



Freshpet, Inc.
First Quarter 2025 Earnings Call Prepared Remarks
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CORPORATE PARTICIPANTS

Rachel Ulsh – *Vice President, Investor Relations and Corporate Communications*

Billy Cyr – *Chief Executive Officer*

Todd Cunfer – *Chief Financial Officer*

PRESENTATION

Rachel Ulsh

Good morning, and welcome to Freshpet's first quarter 2025 earnings call and webcast. On today's call are Billy Cyr, Chief Executive Officer, and Todd Cunfer, Chief Financial Officer. Scott Morris, President and Co-founder, will also be available for Q&A.

Before we begin, please remember that during the course of this call, management may make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These include statements related to our long-term strategy and targets, prospects and plans for growth, timing and adequacy of capacity, potential impact of tariffs and consumer sentiment, expectations to be free cash flow positive in 2026, and 2025 Guidance. Please refer to the earnings press release and our most recent filings with the SEC, including our 2024 Annual Report on Form 10-K, all available on our website, for a discussion of the factors that could cause actual results to differ materially from any forward looking statements made today.

Please note that on today's call, management will refer to certain non-GAAP financial measures, such as EBITDA and Adjusted EBITDA among others. While the Company believes these non-GAAP financial measures provide useful information for investors, the presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Please refer to today's press release for how management defines such non-GAAP measures, why management believes such non-GAAP measures are useful, a reconciliation of the non-GAAP financial measures to the most comparable measures prepared in accordance with GAAP, and limitations associated with such non-GAAP measures.

Finally, the Company has produced a presentation that contains many of the key metrics that will be discussed on this call. That presentation can be found on the Company's investor website. Management's commentary will not specifically walk through the presentation on the call – rather it is a summary of the results and guidance they will discuss today.

With that, I would like to turn the call over to Billy Cyr, Chief Executive Officer.



Billy Cyr

Thank you, Rachel, and good morning, everyone. Since our last earnings call in February, we have seen a significant shift in the macro environment that has impacted our growth. The message I would like you to take away from this call is that – despite the significant economic uncertainty facing consumers today – number one, **Freshpet has continued to significantly outperform the category amongst every age and income group** and number two, **Freshpet remains a structurally advantaged business with a long runway for growth in a category with meaningful, long-term tailwinds.**

As we have done over-and-over-again throughout our company's history, we will be nimble and adjust to this new macro environment – and we still expect to deliver outsized performance against a challenging backdrop. It just might not be the same magnitude of performance we have delivered over the past few years until there is greater economic certainty amongst the prospective consumers we are targeting to join the Freshpet franchise.

As many of you have realized over the years, Freshpet is a very data driven company so we have been digging into what has changed year-to-date, assessing how that would impact our near-term strategies, and identifying ways we can best address those changes.

Our analysis suggests that the slowdown in our sales growth came on very quickly as the macro-economic climate changed a few months ago and is due, in part, to the fact that Freshpet's consumer franchise spans all income and age groups, including consumers who are most economically insecure or uncertain today. Freshpet's consumer base is less defined by the income of our users and better defined by how much someone loves their dog.

For the last decade, Freshpet has been able to grow through all sorts of economic conditions – and we are still growing at an outsized rate vs. other dog foods and CPG brands. However, our model relies on an increasingly large number of consumers being in the position to re-consider their pet food and – ultimately – conclude that Freshpet is a better way to feed their pet. What we are seeing now is that consumer uncertainty makes them hesitant to get a new dog or replace a dog they recently lost, and it also makes them more hesitant to try a more expensive pet food until they have greater clarity on their economic fortunes.

We do not expect this short-term change in consumer behavior to change the long-term desire for pets or premium pet food. As such, this does not change our view of the size of the long-term Freshpet opportunity.

Identifying issues and developing solutions to short-term challenges is a core competency of our team. We are also very disciplined – i.e., we will lean into our business model that focuses on advertising, retail availability and visibility, and product innovation to improve our near-term prospects and will not chase short-term activities that would undermine our business model.

To continue to drive growth this year, we are adapting our plans to this economic backdrop to ensure we have the right proposition for consumers who are contemplating a new dog food today. One of



the strengths of the Freshpet model is that we have the flexibility to target high potential consumers across the age and income spectrum. So, from a media standpoint, we are increasing our advertising investment and tailoring our media strategies to attract more higher income consumers, via digital/social channels as well as linear TV. From a product standpoint, we will be launching a new entry price point bag product under the Freshpet Complete Nutrition label that is similar to the roll product we launched two years ago amidst consumer concerns about inflation. The Complete Nutrition roll has driven trial with a lower price point and ultimately those households trade up within the portfolio—and we believe the same will happen for the bag product. We are also focusing on multi-packs to give consumers better value and help stock up as they potentially space out their shopping trips. From a channel standpoint, we have expanded our small DTC business nationally so that we can reach more consumers who place a high value on subscription service. And we are making progress on getting Freshpet into more value-oriented stores, including club outlets. I'm pleased to share that we are now in our first Sam's Club store and the early results are encouraging. We are optimistic that this will lead to greater expansion over time.

We are also taking the necessary steps to balance our capacity and organizational capability investments with the anticipated demand so that we can meet our longer-term margin and cash generation targets even if we have lower levels of net sales. We have already taken some actions against those goals and will take more if the current economic climate persists.

To be clear, we continue to grow and add new users across all income and age groups and Freshpet represents an outsized portion of the category household and net sales growth. Those new consumers we are attracting are just not a big enough group to support a growth rate above 20% right now. It is also important to note that we do not see consumers trading down or out of Freshpet. We just aren't adding new consumers at the same rate we have historically given the macro uncertainty.

Despite the shift in consumer sentiment, there are demographics that continue to demonstrate resilience. Our analysis shows that higher income consumers – particularly those who tend to buy online and via subscription – are continuing to drive sales for more premium offerings – and Freshpet is amongst those winning brands as our total e-commerce business was up 43% in the quarter. Those consumers are the least economically sensitive consumers, and they continue to get dogs and trade up their dog food. And low-cost brands or private label are also winning as consumers who find relatively little differentiation between the various kibble brands are trading down to lower cost products when times are tight.

I believe the consumer dynamic I just described explains the trends all of you have been seeing in the weekly Nielsen data. As we said last quarter, we would watch the growth trends very closely for any hint that our plan is not as effective as it has been in years past, and that we have the tools and flexibility to drive incremental growth if it slows. Year-to-date, we have seen the impact of the increasing macroeconomic pressure and have increased our advertising investment, but we believe it's also prudent to assume the cost to acquire new households will remain elevated for the time being.



As such, we are going to plan as if the conditions we saw in the first quarter continue for the balance of the year. For 2025, we now expect net sales of \$1.12 to \$1.15 billion, or approximately 15% to 18% growth year-over-year, adjusted EBITDA in the range of \$190 to \$210 million, and capital expenditures of approximately \$225 million. We believe this pragmatic approach will enable us to right-size our organization and capacity investments now so that we can deliver the cash and margin commitments we have made. If the environment improves, we will add those investments back. If it gets worse, we will take additional actions. Todd will walk through more details of our updated 2025 guidance in a few minutes.

The obvious question is how this economic uncertainty impacts our long-term net sales target of \$1.8 billion by 2027. Given that this economic uncertainty arrived so quickly in Q1, and the drivers of the uncertainty – e.g., tariffs, government downsizing, and inflation – have not settled, it is hard to say how long the current trends will continue. As such, we are hesitant to update our long-term target until we have greater clarity on the magnitude of the impact and the duration – particularly since the underlying category and brand tailwinds have proven to be incredibly sustainable for such a long period of time and through so many economic challenges. And we believe that there will be pent-up demand for dogs when the conditions do improve just as has happened during previous times of economic uncertainty.

As you might imagine, we have done contingency planning so that we are prepared for a wide range of potential scenarios. As we do this planning, we are carefully balancing our long-term goals with our nearer term need to demonstrate continued strong performance on some of the most critical metrics – such as margins and cash generation – that we worked so hard to restore over the past two years. In the end, we believe that Freshpet should:

1. **Be recognized as a best-in-class growth company** with growth well in excess of most CPG companies. We expect to deliver a disproportionate share of category growth and build market share at a healthy rate.
2. **Sustain and expand our Adj. Gross Margin** so that we have adequate dry powder to invest in both our growth and provide confidence that Freshpet is a structurally sound business with investable economics. As part of this, we will continue to develop and deploy our new production technologies and may in fact take advantage of any available production downtime to roll out new technologies that are capable of expanding our margins and improving quality more quickly once they are validated.
3. **Continue to capture the benefits of increasing scale across the P&L.** Even if we grow at a slower pace, we need to scale our organizational investments so that we continue to capture scale benefits.
4. **Deliver our commitment to be free cash flow positive in FY26.** If we grow slower, we will slow our pace of capacity expansion to match our demand. This will enable us to demonstrate that Freshpet can self-fund its growth ambitions.



If we do this well, we expect Freshpet will emerge stronger from the current period of uncertainty— with a large consumer franchise, healthy margins, strong cash generation and ample capacity to meet our long-term growth needs.

Finally, while all the focus is on the top line – and we continue to believe the top line is most important— we don't want anyone to lose sight of the tremendous progress we have made on our operations. The strong performance we had last year continued into Q1 and we believe we are operating better today than at any point in the last 5 years. Our throughputs are up, Ennis is making tremendous progress on gaining operating efficiencies, our quality costs continue to be low, and our logistics costs are well below our previous long-term target. This will serve us well as we continue to grow – providing ample capacity to meet our expanding demand at very good margins. And it will provide ample dry powder to ensure that we can invest in high return growth drivers.

Now I'd like to briefly provide some highlights from the first quarter.

- First quarter net sales were \$263.2, up approximately 18% year-over-year, primarily driven by volume growth. As we discussed in February, we changed our pet specialty distribution partner in the first quarter which ultimately impacted our growth by approximately one point. We signed a new distribution agreement with a partner named Pet Food Experts and feel confident about our route to market moving forward.
- Adjusted gross margin in the first quarter was 45.7%, compared to 45.3% in the prior year period.
- Adjusted EBITDA in the first quarter was \$35.5 million, up approximately \$5 million, or 16% year-over-year.

We still have a very small share of a very large category and continue to expect sizable market share gains this year. Per Nielsen Omni-Channel data for the 52 weeks ended 3/29/25, we compete in the \$54 billion US pet food category, and we have only a 3.5% market share within the \$37 billion US dog food & treats segment. In Nielsen Brick and Mortar Customers (defined as XAOC + Pet), we have a 96% market share within the gently cooked fresh/frozen branded dog food segment.

From a retail perspective, we are now in 28,521 stores, 23% of which have multiple fridges in the U.S. and Canada. We ended the quarter with 37,044 fridges or approximately 1.9 million cubic feet, and have an average of 20.8 SKUs in distribution. Our distribution in grocery is 78% ACV, and in XOAC it is only 67%. Retailer discussions are going well, and we continue to expect 2025 to be a more normalized year in fridge expansions, with a focus on second and third fridges. We remain very excited about the new store concepts we presented at CAGNY and will go into greater detail on that later this year or next year as customers begin to test or expand them.

Household penetration as of March 30th was 14.1 million households, up 13% year-over-year, and total buy rate was \$110, up 6% year-over-year. MVP's accounted for 2.2 million of those households, up 21% year-over-year, and represented 69% of our sales in the last twelve months with an average buy-rate of \$498.



Moving to capacity, our new bag line in Kitchen South started on time and on budget in March, bringing us to a total of 15 lines across our manufacturing footprint. We have one additional bag line that is expected to commence production in the fourth quarter of this year in Bethlehem and it will be testing new production technology. We continue to find ways to drive greater capital efficiency and have been also working on other new technologies that can be retrofitted to existing lines.

As a reminder, we commit to the incremental capacity from a new line about 18 to 24 months out. We have ample capacity today to support our growth for this year and next year and have contingency plans on future expansion projects if the macro-economic environment worsens.

In summary, this is clearly not where we expected to be when we rolled out our revised long-term plan at CAGNY a little more than two months ago, but the consumer dynamic has changed very quickly. We believe we are taking the right steps to address the current environment while not losing sight of our longer-term goals. We hope you agree.

Now, let me turn it over to Todd to walk through the details of the first quarter results and our updated 2025 guidance. Todd...

Todd Cunfer

Thank you, Billy, and good morning, everyone. The first quarter results demonstrated growth across channels, but fell below our expectations leading us to revise our outlook. Now I'll give you some more color on our financials and updated guidance for the year.

First quarter net sales were \$263.2 million, up approximately 18% year-over-year. Volume contributed 14.9% growth, and we had positive price/mix of 2.7%— primarily driven by mix. We saw broad-based consumption growth across channels. For Nielsen measured dollars, we saw 17% growth in XAOC, 16% in Total US Pet Retail Plus, 16% in US Food, and 7% growth in pet specialty. The change in our pet specialty distributor impacted our net sales growth by about a point, and was offset by unmeasured channel growth of about a point.

First quarter adjusted gross margin was 45.7%, compared to 45.3% in the prior year period. This slight increase was driven by lower input costs and reduced quality costs. Please note that the fourth quarter gross margin had a one-time manufacturing benefit of 150 bps that we gave back in the first quarter as we had indicated when we reported the fourth quarter and full year results.

First quarter adjusted SG&A was 32.2% of net sales, compared to 31.7% in the prior year period. This increase was primarily due to increased media as a percentage of net sales, partially offset by reduced logistics as a percentage of net sales. Please note we had a number of non-recurring charges in the quarter, including an accounts receivable write-off in connection with the liquidation of one of our pet specialty distributors, an accrual for legal obligations related to the ongoing litigation with Phillips, and termination costs due to a business change in our international go-to-market strategy. We spent 15.1% of net sales on media in the quarter, up from 14.3% of net sales in the prior year period. Logistics costs were 5.8% of net sales in the quarter, compared to 6.4% in the prior year period.



First quarter adjusted EBITDA was \$35.5 million compared to \$30.6 million in the prior year period. This improvement was primarily driven by higher gross profit, partially offset by higher adjusted SG&A expenses.

Capital spending for the first quarter was \$26.5 million. Operating cash flow was \$4.8 million in the first quarter and we had cash on hand of \$243.7 million at the end of the quarter. We still expect to be free cash flow positive in 2026 and believe we have the ability to self-fund our growth going forward.

Now turning to guidance for 2025... We now expect net sales of approximately \$1.12 to \$1.15 billion, or approximately 15% to 18% growth year-over-year, compared to our previous guidance of approximately \$1.18 to \$1.21 billion, or approximately 21 to 24% growth year-over-year.

As Billy mentioned, we are now assuming the conditions we saw in the first quarter continue for the balance of the year. In terms of cadence, we expect a sequential increase in net sales per quarter. We are lapping tougher comparisons in the first half, plan to invest more heavily in media in the 2nd quarter to drive household penetration growth, will be launching more value-oriented offerings in the second half, and expect to modestly increase distribution throughout the remainder of the year.

We now expect Adjusted EBITDA in the range of \$190 to \$210 million, compared to at least \$210 million previously, given the lower rate of net sales growth. For cadence, we expect adjusted EBITDA to be back half weighted, with sequential adjusted EBITDA dollar and margin improvement throughout the rest of the year. Media as a percent of sales is expected to be greater than 2024. We anticipate modest adjusted gross margin expansion year-over-year driven by operational improvements, and do not anticipate any material inflation, or pricing actions. In regards to tariffs, we are monitoring the announcements closely and have contingency plans in place if we need to make any changes to our supply chain. As a reminder, only 5% of our US COGS come from imported raw materials, and we do not have any US sales imported as finished goods so the impact to our P&L should be minimal. We are still assessing the potential sales impact of any retaliatory tariffs as we do export pet food from the US to Canada and the UK.

Capital expenditures are now projected to be approximately \$225 million this year, compared to approximately \$250 million previously. The majority of the spend is on the installation of new capacity to support our growth in the outyears. We do expect to experience some impact from tariffs – particularly related to the increased cost of steel for new construction and new equipment. Our estimate of that impact is included in the updated capital spending projection.

In summary, we are highly focused on continuing to drive topline growth and profitability improvements despite the current economic uncertainty, and we believe we have taken the appropriate steps to be nimble and address the challenges based on what we know today. We remain very optimistic about the long-term potential for Freshpet and believe this will ultimately be viewed as another short-term headwind that we must overcome – as we have overcome previous headwinds on our path to building an advantaged business in an attractive category.



That concludes our overview. We will now be glad to answer your questions. As a reminder, we ask that you please focus your questions on the quarter, guidance, and the company's operations. Operator?