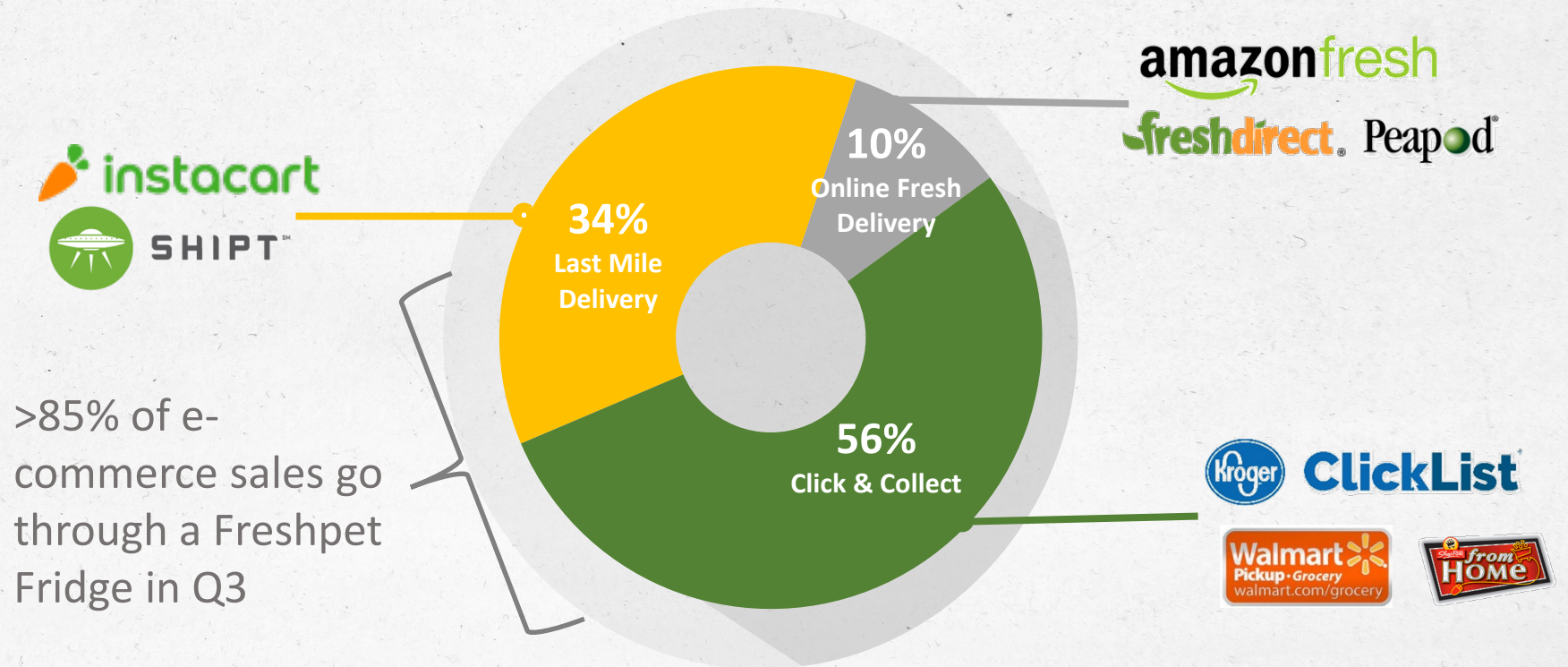
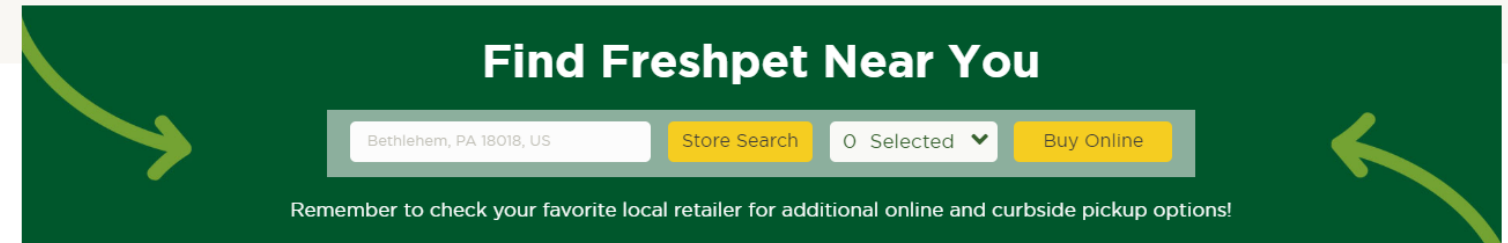


Source: Internal company data; Consumer contacts via e-mail, letter and phone



# Q3 2020 e-commerce sales +188% vs. YA

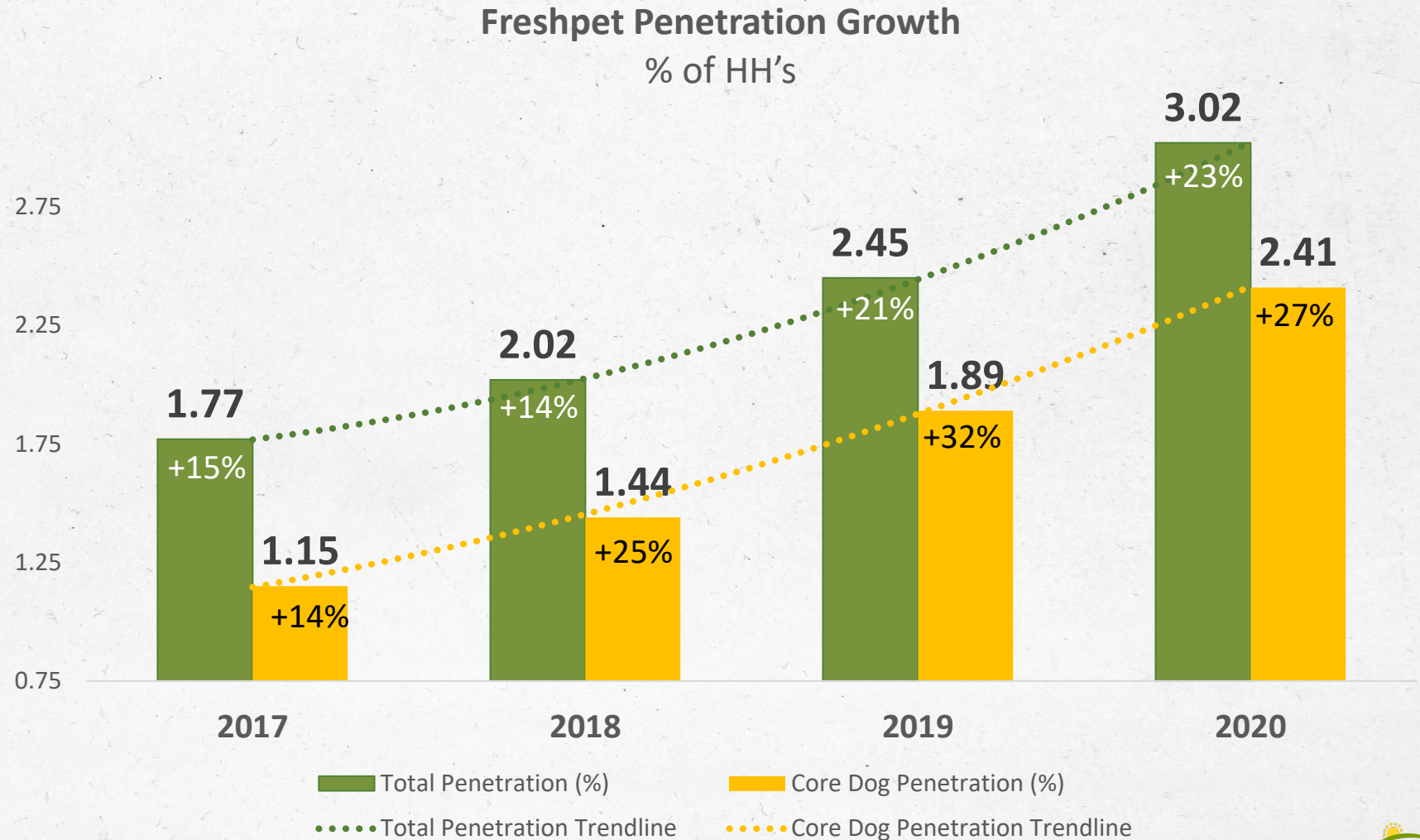
5.1% of Freshpet sales in Q3 2020 were e-commerce



>85% of e-commerce sales go through a Freshpet Fridge in Q3

# Strong penetration growth despite capacity limits and out-of-stocks

More than doubled  
Core Dog HH  
penetration in 3  
years



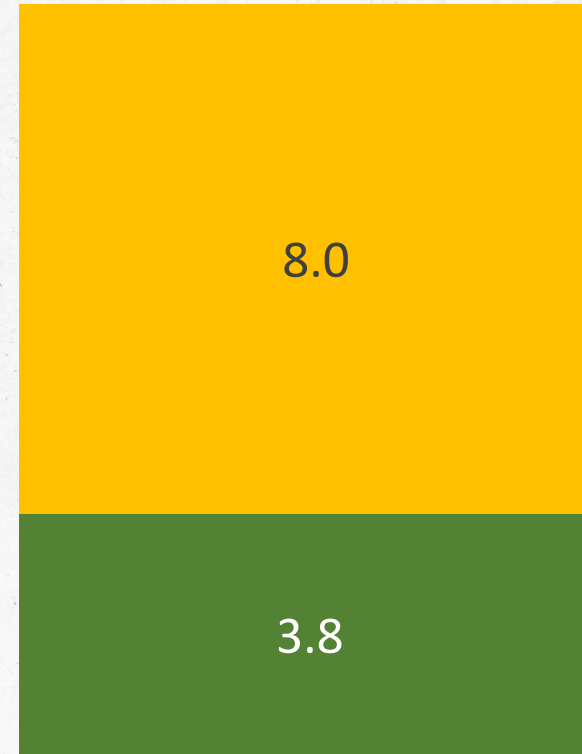
Source: Nielsen HH Panel for the periods ending early October 2017, 2018, 2019, 2020



# On pace for our 5 x 2025 HH penetration goal

Added 725K  
incremental users in  
the past year

## Progress Towards 2025 HH Penetration Goal

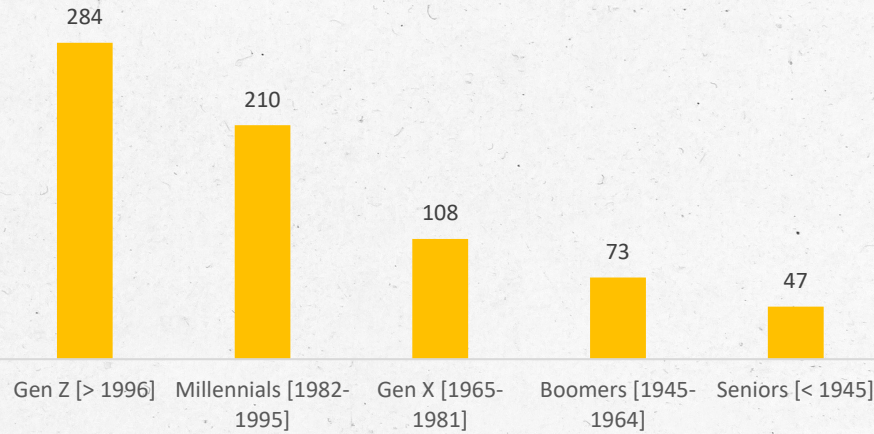


■ Current HH Penetration    ■ 2025 Target HH Penetration

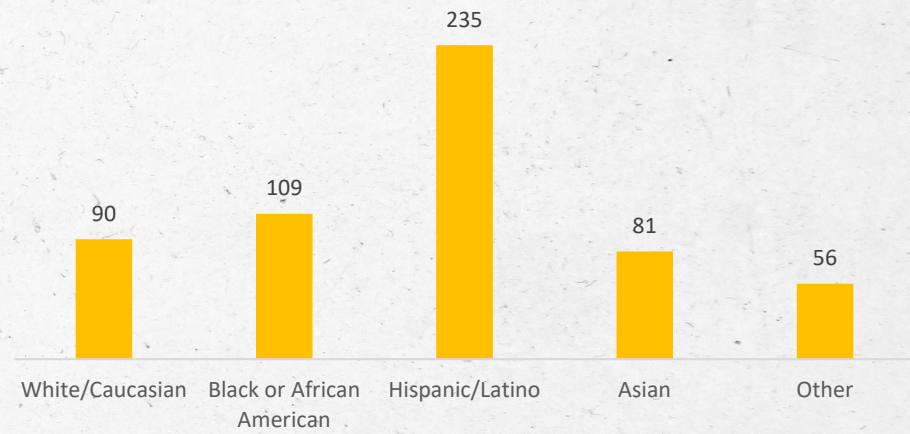
# Post-COVID new buyers skew young, urban, ethnic and unmarried

Attractive demographics for franchise longevity

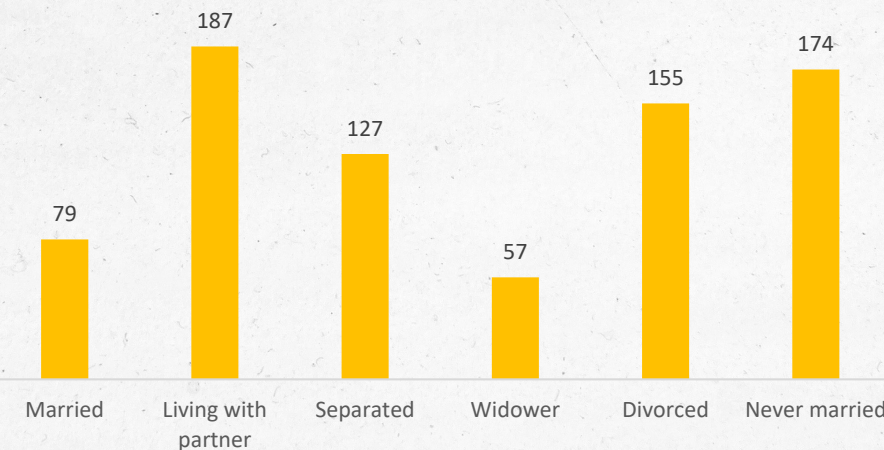
Freshpet Post-COVID New Buyers  
(Index vs. Share of Pre-COVID Buyers)



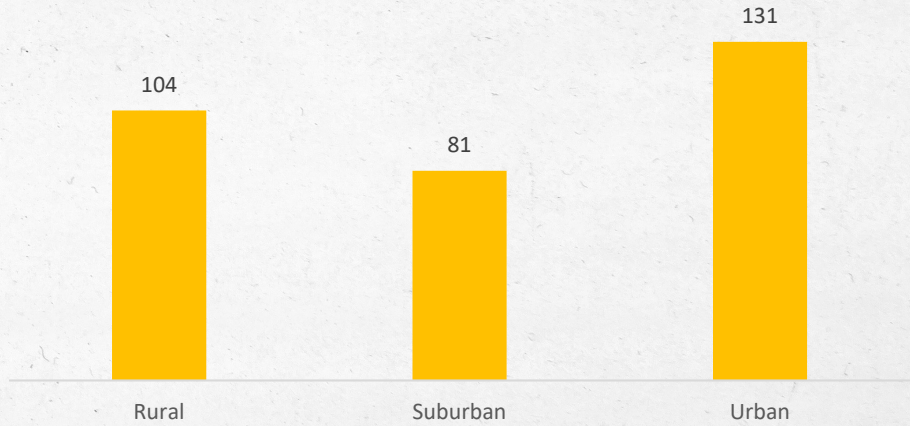
Freshpet Post-COVID New Buyers  
(Index vs. Share of Pre-COVID Buyers)



Freshpet Post-COVID New Buyers  
(Index vs. Share of Pre-COVID Buyers)



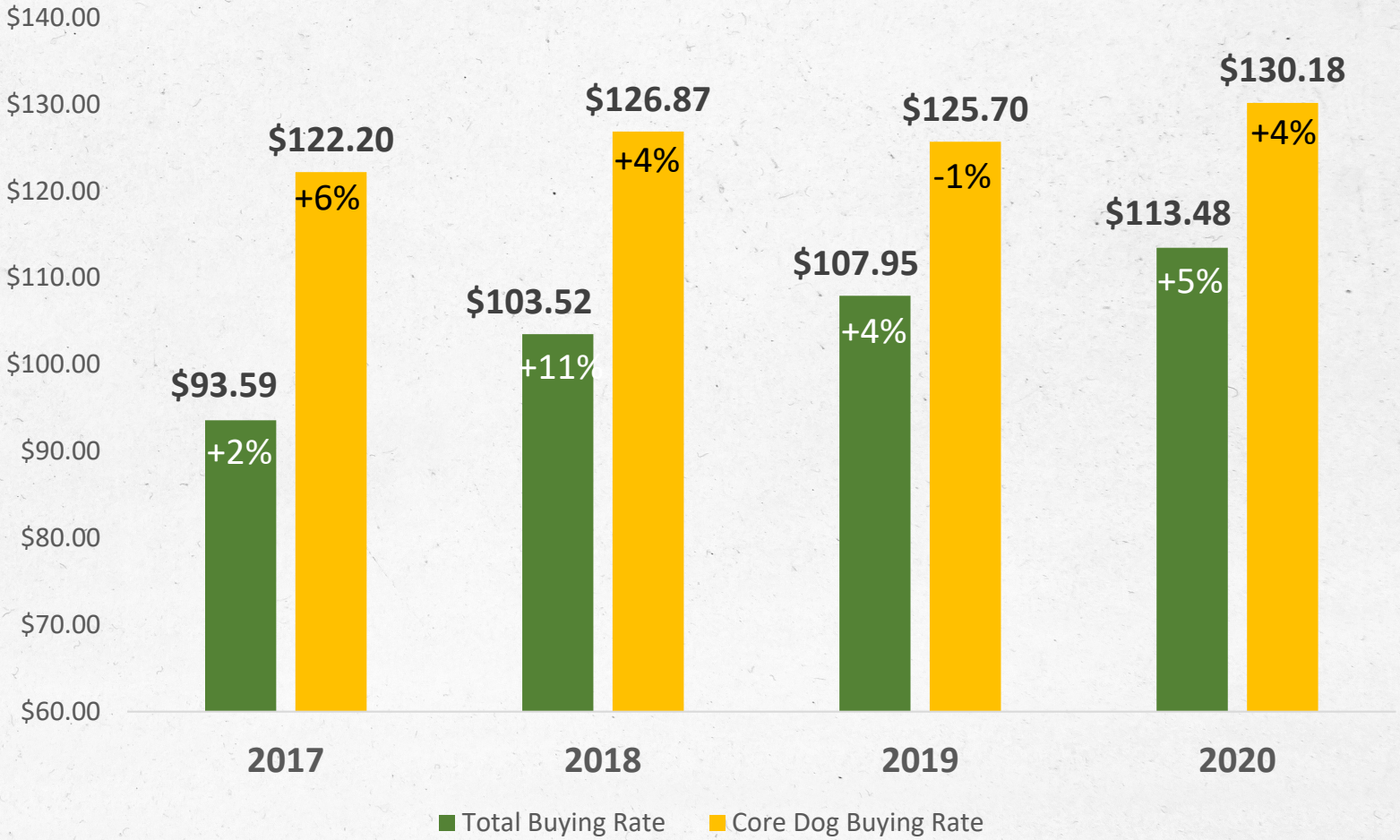
Freshpet Post-COVID New Buyers  
(Index vs. Share of Pre-COVID Buyers)



# Buying rate growth continues

5% growth in core dog buying rate

### Freshpet Buying Rate

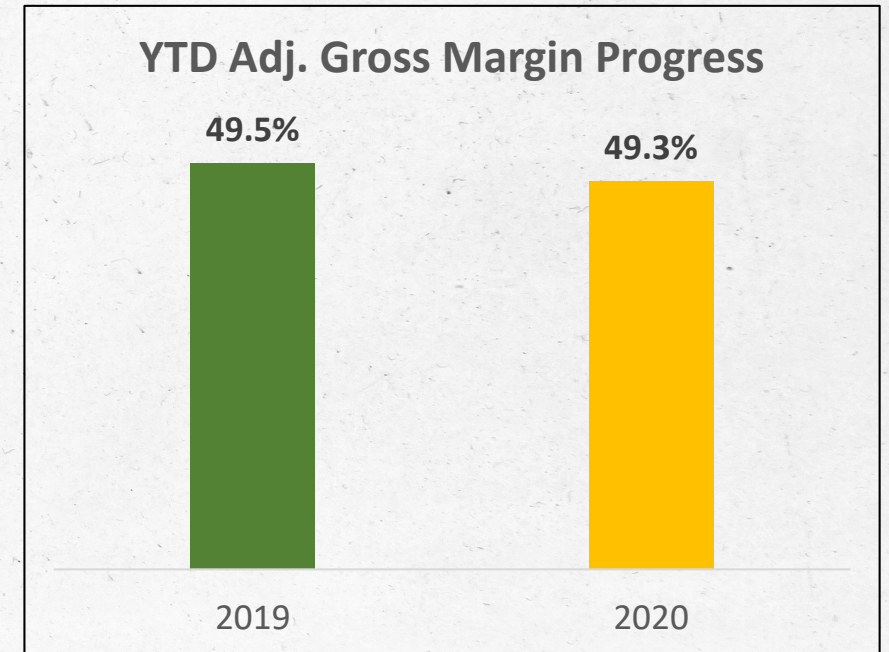
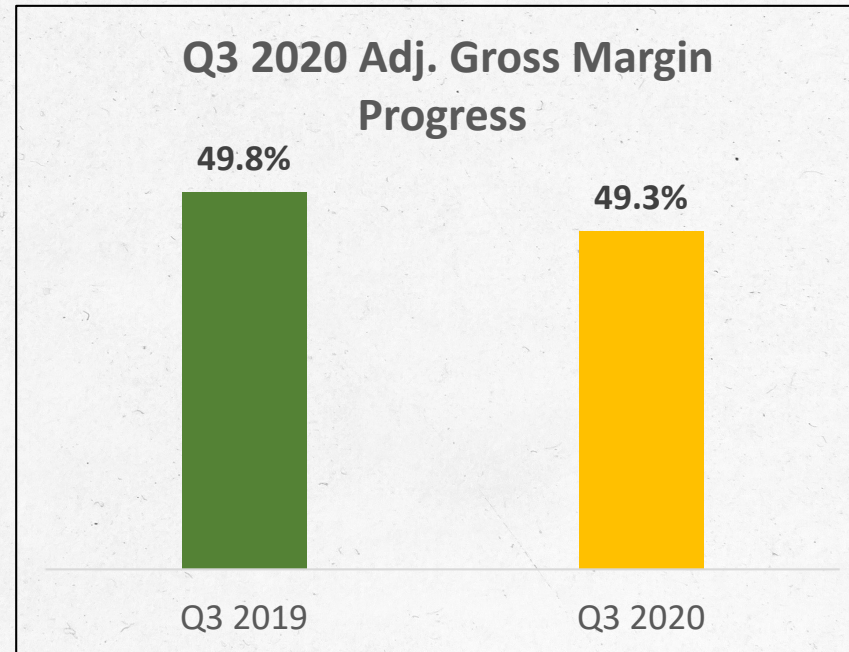


Source: Nielsen HH Panel for the period ending early October 2017, 2018, 2019, 2020 and company internal data



# Consistent gross margin performance

Q3 Adj. Gross Margin impacted by higher beef prices and a favorable mix shift to rolls



47.0%

43.5%

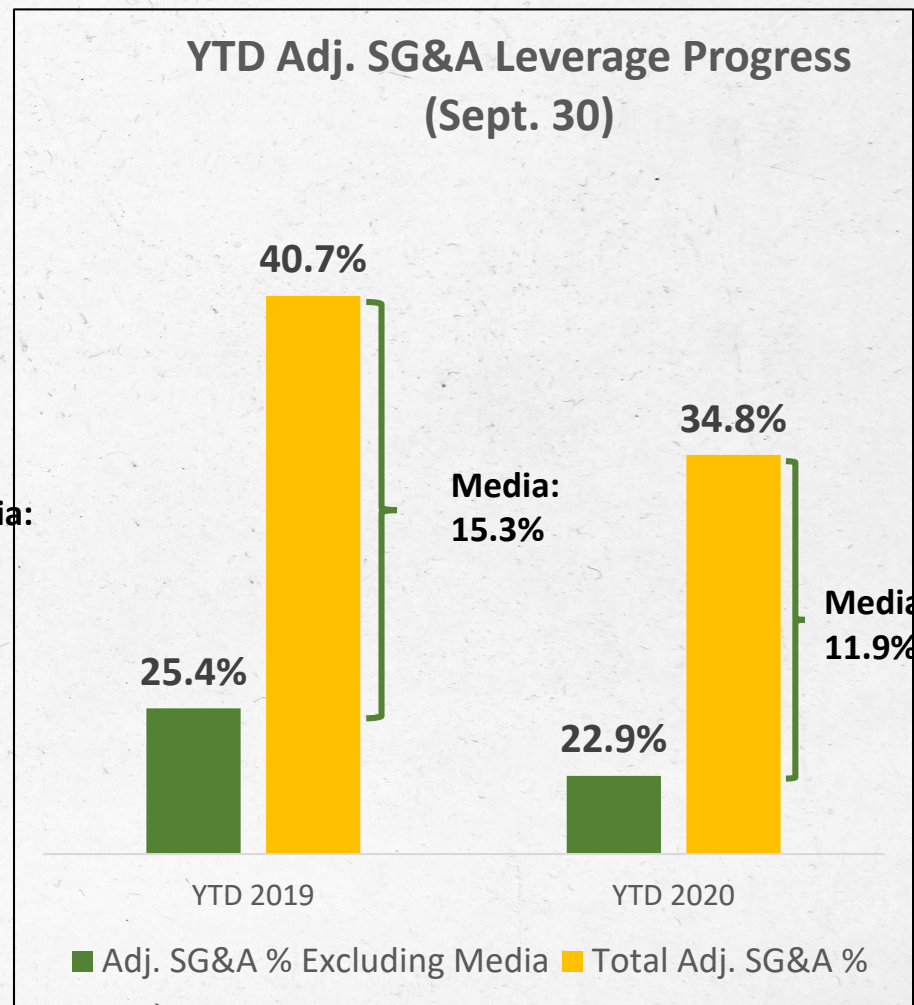
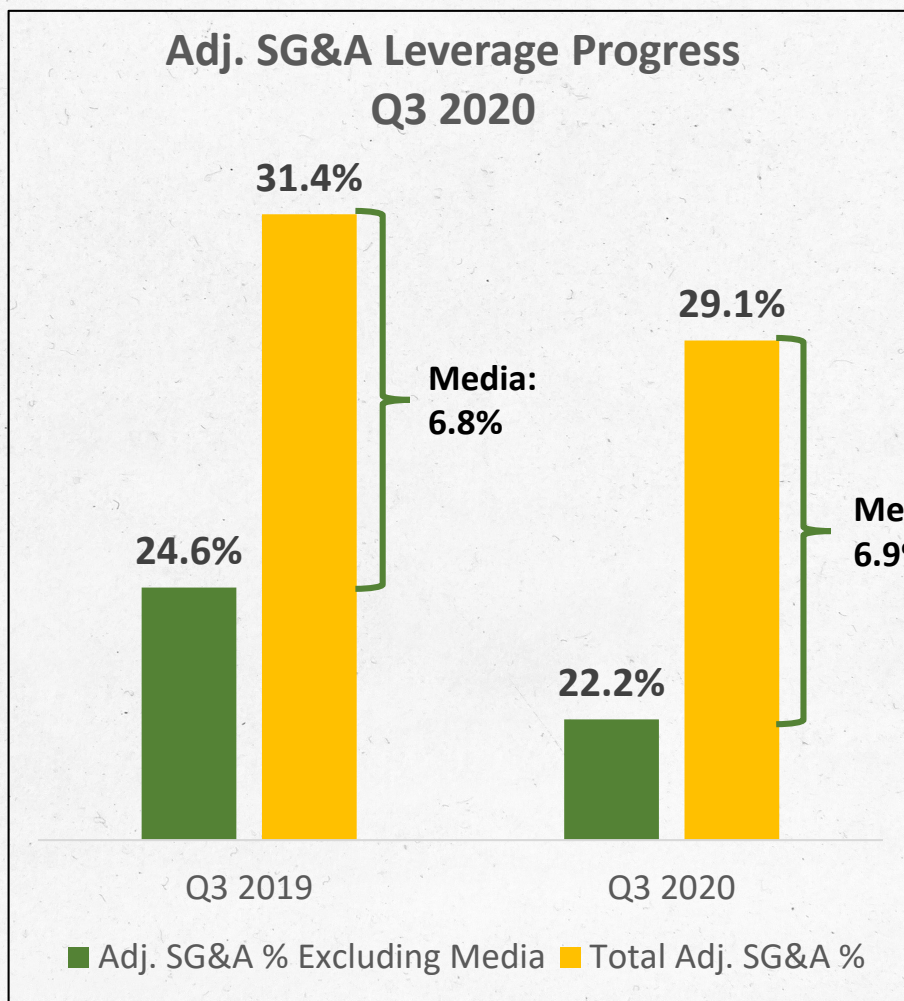
46.6%

43.7%

 Gross Margin (GAAP)

# Generating significant leverage in Adj. SG&A (excluding media)

Q3 media investment was +30% vs YA; moved 90 bps of YTD media to Q4 to manage capacity limits



41.8%

39.1%

49.5%

43.2%

SG&A (GAAP)

# Capacity addition projects are on track

To meet demand, we have completed the following capacity expansion projects

- ✓ **Rolls line 24/7:** In January, we took our second roll line to 24/7 production. This line will be out of capacity by Q1 of 2021.
- ✓ **Kitchens South:** In February, we started up a small piece-size/small bag size line in a partner's facility (using our equipment). This capacity has consistently met demand.
- ✓ **Kitchens South – Second Shift:** We started up a second shift at Kitchens South. In combination with the first shift, that site now has capacity for \$50 million of net sales.
- ✓ **Kitchens 2.0:** Started up the bag line on 9/29/20 and began producing saleable product by the end of October. Will begin producing meaningful quantities in November and December. Roll line will start-up by January 2021. Once fully operational, we will have total installed capacity for ~\$590 million of net sales.

It will take us a few months to re-fill trade inventory. We expect to be fully caught up by mid-Q1 2021 and should have ample capacity to support aggressive growth from that point forward.

- ✓ **Kitchens South – Second Line:** We have begun building preparation to install a second line. Target is to have the line running by late-2021 – adding \$50 million in capacity
- ✓ **Ennis, TX Kitchens 3.0:** Construction began in August. We now have 7 engineers on-site and numerous partners. Expect to start-up in mid-2022.

Target is to have adequate installed capacity one year ahead of demand

**Kitchens 2.0 started up in September and began producing saleable product in October**

---

Installed capacity is now \$590 million in net sales when fully staffed

---



# Reiterating 2020 Net Sales and Adj. EBITDA Guidance

\$ in Millions	Guidance	Growth vs YA
Net Sales	>\$320	+30%
Adjusted EBITDA	>\$46	+58%

See assumptions on  
next page

## Updated Commentary:

- **Volume cadence:** Extremely strong consumption in Q3 led to short shipments that drained \$7- 8 million of net sales from trade inventory. Will recapture those net sales during Q4 2020 and Q1 2021 as Kitchens 2.0 ramps up production.
- **Advertising investment:** Pushed some advertising back from Q3 to Q4 in the US due to capacity limits in Q3 and added Q4 media in the UK. Still expect 65/35 first half/second half split.
- **Gross margin:** Q3 adj. gross margin helped by mix shift to rolls due to capacity limits on bags. Will reverse in Q4 as Kitchens 2.0 ramps up. Beef cost inflation could drop adj. gross margin slightly below 49% in Q4.
- **Add Backs:** COVID-19 related costs moderated in Q3; anticipate <\$4 million in total costs for the year.



On track to deliver  
guidance

# Progress Against Guidance Assumptions

Our guidance considers the following factors. We believe we have made reasonable assumptions about each factor. However, the external environment is very dynamic, so we want investors to understand the basis for our guidance:

- ✓ **Supply:** We do not encounter any significant supply interruptions – either upstream from us or in our facilities. *To date, we have only had production interruptions due to absenteeism. Good planning and preparation avoided upstream interruptions.*
- ✓ **Costs:** The costs that we incur to manage the COVID-19 crisis total \$4 million and are concentrated in Q2 and Q3. *Likely to be <\$4 million.*
- ✓ **Media Effectiveness:** The effectiveness of our media investment is not adversely impacted by the changing consumer environment. *Media returns greatly exceeded YA.*
- ✓ **Shopping Behavior:** The presence of significant restrictions on shopping in stores doesn't prevent reasonable consumption and replenishment patterns similar to what we have seen historically. *No significant impact yet this year.*
- ✓ **Retailer Activity:** Retailers resume a significant portion of their fridge placements and new item distribution in Q3. *On track-- added 251 net new stores in Q3 and significant upgrades and second fridges.*
- ✓ **Customer Credit:** We have no major customer credit issues as a result of the COVID-19 crisis. *No issues anticipated at this time.*

This is not an all-inclusive list. For that, please consult the Risks section of our latest SEC filings.

- ✓ = To date, market conditions and business performance are expected to match the assumption to the best of our knowledge

# COVID-19 Team Member safety & reward plan is working



**Wellness check:**  
Third-party nurse



**Deep cleaning:**  
Expert “deep cleaning” of Kitchens’ break/meeting areas



**Social distancing:**  
Tripled size of break / meeting areas



**Masks Required:**  
Required use by all team members



**Air filtration:**  
Increased air filtration and system upgrades



**Staggered Shifts:**  
To avoid a concentration of team members



**Personal Sanitation:**  
At doors and in meeting room sanitation



**Suspended absenteeism policy:**  
To encourage people to stay home if needed.  
Reinstated on 7/1/20.



**Quarantine with pay:**  
Followed or exceeded all CDC and FDA guidelines



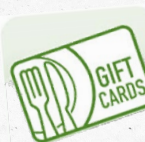
**Quarterly incentive:**  
Quarterly incentive based on Q1 & Q2 performance on quality, safety, productivity



**Incremental cash bonus:**  
\$500 after tax bonus for all Kitchens’ team members in April



**Safety & Continuity Stock Grants:**  
Stock grants to frontline employees who are critical to protecting our team and ensuring continued operations



**Restaurant gift cards:**  
\$50 gift cards to local restaurants 2x month, helping the community and our team



**Gift baskets to teams families:**  
Game / movie night + stay safe initiatives + masks for family + bulk food

# Committed to protecting our employees and continuing to nourish our pets

Current estimate of  
COVID-19 related  
costs:  
\$4 million

- **Protecting our employees**

- 3<sup>rd</sup> party medical staff performing health checks on employees
- Increased deep cleanings
- Increased sanitizing and social distancing cost
- Providing employees with mandatory personal protective equipment



- **Increased COVID-19 related compensation cost**

- Additional direct compensation to employees
- Increased absenteeism and need for incremental staffing



- **Costs to protect supply chain**

- Temporary cost of bringing on additional ingredient and packaging suppliers in case of disruption at current vendors



These costs are temporary in nature. These costs will be added back to the Company's Net Income to Adjusted EBITDA reconciliation.

# “Feed the Growth” is working

Accelerated growth rate and capturing scale benefits





2025  
BY

FEED THE GROWTH



# Appendix

## RECONCILIATION BETWEEN GROSS PROFIT AND ADJUSTED GROSS PROFIT

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Gross Profit	\$ 36,654	\$ 30,706	\$ 102,377	\$ 83,948
Depreciation expense	2,129	1,599	6,422	4,754
Plant start-up expense (a)	1,828	—	3,020	—
Non-cash share-based compensation	484	174	1,425	508
COVID-19 expense (b)	395	—	2,157	—
<b>Adjusted Gross Profit</b>	<b>\$ 41,490</b>	<b>\$ 32,479</b>	<b>\$ 115,402</b>	<b>\$ 89,210</b>
Adjusted Gross Profit as a % of Net Sales	49.3%	49.8%	49.3%	49.5%

(a) Represents additional operating costs incurred in connection with the start-up of our new manufacturing lines as part of the Freshpet Kitchens expansion projects.

(b) Represents COVID-19 expenses including (i) costs incurred to protect the health and safety of our employees during the COVID-19 pandemic, (ii) temporary increased compensation expense to ensure continued operations during the pandemic, and (iii) costs related to mitigate potential supply chain disruptions during the pandemic, included in cost of goods sold.

## RECONCILIATION BETWEEN SG&A EXPENSES AND ADJUSTED SG&A EXPENSES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
SG&A expenses	\$ 32,895	\$ 27,171	\$ 101,273	\$ 89,075
Depreciation and amortization expense	2,923	2,465	8,524	6,953
Non-cash share-based compensation	2,863	2,902	6,386	5,198
Launch expense (a)	760	1,264	2,403	3,335
Loss on disposal of equipment	1,265	—	1,301	—
Equity offering expenses (b)	—	50	58	349
Enterprise Resource Planning (c)	428	—	830	—
COVID-19 expense (d)	187	—	283	—
<b>Adjusted SG&amp;A Expenses</b>	<b>\$ 24,468</b>	<b>\$ 20,490</b>	<b>\$ 81,488</b>	<b>\$ 73,240</b>
Adjusted SG&A Expenses as a % of Net Sales	29.1%	31.4%	34.8%	40.7%

- (a) Represents new store marketing allowance of \$1,000 for each store added to our distribution network, as well as the non-capitalized freight costs associated with Freshpet Fridge replacements. The expense enhances the overall marketing spend to support our growing distribution network.
- (b) Represents fees associated with public offerings of our common stock.
- (c) Represents implementation and other costs associated with the implementation of an ERP system.
- (d) Represents COVID-19 expenses including (i) costs incurred to protect the health and safety of our employees during the COVID-19 pandemic, (ii) temporary increased compensation expense to ensure continued operations during the pandemic, and (iii) costs related to mitigate potential supply chain disruptions during the pandemic, included in SG&A.



## RECONCILIATION BETWEEN NET INCOME (LOSS) AND ADJUSTED EBITDA

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Net income (loss)	\$ 3,547	\$ 3,067	\$ 110	\$ (6,016)
Depreciation and amortization	5,052	4,064	14,946	11,707
Interest expense	216	310	999	689
Income tax expense	22	19	65	57
<b>EBITDA</b>	<b>\$ 8,837</b>	<b>\$ 7,460</b>	<b>\$ 16,120</b>	<b>\$ 6,437</b>
Loss on disposal of equipment	1,265	137	1,301	138
Non-cash share-based compensation	3,347	3,076	7,811	5,706
Launch expense (a)	760	1,264	2,403	3,335
Plant start-up expenses (b)	1,828	—	3,020	—
Equity offering expenses (c)	—	50	58	349
Enterprise Resource Planning (d)	428	—	830	—
COVID-19 expense (e)	582	—	2,440	—
<b>Adjusted EBITDA</b>	<b>\$ 17,048</b>	<b>\$ 11,987</b>	<b>\$ 33,983</b>	<b>\$ 15,965</b>
Adjusted EBITDA as a % of Net Sales	20.2%	18.4%	14.5%	8.9%

- (a) Represents new store marketing allowance of \$1,000 for each store added to our distribution network, as well as the non-capitalized freight costs associated with Freshpet Fridge replacements. The expense enhances the overall marketing spend to support our growing distribution network.
- (b) Represents additional operating costs incurred in connection with the start-up of our new manufacturing lines as part of the Freshpet Kitchens expansion projects.
- (c) Represents fees associated with public offerings of our common stock.
- (d) Represents implementation and other costs associated with the implementation of an ERP system.
- (e) Represents COVID-19 expenses including (i) costs incurred to protect the health and safety of our employees during the COVID-19 pandemic, (ii) temporary increased compensation expense to ensure continued operations during the pandemic, and (iii) costs related to mitigate potential supply chain disruptions during the pandemic.