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pets. people. planet.

# Capital Efficiency

December 10, 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.)

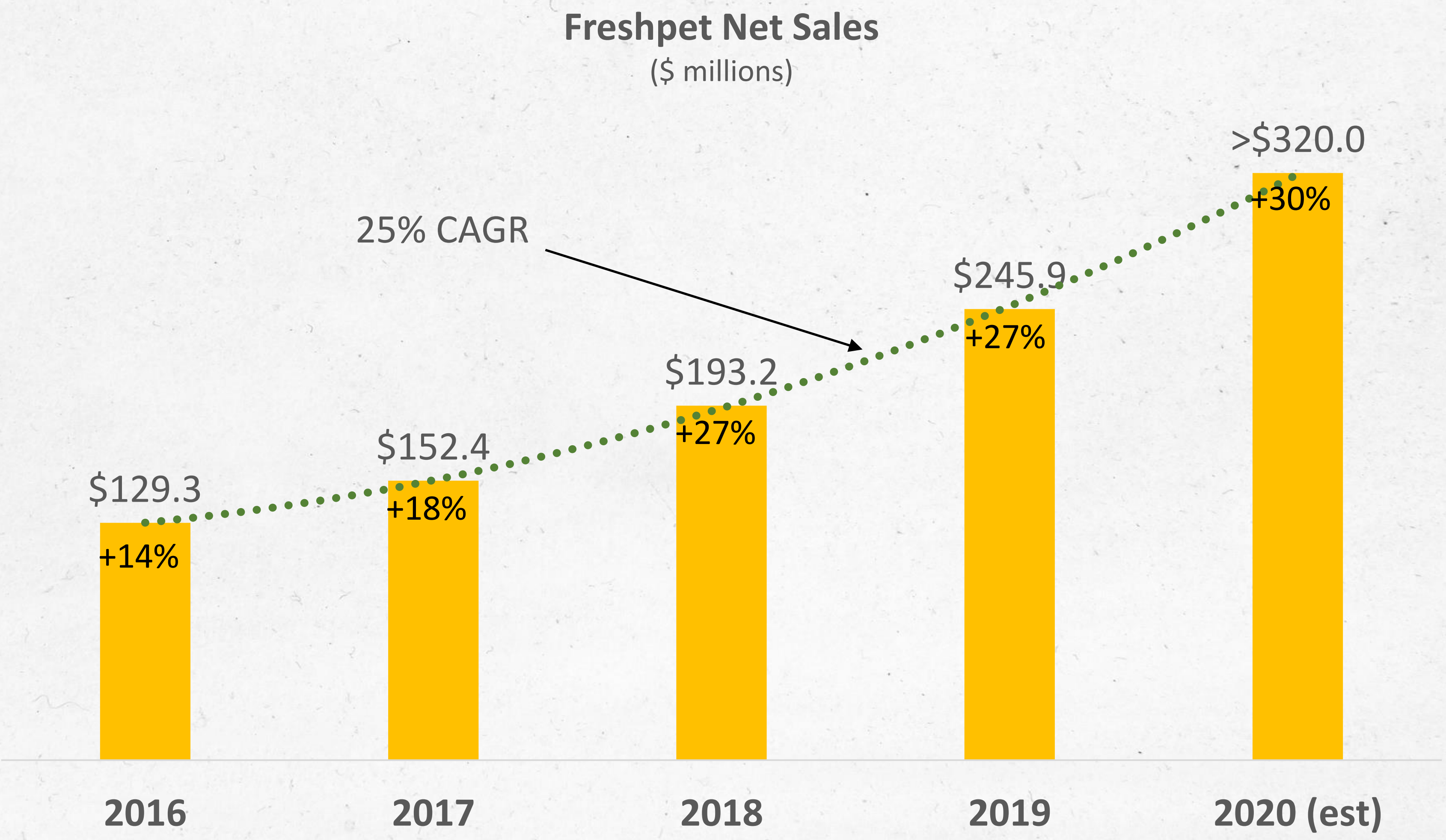
Freshpet defines Adjusted Gross Profit as gross profit before depreciation expense, plant start-up costs, COVID-19 expenses and non-cash share-based compensation, and Adjusted SG&A as SG&A expenses before depreciation and amortization expense, non-cash share-based compensation, launch expense, gain (loss) 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.

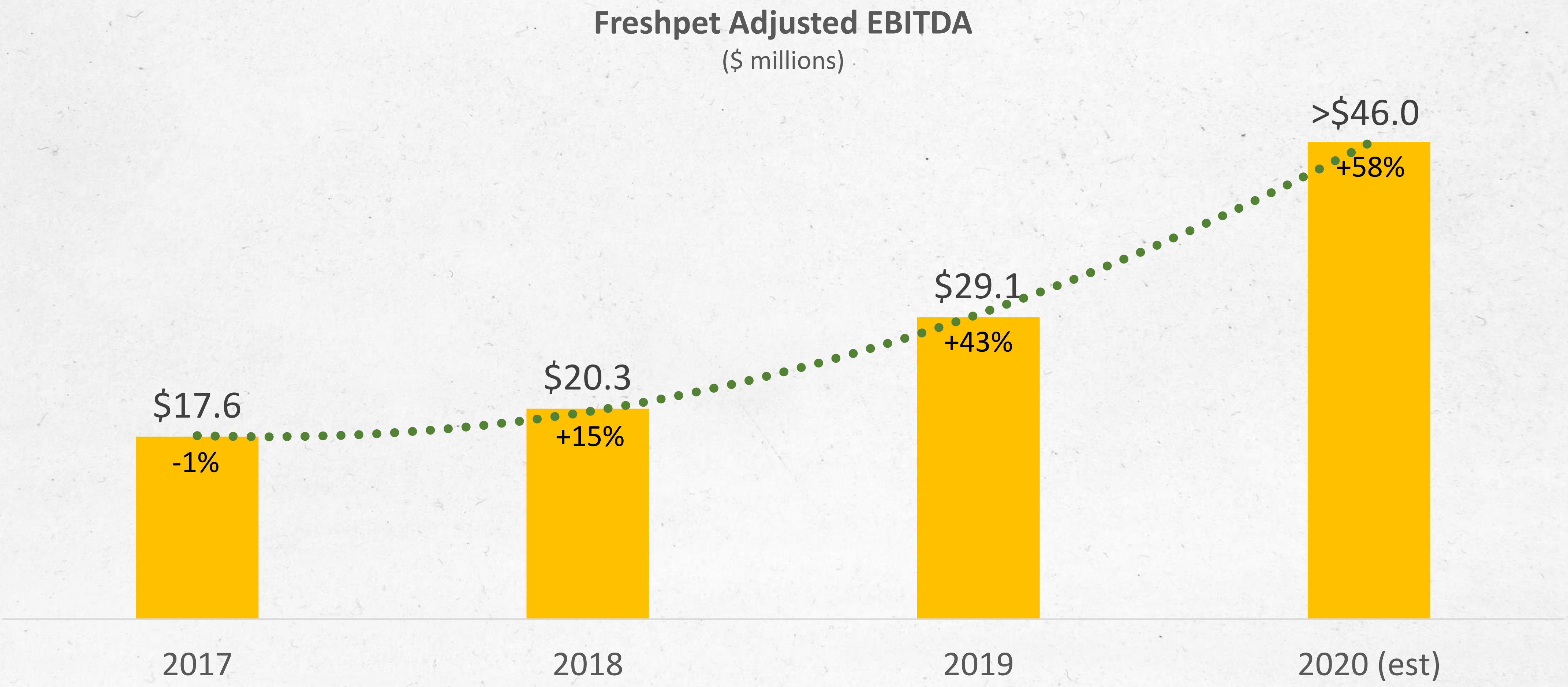
Certain of these measures present the company’s guidance for fiscal year 2020, for which the Company has not yet completed its internal or external audit procedures. The Company does not provide guidance for the most directly comparable GAAP measure and similarly cannot provide a reconciliation to such 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.

# "Feed the Growth" creates scale and leverage

# "Feed the Growth" is driving strong growth



# Capturing scale benefits on bottom line



# "Feed the Growth" requires capital

Systems/Infrastructure


Advertising & Innovation

Expand HH Penetration

Increase Velocity

Expand Visibility & Availability

Expand Capacity

Leverage Scale in COGS & SG&A

Drive Efficiencies

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BY 2025

FEED THE GROWTH

More Kitchens

More Fridges




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# Business model provides competitive insulation

**Differentiated**
Innovative forms, technologies, and appearance

**Manufacturing**
Proprietary technology, processes, and infrastructure

**High Brand Loyalty**
Alignment with deep pet parent emotional motivations


**Supply Chain**
Only refrigerated pet food network in North America


**Freshpet Fridge**
Branded, company-owned real estate

Walmart
petco
Kroger
WHOLE FOODS MARKET
TARGET

**Retailer Partners**
Delivers benefits in traffic, frequency and retailer margins

# Capital investments made to support the business model enhance this competitive insulation

**Differentiated**
Innovative forms, technologies, and appearance

**Manufacturing**
Proprietary technology, processes, and infrastructure

More Kitchens


**High Brand Loyalty**
Alignment with deep pet parent emotional motivations

**Supply Chain**
Only refrigerated pet food network in North America


Infrastructure

More Fridges

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# Over the next 5 years, we will invest ~$800-900 million

Manufacturing Capacity
~$600-$700 million


Chillers
~$110 million

Systems/Infrastructure
~$70 million

# Building the foundation for a business with the potential to be >$2 billion in net sales

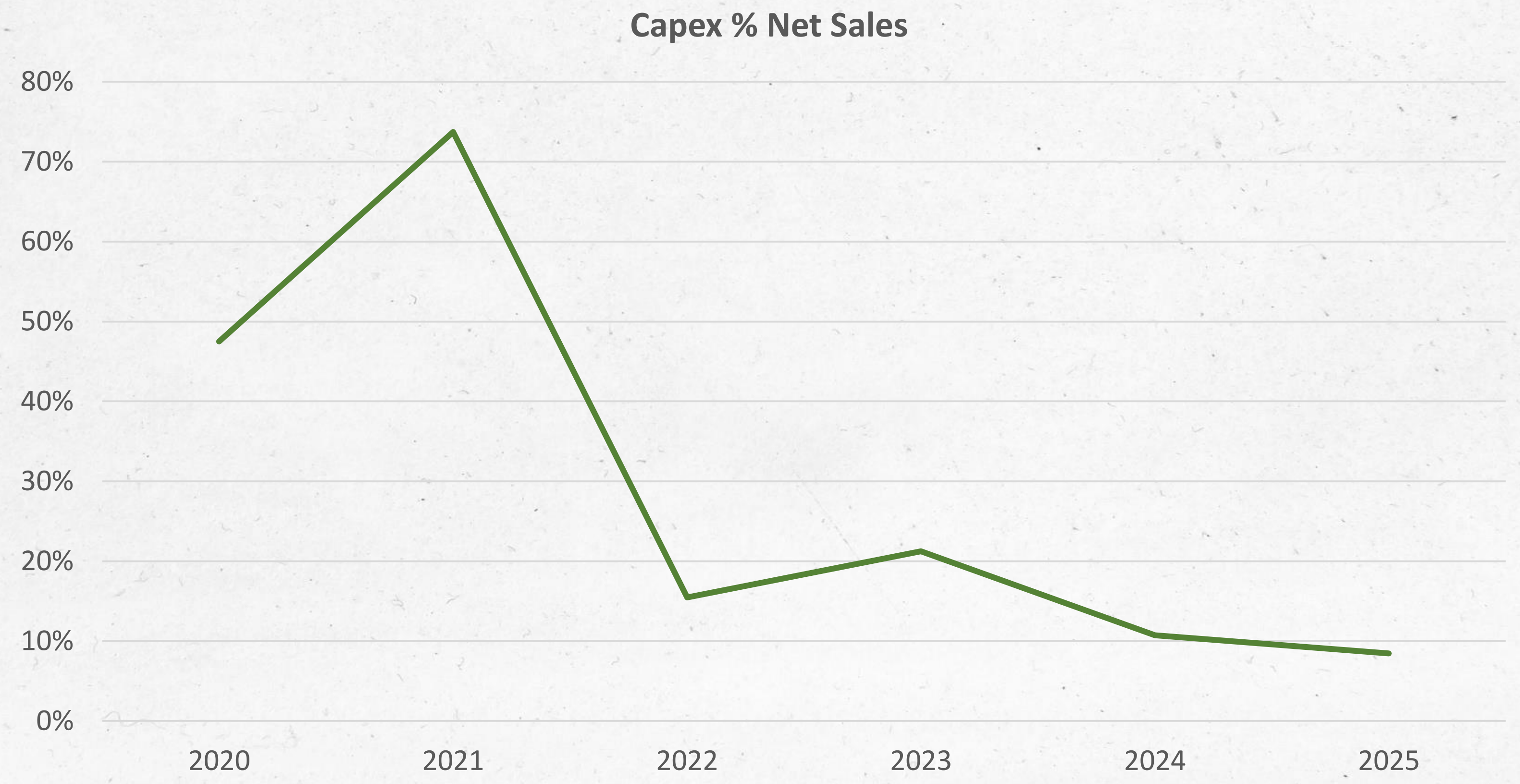


40,000 highly visible, branded, technology-enabled Fridges in 75-80% ACV

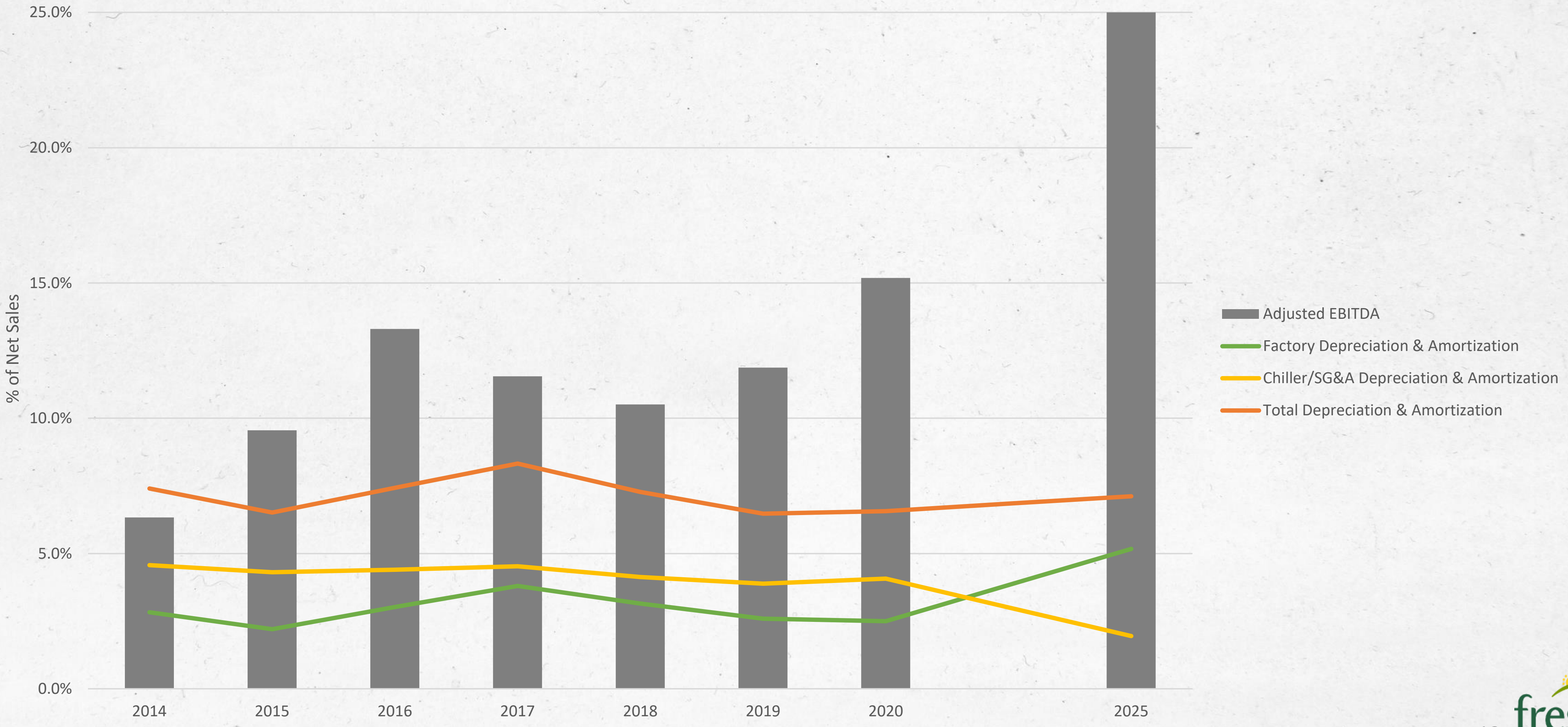
Manufacturing capacity to support at least $1.3 billion of net sales and the organization capability to build more

R&D capability, infrastructure and systems capable of supporting a >$2 billion business

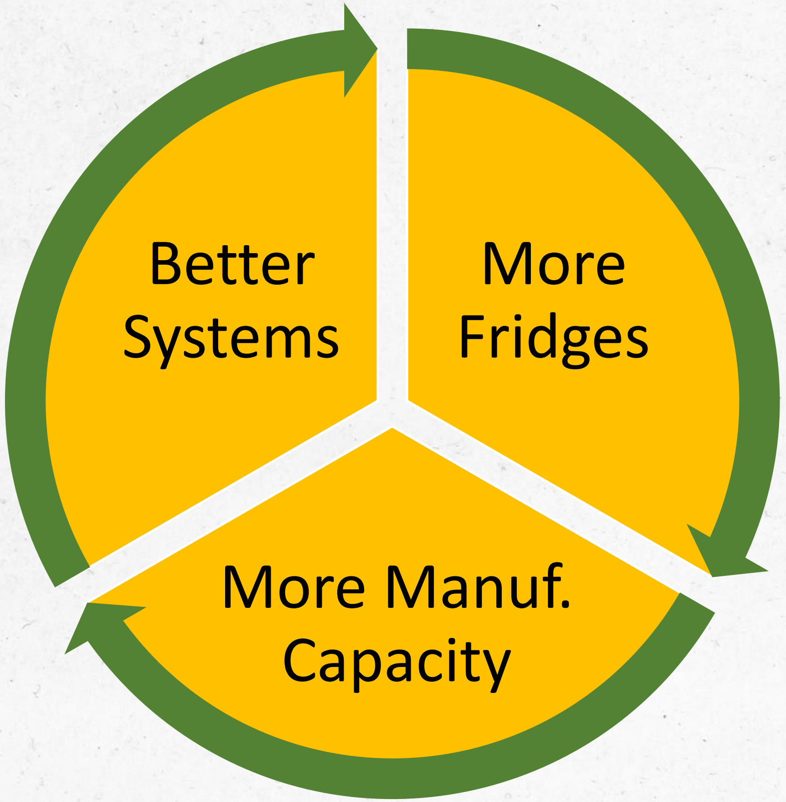
# Capex (% of net sales) will decrease significantly as we scale



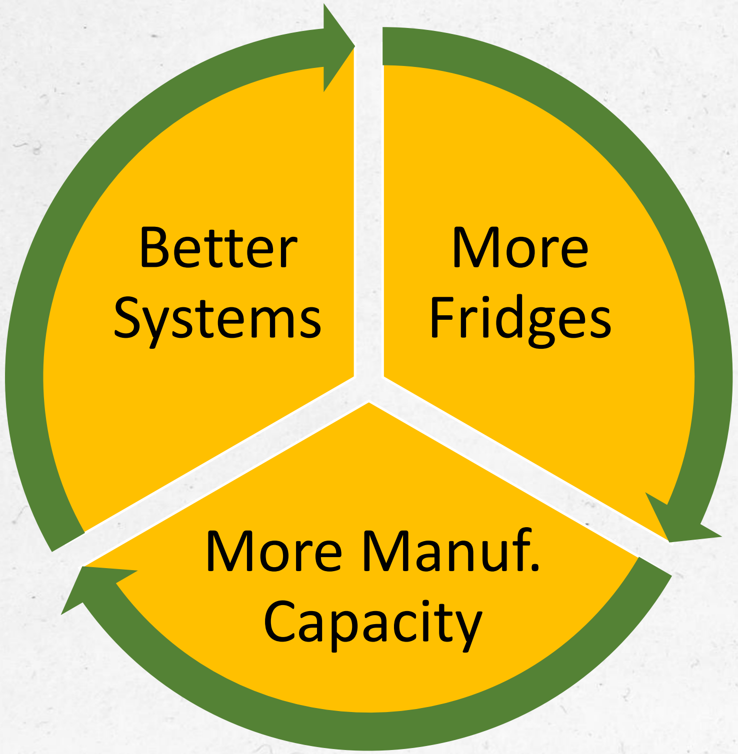
# Large capital investment creates scale that drives significant increase in profitability while holding depreciation flat at ~7%



# Capital investments are integrated and dependent on each other; need to look at the total system impact



# Results to date




**$1 Capex**

$225m cumulative from inception

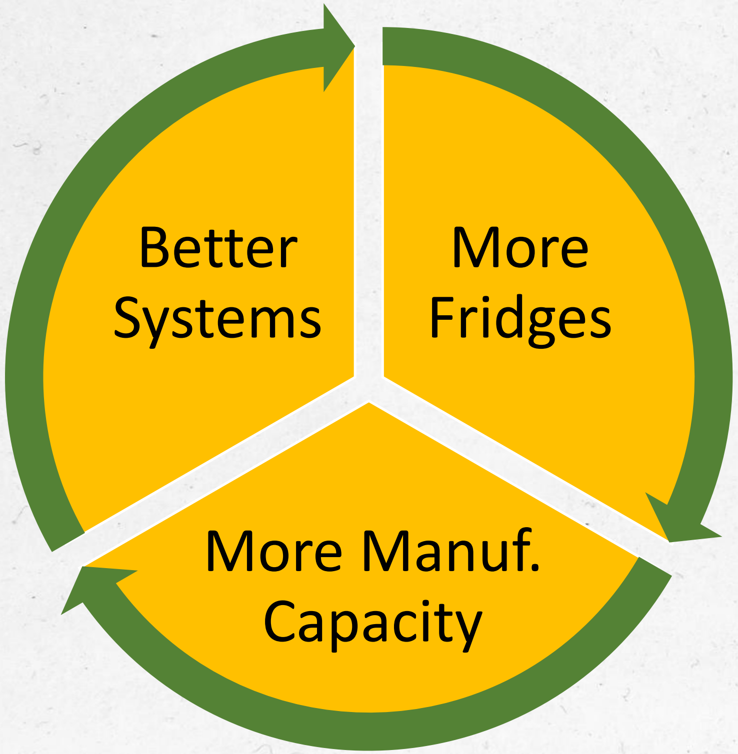
**$1.41 Net Sales**

2020 Guidance $320 million

**$0.20 Adj. EBITDA**

2020 Guidance $46 million

# Going forward: Higher cost manufacturing capex creates scale and efficiencies that drive higher profitability

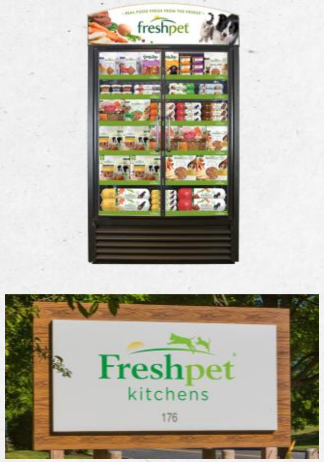



**$1 Capex**

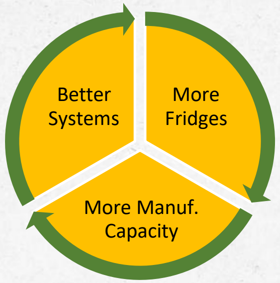
**$1.24 Net Sales**

**$0.31 Adj. EBITDA**

# Key takeaways

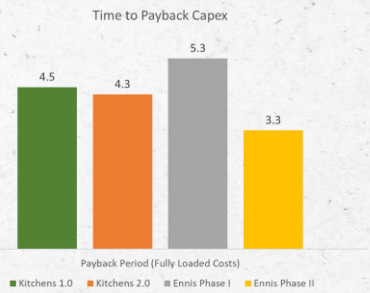



Establishing a solid, profitable foundation for Freshpet required ~$225 million in capital




It is best to assess capital returns in business increments – not in isolation


Owning assets provides meaningful competitive insulation that further justifies the capital investments




Total capital investment returns are improving with scale – but are not perfectly linear

Investment returns are strong

# Results to Date

# $320 million business built on $225 million of CapEx

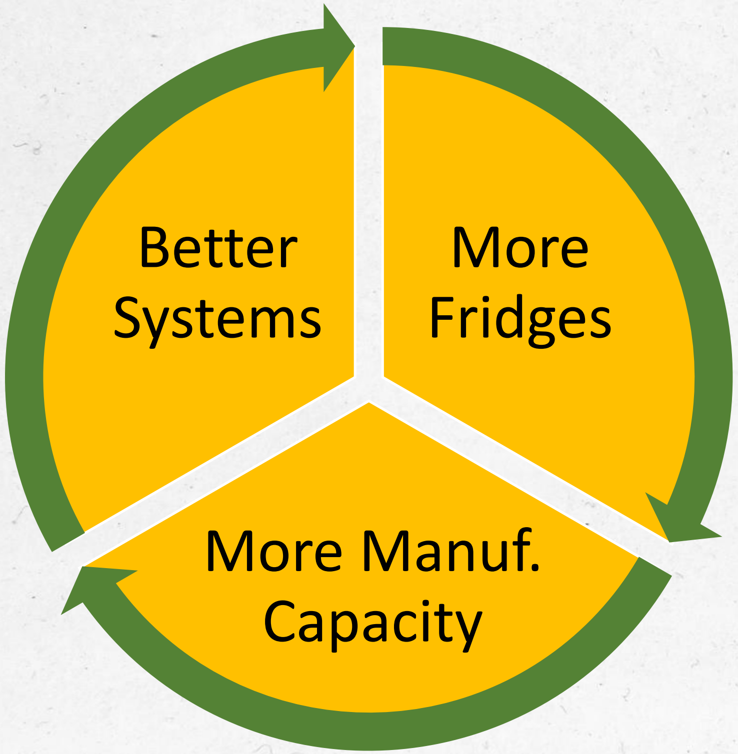

Fully-utilized Kitchens 1.0
+ Kitchens South
**$100 million**


24,000 Fridges
**$115 million**

**2020 Guidance**
Net Sales = $320 million
Adj. EBITDA = $46 million

Note: Additional $10m spent in systems & infrastructure

# $320 million business built on $225 million of CapEx




**$1 Capex**

$225m cumulative from inception

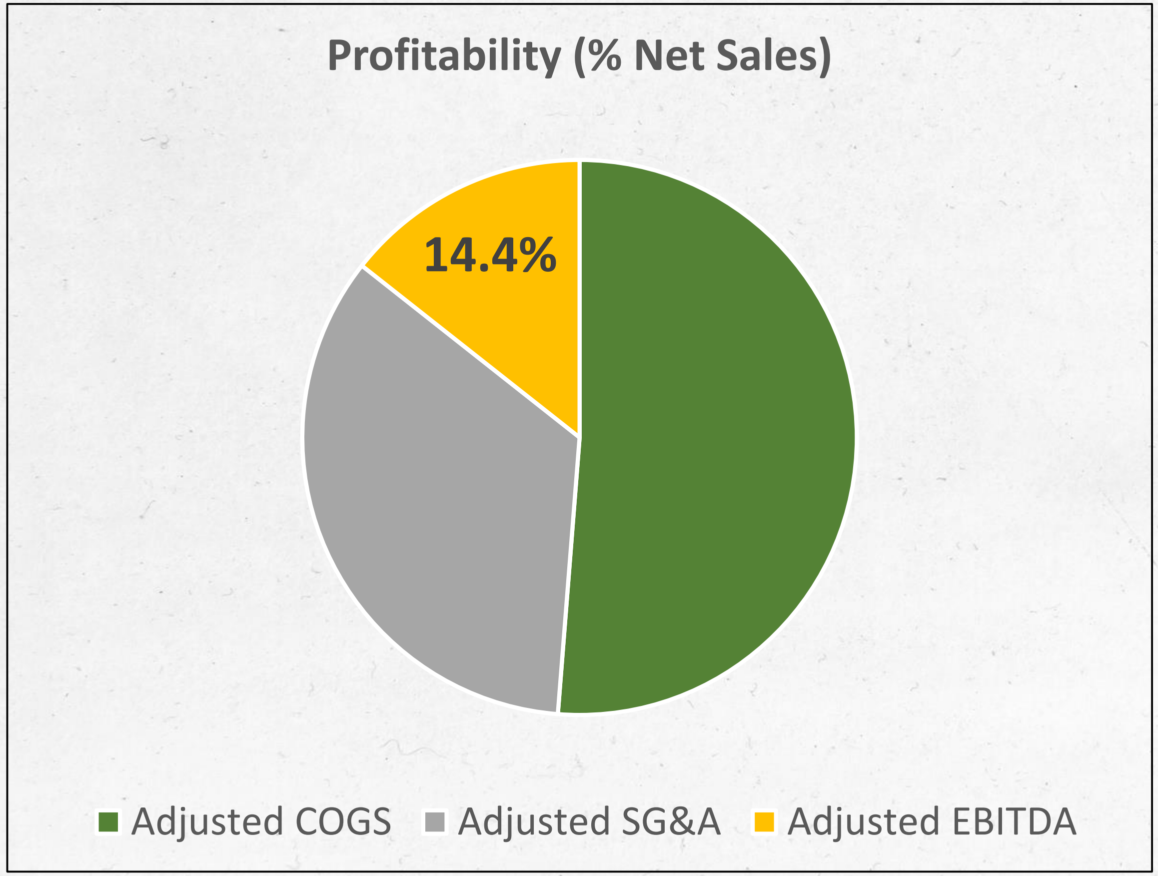
**$1.41 Net Sales**

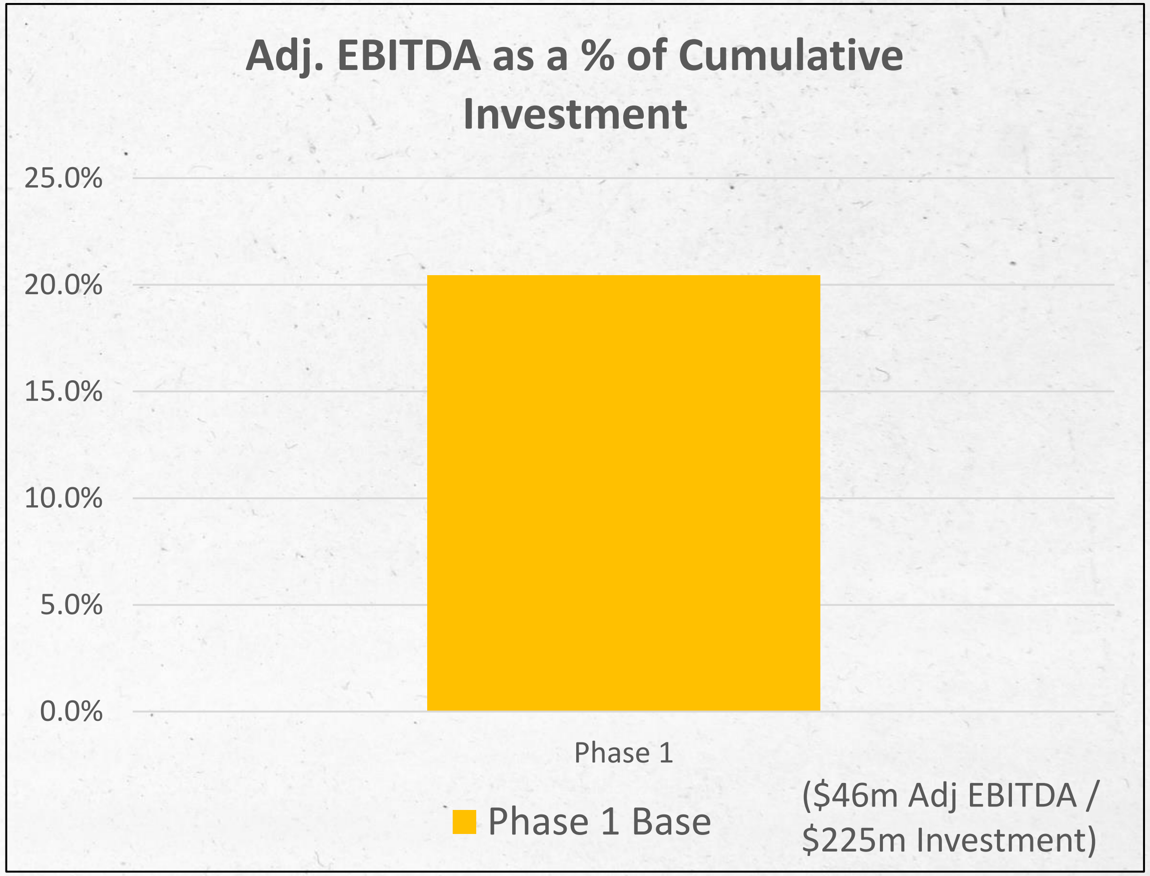
2020 Guidance $320 million

**$0.20 Adj. EBITDA**

2020 Guidance $46 million

# Results to Date: Modest profitability



# Results to Date: Strong foundation for growth & competitive insulation

3 preferred product forms

**Differentiated**
Innovative forms, technologies, and appearance

**Manufacturing**
Proprietary technology, processes, and infrastructure

$350mm capacity & expertise


3.8mm HH's

**High Brand Loyalty**
Alignment with deep pet parent emotional motivations

**Supply Chain**
Only refrigerated pet food network in North America


Modest scale in distribution

24,000 Fridges

**Freshpet Fridge**
Branded, company-owned real estate

Walmart
petco
Kroger
WHOLE FOODS MARKET
TARGET

**Retailer Partners**
Delivers benefits in traffic, frequency and retailer margins

55% ACV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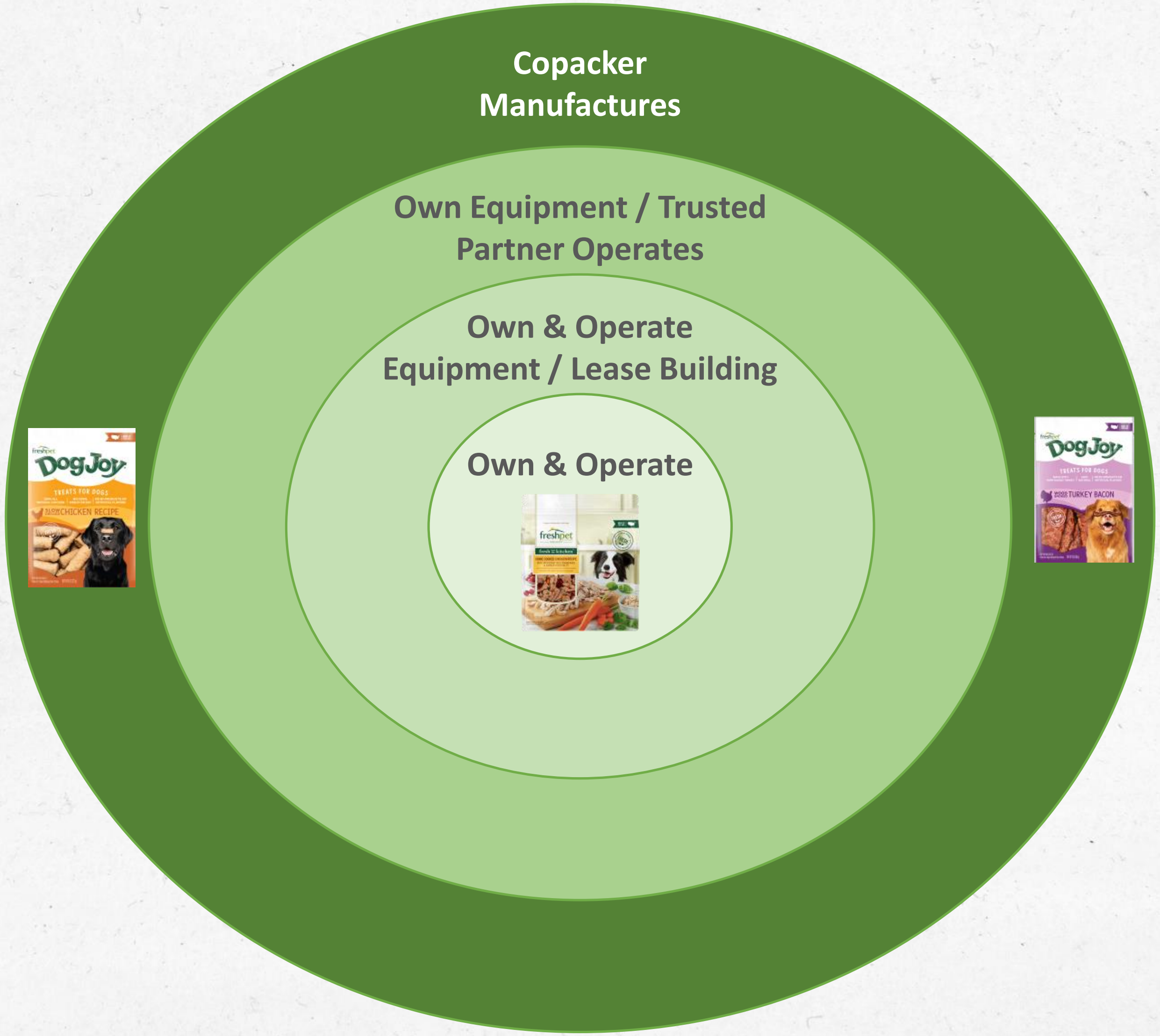
# Going Forward: Strategic Choices

# Why choose to own assets vs. outsource?

| ***Ownership*** | | | ***Outsourcing*** |
|---|---|---|---|
| ✓ |  | Protect franchise | |
| ✓ |  | Drive operational efficiencies & improve margins | |
| ✓ |  | Deliver on sustainability mission | |
| |  | Level of investment | ✓ |
| |  | Accountable to hire and train | ✓ |

# How do we think about manufacturing partnerships?



# At what pace should we invest?

Kitchens 2.0 — $110-115 million

Kitchens South — $15 million

Kitchens 3.0 — $315 million

Kitchens South #2 — $15-20 million

Low end of range reflects the potential for new technology under development

High end of the range reflects expanding with current line technology

Kitchens 3.1 — $160-$230 million**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| Total Capex* | $71 mm | $150-160 mm | ~$300 mm | ~$80 mm | ~$110-140 mm | ~$70-$90 mm | ~$70-$90 mm |

*also includes maintenance capex, fridges and IT

** includes 4 production lines, taking total capacity to $1.3 billion



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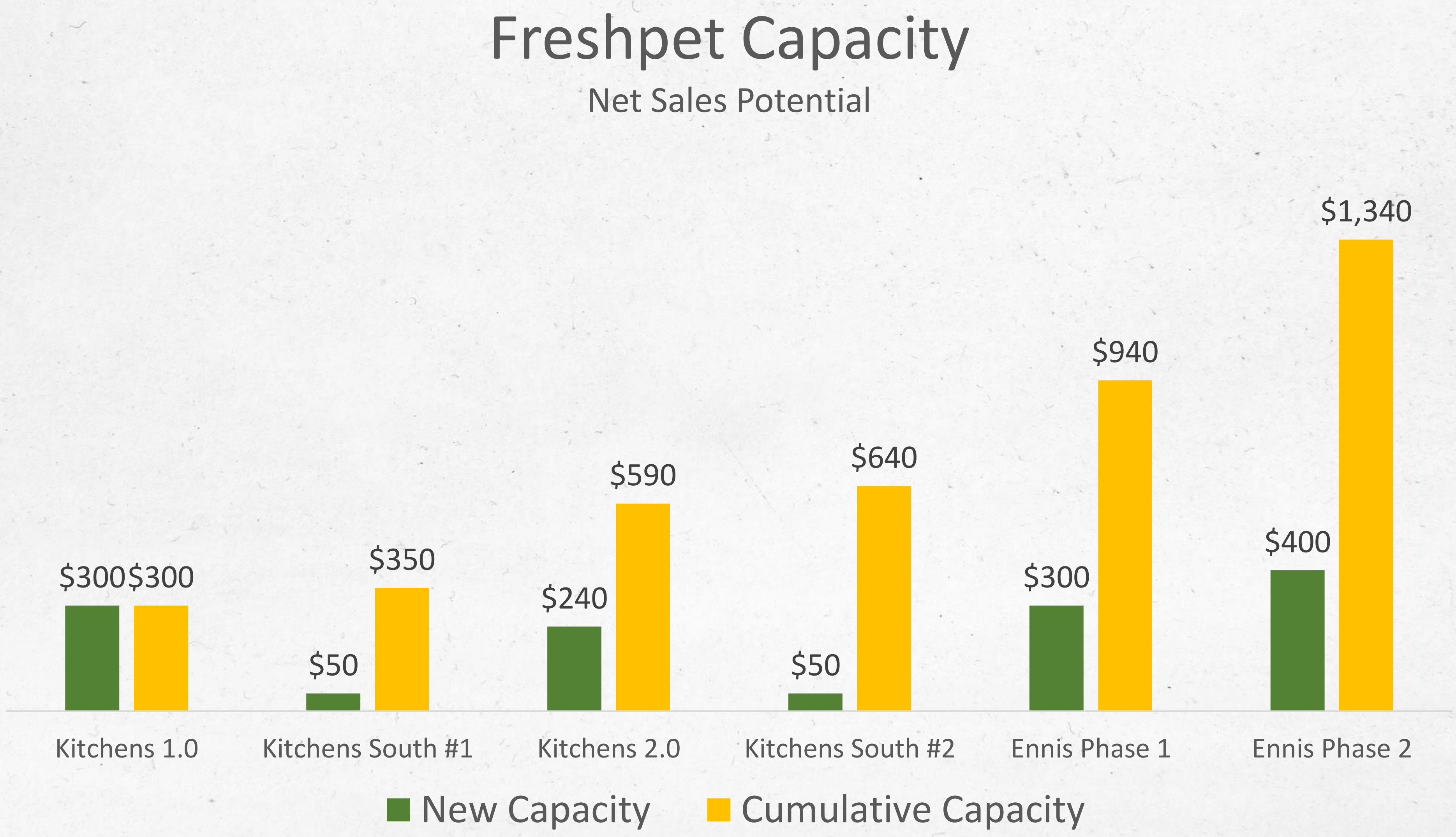
# What does this spend achieve?



# Key choices we have made



**Own the vast majority of manufacturing assets to**:

- Protect the most critical manufacturing knowhow
- Evolve the manufacturing technology to improve cost, quality and safety

**Own the Fridges to enable**:

- A more controlled retail presentation and product protection
- Highly visible branding that expands HH penetration more quickly
- More rapid retail expansion
- Expanding product assortment more readily
- Adding technology to support better shopping experience and reliable performance

**Grow as quickly as we can while not compromising execution**

- Fund investments with debt but do not stretch the balance sheet
- Only use equity when we are able to successfully execute more rapid growth with incremental capital

# Phases of Revenue Expansion



**Phase 1:**
**Net Sales Capacity $350m**

Kitchen's 1.0
Kitchen's South Line 1
Fridge Fleet $115m

**Phase 2:**
**Net Sales Capacity $240m**

Kitchen's 2.0
Fridge Fleet +$25m

**Phase 3:**
**Net Sales Capacity $350m**

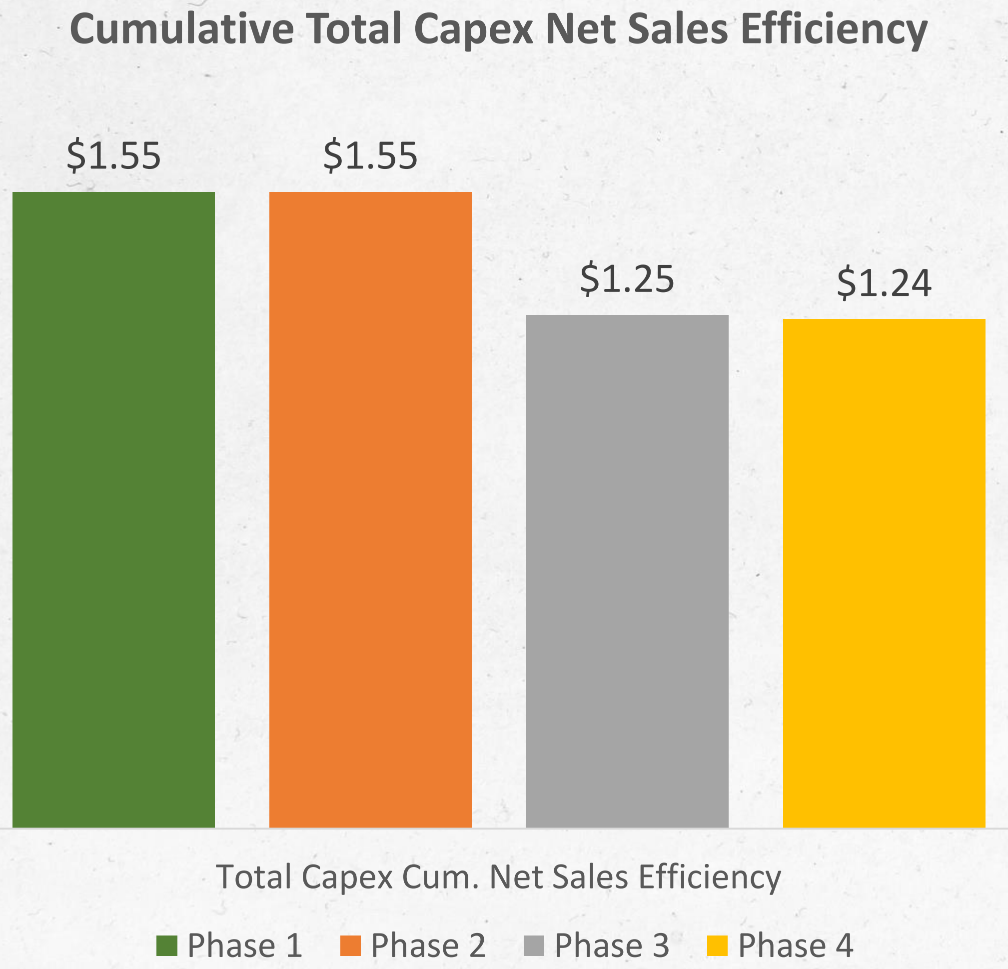
Kitchen's 3.0
Kitchen's South Line 2
Fridge Fleet +$25m

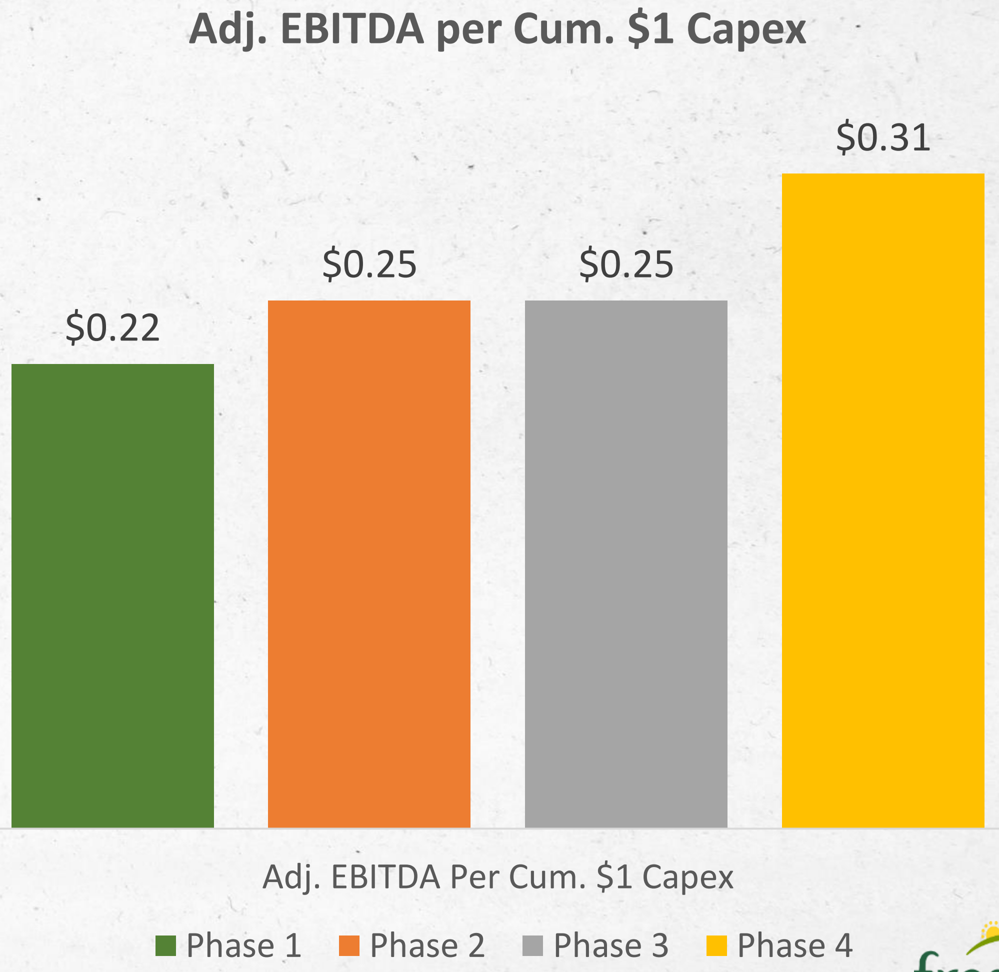
**Phase 4:**
**Net Sales Capacity $400m**

Kitchen's 3.1
Fridge Fleet +$60m

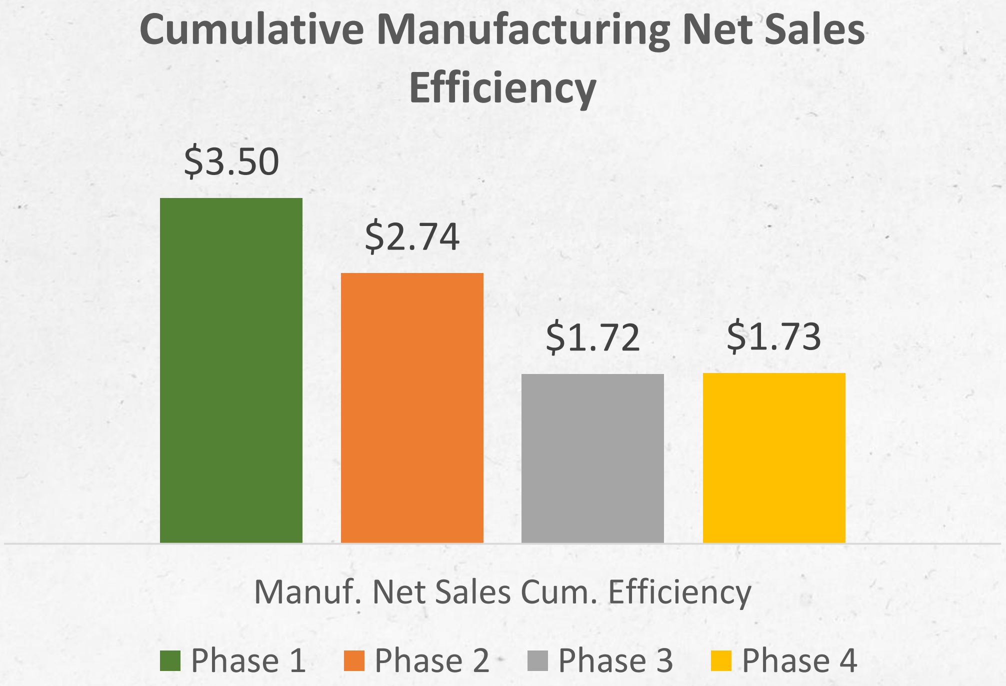
# Anticipated Results

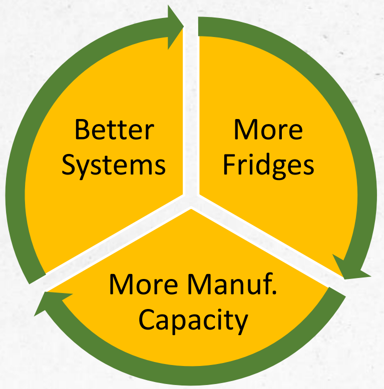
# Automation and quality improvement investments reduce cumulative net sales efficiency but scale drives profitability

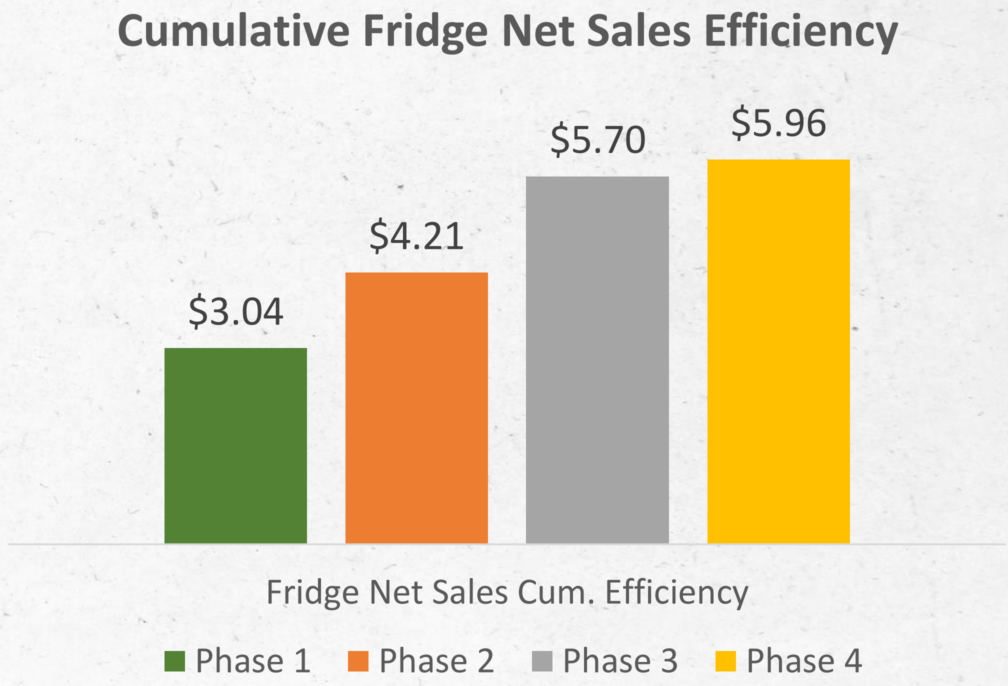


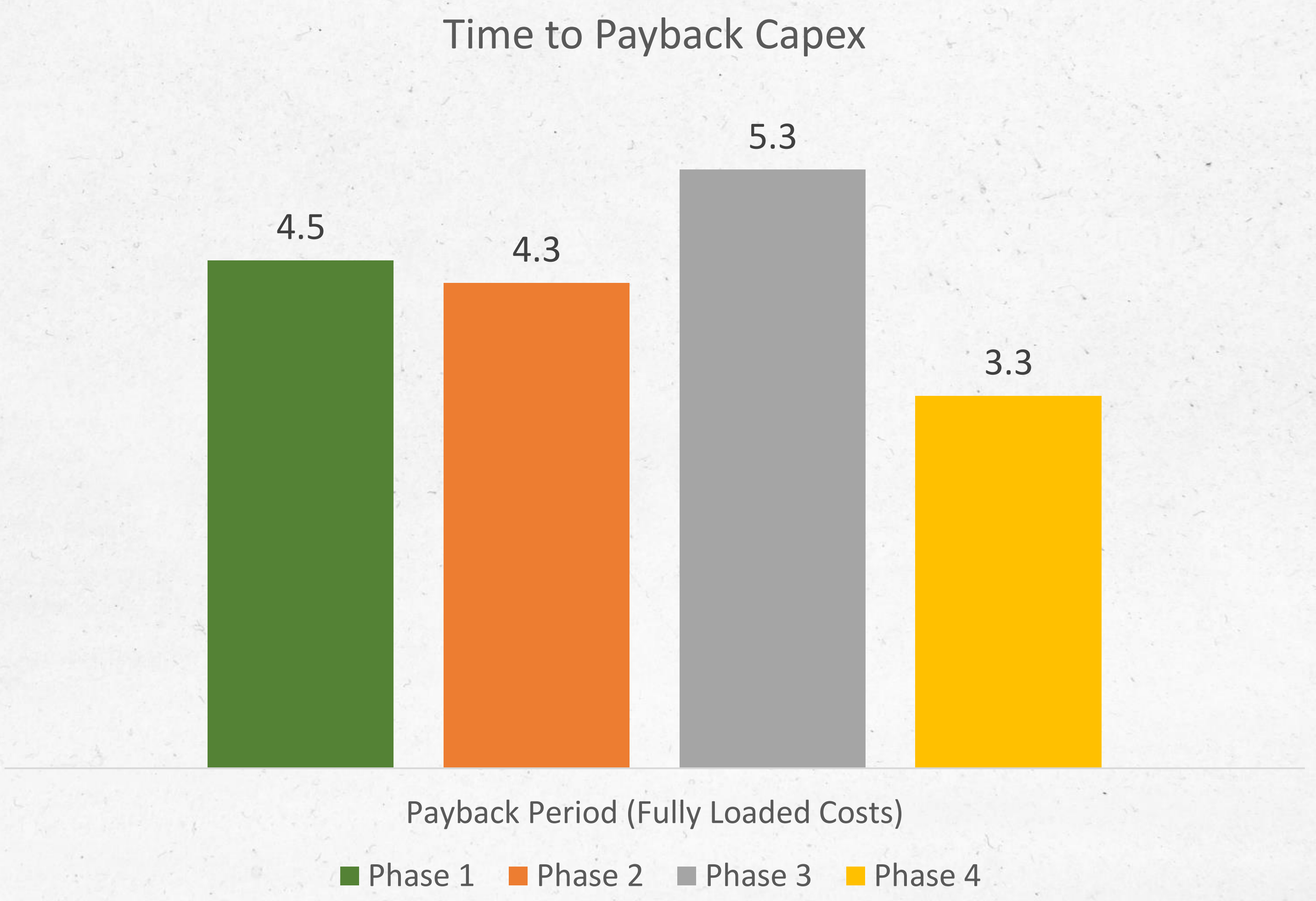
# Cumulative net sales efficiency for chiller capex grows with scale while quality and automation investments reduce net sales efficiency for manufacturing assets



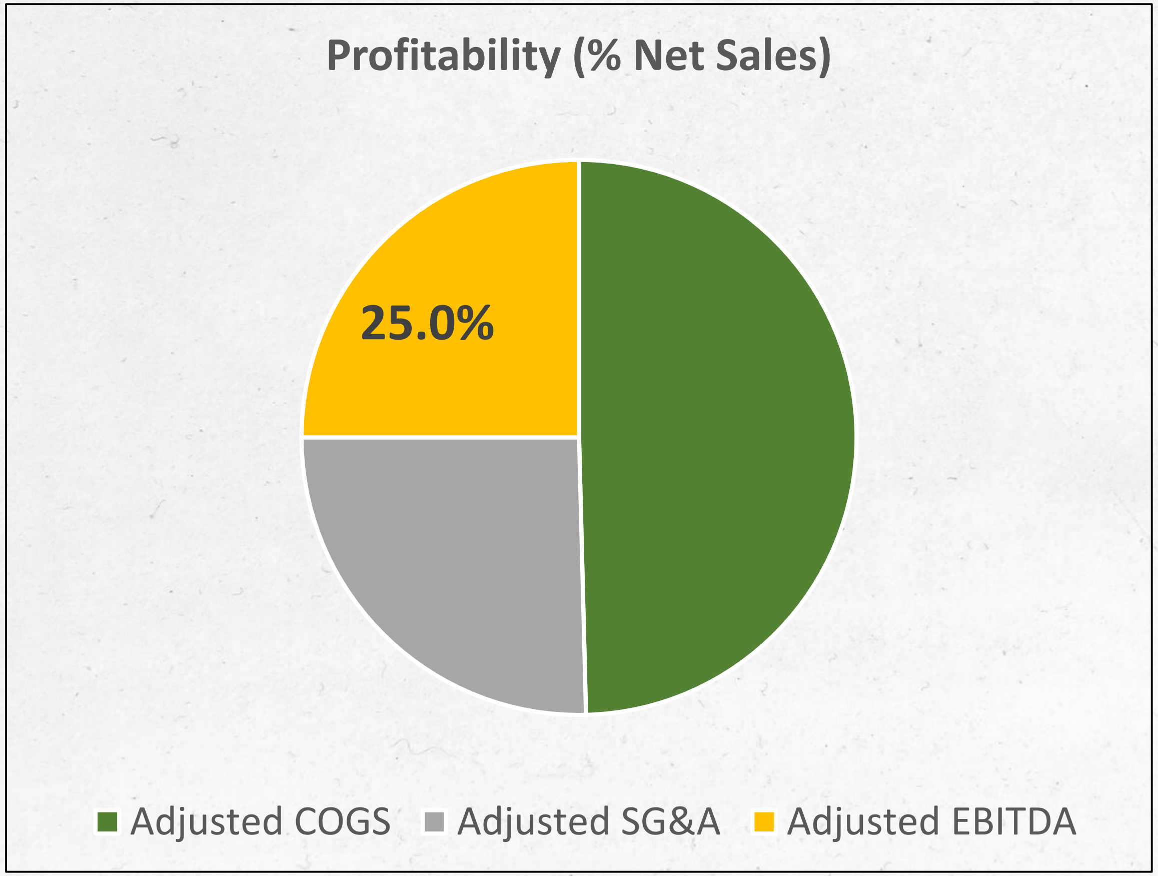



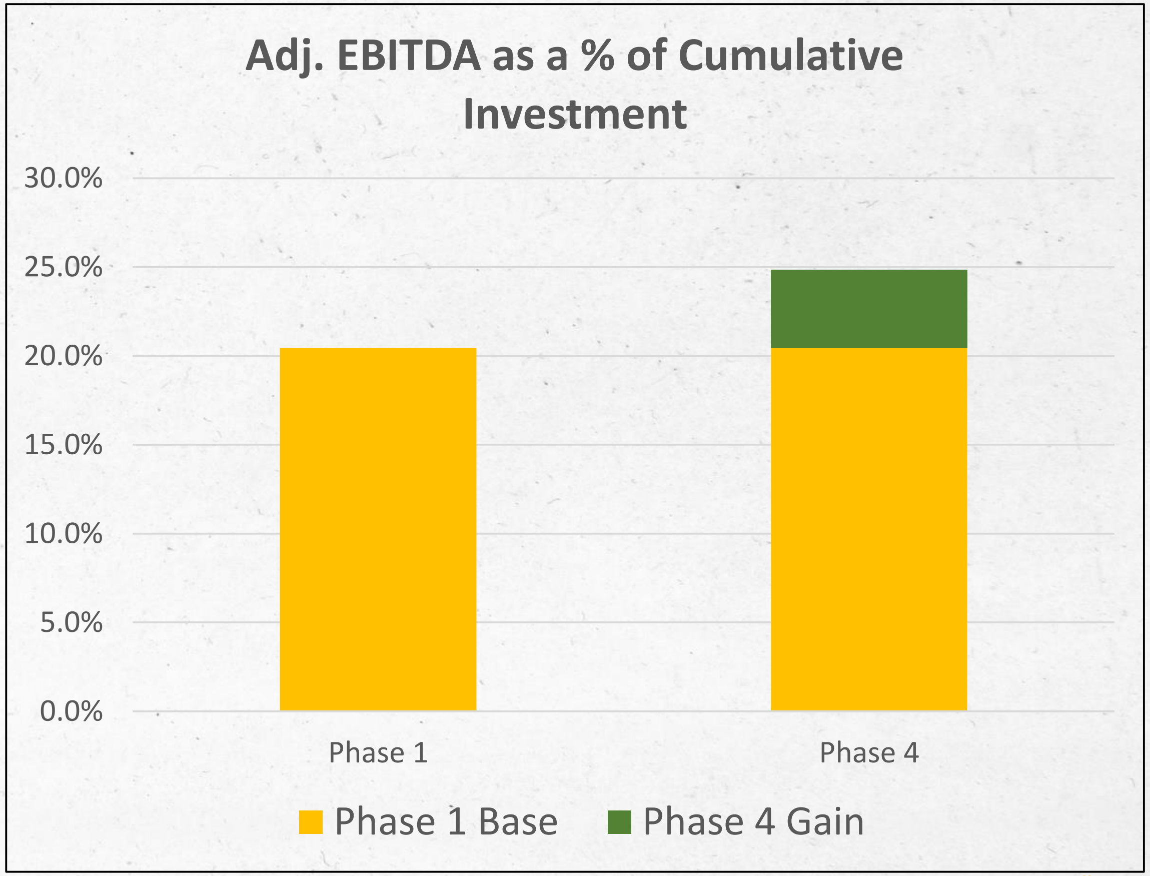



# Time to payback investments improves with scale, however meaningful upfront investment in Ennis Phase I will take longer to payback

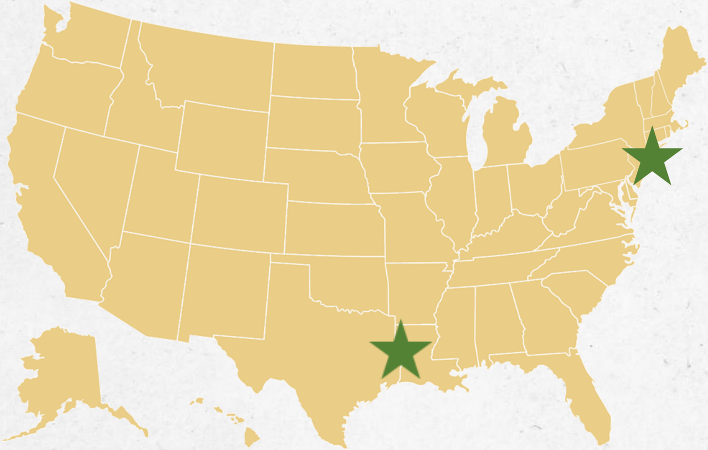


# Capex drives significant 2025 profitability improvement



# In 2025, our manufacturing base will deliver significant competitive advantages



**Strong, diversified supply chain operating at scale**

- **2 Freshpet Kitchens** – each with >$500 million in capacity
- **Kitchens South** with >$100 million in capacity
- **2 Third Party DC's** that are close to our Kitchens but geographically dispersed and deliver full loads


**Improved technology that delivers higher quality, more product variety and at lower cost**

- **Cost reductions** from yield, throughput and sanitation improvements
- **Significant increases in automation** to reduce labor expenses and dependency
- **New product innovation** that is preferred by pet parents
- **Sustainability as a core design element** including on-site solar array, zero landfill, zero net carbon, state of the art wastewater treatment and LEED building practices



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# In 2025, our chiller network will provide strong competitive insulation



**>40,000 fridges located in prominent positions in high volume retail outlets**

- Increased emphasis on second/third fridges in high velocity stores to increase visibility and extend the product range/assortment

**Technologically advanced fridges capable of delivering best-in-class service**

- “Smart fridge” technology
- Latest and most reliable technology
- Well-maintained and refreshed fleet



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# In 2025, our systems and infrastructure will have the capacity to support a >$2 billion business

3 Fully Operational Kitchens – 2 owned and 1 partner with our equipment

World Class Innovation Pilot Plant

Technology-enabled fridges in >50% of stores

Systems to support international expansion, scope beyond core ERP and advanced analytics

# Fortified business model that provides strong competitive insulation

Diverse line-up that is difficult to match

**Differentiated**
Innovative forms, technologies, and appearance

**Manufacturing**
Proprietary technology, processes, and infrastructure

$1.3 billion capacity and cash flow to build more


8mm HH's

**High Brand Loyalty**
Alignment with deep pet parent emotional motivations

**Supply Chain**
Only refrigerated pet food network in North America


Significant scale in distribution

40,000 Fridges

**Freshpet Fridge**
Branded, company-owned real estate


Walmart
Kroger
petco
WHOLE FOODS MARKET
TARGET

**Retailer Partners**
Delivers benefits in traffic, frequency and retailer margins

~75-80% ACV



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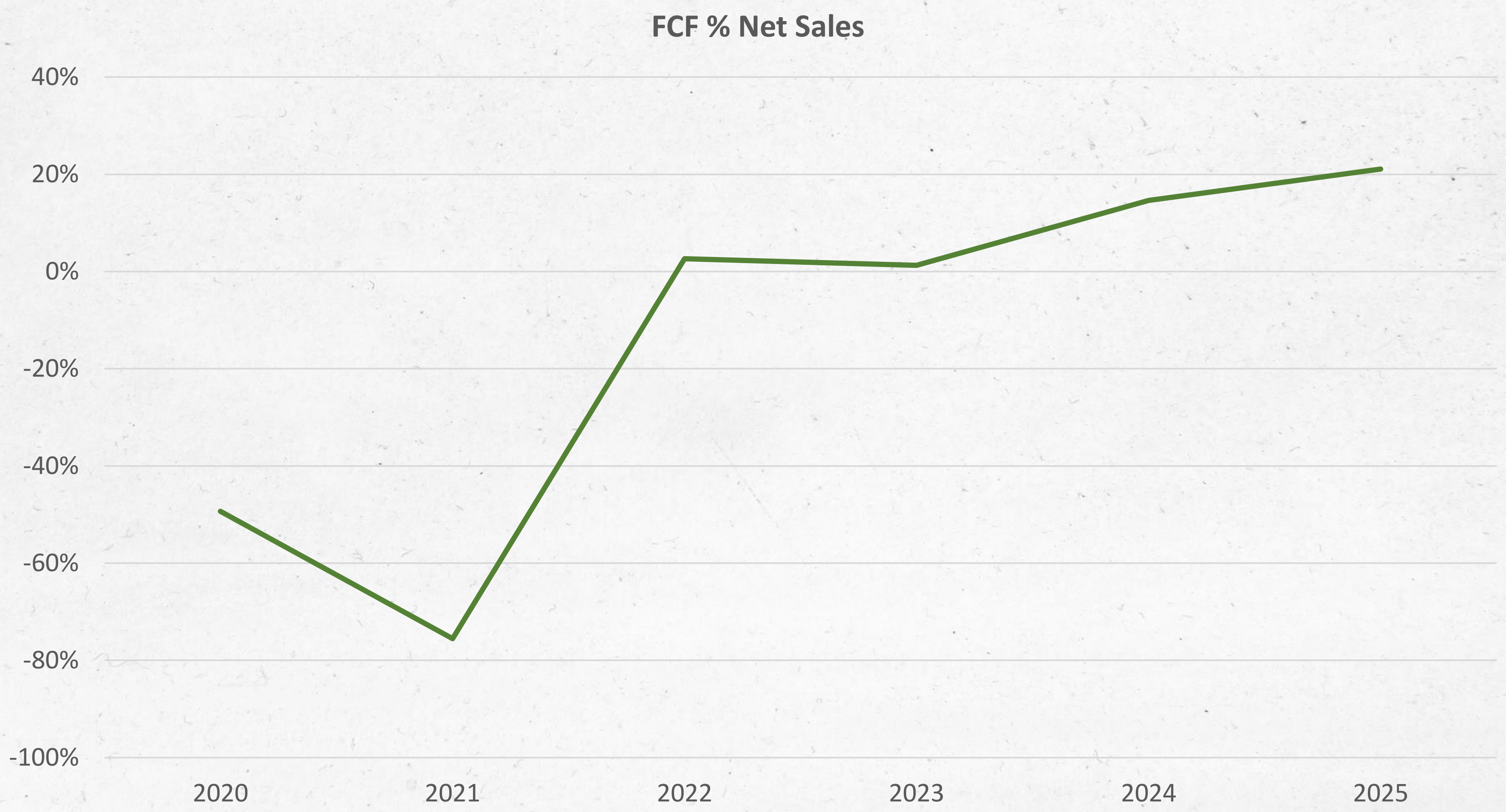
# Financing and Uses of Cash

# Free Cash Flow (% of net sales) becomes meaningfully positive as we scale



# Target: Hold debt to reasonable leverage and only use equity for accelerated growth opportunities beyond current plan


Maintaining a Strong Balance Sheet


Managing ST Debt Leverage

Treating Equity as "Gold" / Managing dilution

# Summary

# Rigorous approach to capital investment to create significant value


Well-insulated business with strong growth potential & significant competitive advantages

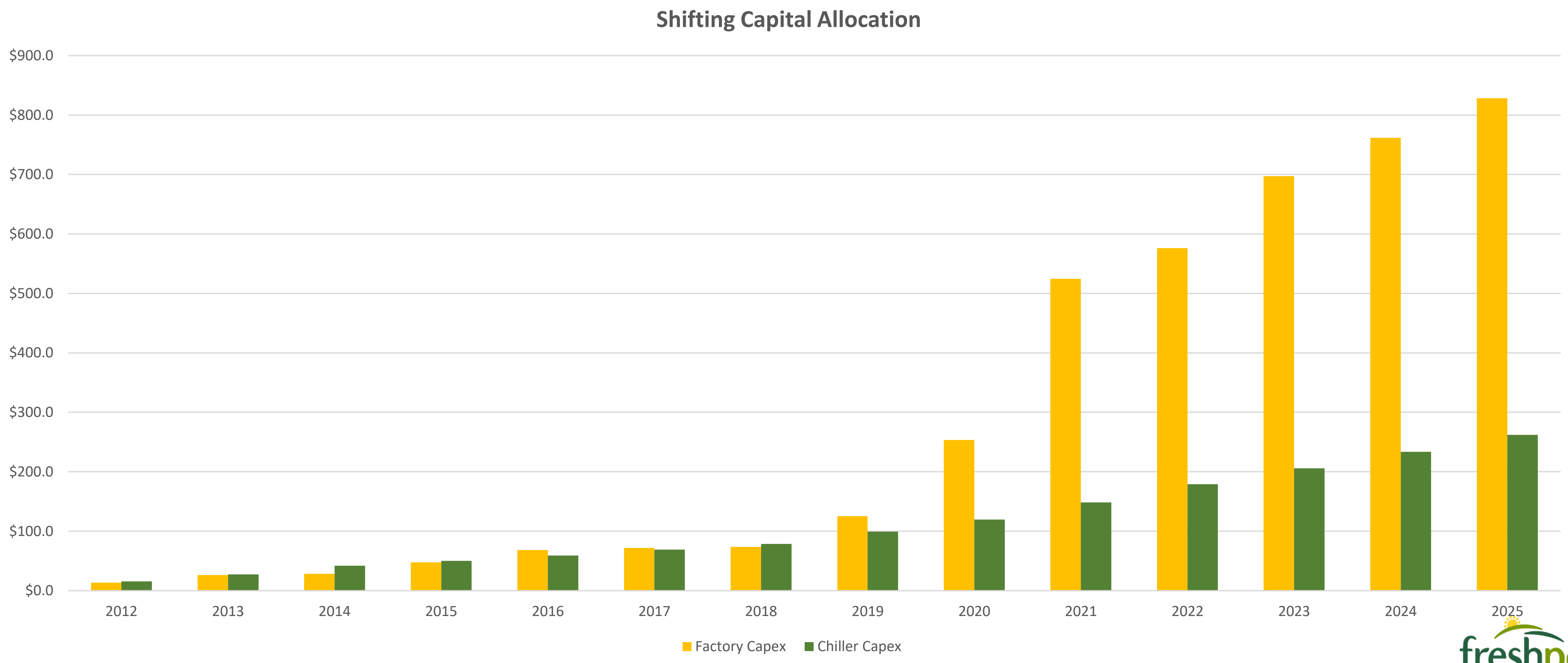

Investments drive increased scale and profitability


Strong capital returns that improve over time


Maintain appropriate leverage and only use equity for accelerated growth options

# Appendix

# Capital investments will shift from fridges to capacity over time



# Key Components: Manufacturing Capacity

# Expanding capacity has become a core competency of Freshpet

## Kitchens 1.0

**2017-2019**

**Engineering Team that built the Kitchen in phases, also responsible for running the Kitchen**

Team comprised of the original experts that founded how to manufacture Fresh Pet Food

## Kitchens 2.0

**2019-2020**

**Fully Dedicated Engineering Team**

Transitioned away from having the team that built the kitchen to also run the kitchen (while building the next one)

Added talent & bench strength in Engineering team

## Kitchens South

**2020-2021**

**Separate and Fully Dedicated Engineering Team**

Leverage partner talent to supplement Freshpet dedicated teams

## Ennis 3.0/3.1

**2020-2025**

**Separate and Fully Dedicated Engineering Team**

Spent months in Bethlehem with 2.0 team to train

Supported Kitchens 2.0 at start-up (additional learning)

Site Leader brought on 2 years ahead to lead the team & project

## Future

**2022 & Beyond**

**Separate and Fully Dedicated Engineering Team potentially leveraging partners for design/build**

Planning stage will start in 2022 as requires 3-year lead time from design to live production



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# At a 27.2% CAGR, our manufacturing capacity needs grow at an accelerating rate

**Year 0:**
**Add Kitchens 2.0**

At $320m
Grow 27% / +$90m
Q4 run rate ~$440m

**Need 2 Lines**

**Year 2:**
**Add Kitchens 3.0**

At $520m
Grow 27% / +$140m
Q4 run rate ~$710m

**Need 3 Lines**

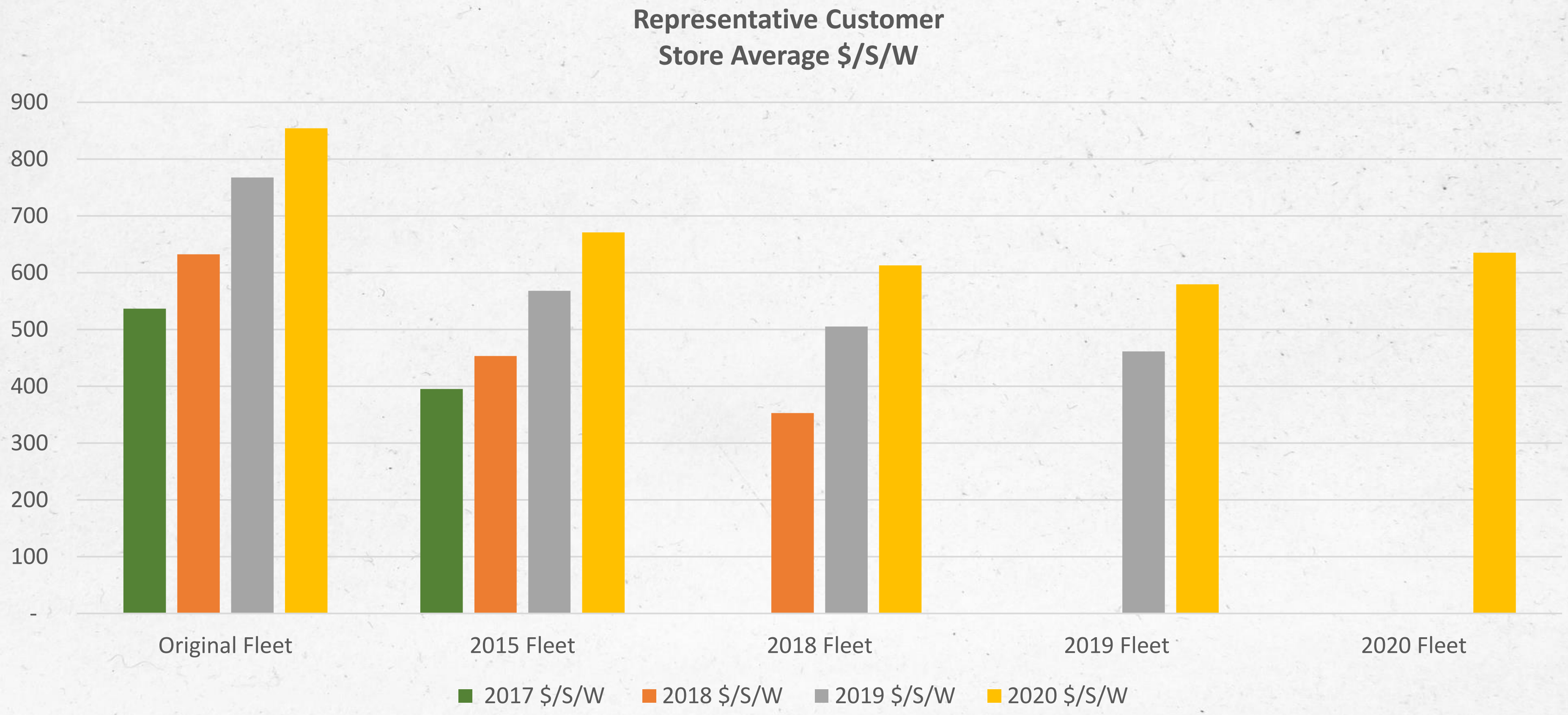
**Year 4:**
**Add Kitchens 3.1**

At $840m
Grow 27% / +$230m
Q4 run rate ~$1.15b

**Need 4 Lines**

# Key Components: Chillers

# Chiller investment returns improve over time as velocities increase in all chillers regardless of age



# Key Components: Systems/Infrastructure

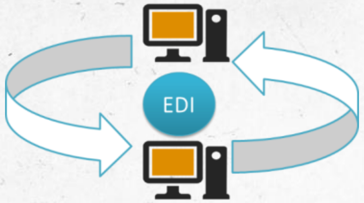
# Investments in IT are critical to enable the business to scale, while improving automation and lowering operating costs

Microsoft Dynamics® 365

***Implement ERP to support Freshpet as it scales***

Enable a paperless shop floor


Automate Accounts Payable allowing for AP shared services




Further leverage EDI to greatly improve flow of data


Automate and streamline reporting & robust Analytics capability

***Lower Operating Costs***



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