



Freshpet, Inc.
Second Quarter 2025 Earnings Call Prepared Remarks
Monday, August 4, 2025

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 second quarter 2025 earnings call and webcast. On today's call are Billy Cyr, Chief Executive Officer, and Todd Cunfer, Chief Financial Officer. Nicki Baty, Chief Operating Officer 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 prospects and plans for growth, efficiencies of Ennis operations, timing and impact of new technology, capital spending, adequacy of capacity, expectations to be free cash flow positive in 2026, and our outlook for 2025 and long-term. They involve risks and uncertainties that could cause actual results to differ materially from any forward-looking statements made today including those associated with these statements, and those discussed in our earnings press release and our most recent filings with the SEC, including our 2024 Annual Report on Form 10-K, which are all available on our website.

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. The message I would like you to take away from today's call is that against a backdrop of subdued dog food category demand, Freshpet's growth continues to significantly outperform the category, and we are driving the operational improvements and capital efficiencies necessary to deliver our long-term margin and free cash flow targets even if the current economic constraints persist.

Freshpet is a growth company, and we expect to continually deliver outsized growth. We are also a very nimble company – one that has a long track record of adapting to changing environments. Looking back at the past 6+ months, it is now apparent that the dog food category has faced a sizable headwind for the first time in years. We have seen economic uncertainty result in consumers hesitating to trade up their dog food, defer well visits to the vet, decline medical treatments for their pets, and defer getting a new dog or replacing a recently deceased dog. Return-to-office mandates and the high cost of housing have not helped either. This has resulted in declining growth rates for most leading pet food brands, including the leading DTC brands. The effect has been most pronounced amongst dogs as opposed to cats, as cats are typically lower maintenance and lower cost, making them a relatively attractive pet to have in times like these.

The current environment has challenged our ability to grow at the same rates that we did over the past several years. To adapt to that, we have modified our plans and put in place what we believe are the necessary drivers to re-accelerate our net sales growth which I'll review in a few minutes, and we have seen some early encouraging signs.

We are also increasing the intensity of our focus on the things that we can control so that no matter how long it takes for the economic climate to improve we can still deliver strong financial results. We have made tremendous progress in our operations and are quite bullish about our long-term prospects for the potential margins, profits and cash generation of the business. Our focus on operating improvements has driven a healthy improvement in our adjusted gross margin but, more importantly, those efforts – in combination with new technologies we have developed – will enable us to significantly reduce our capex while still expanding our manufacturing capacity to meet our long-term demand. As a result, today we are lowering our capex estimates for 2025 and 2026 by a total of at least \$100 million.

While the operational progress we have made has touched virtually every aspect of our operations, some of the most significant achievements are:

- 1. Ennis has become our most profitable plant.** This happened sooner than we had planned and is the result of strong leadership at that site and a testament to the vision and thoughtfulness that went into the design of that kitchen. It is evidence that we have been able to convert our operating experience into continual improvements that will ideally put us well ahead of any potential competitor in our mastery of fresh pet food manufacturing. Further, because Ennis is expected to provide more than 50% of our production volume within the next few years, its productivity advantages will have a greater and greater impact on the company's total profits over time.
- 2. Development of new production technologies.** We have previously indicated that we have created a new way to make our bagged products and expect to start-up our first new



production-scale line with that new technology in Q4 of this year. If it works as we expect it to, we believe it will deliver higher quality product at lower cost through increased yields and throughput. It has the potential to significantly narrow the gap between the margins we make on our rolls and on our bags, and this technology could potentially be the basis for new bag lines going forward. Additionally, we have recently developed a “lite” version of the same technology that can deliver many, but not all, of the same benefits and could be retrofitted to our existing lines at relatively low cost with minimal disruption. We plan to test the lite version on one of our existing bag lines in the first half of 2026, and it could be re-applied to several of our other bag lines by the end of 2027, if successful. The pilot test runs of this technology indicate that it will work and would enable us to deliver more capacity per line from our already installed production base.

3. Ability to reduce capital spending by a combined total of at least \$100 million in 2025-2026.

We have made exceptional progress at improving our throughputs, yields and operating effectiveness and that is enabling us to get more output from the existing lines and staffing, leading to lower quality costs and improving margins. In combination with our new technologies, we now believe that we can defer at least \$100 million in capex from 2025-2026 and still meet the demand we expect to generate for the foreseeable future. This reduction in capex will have a direct impact on our cash flow and make the business much less capital intensive for the next few years. To be clear, some of this reduction is the result of the slowing demand we have seen so far this year, but the remainder of the reduction is due to the improved operating efficiencies and new technologies we expect to implement over the next two years.

We are very proud of our team for its ability to adapt to the current environment and still deliver such exceptionally strong performance, which provides the foundation for even greater financial and strategic advantages. We pioneered this category and fully intend to maintain our advantages as the category grows, matures and attracts new competition.

With this strong footing, we are in a very good position to drive the growth of Freshpet. As you know, this has been a particularly challenging year on the topline – something that has typically not been an issue for us. Our media model has driven strong and predictable growth for a very long time and the performance we saw earlier this year caused many to question it or if we had saturated our TAM. Our data suggests that neither is true – i.e., our media model is, in fact, still working and we still have a large and untapped TAM.

We are growing across all channels, income groups, and generations. The sales growth is just not as robust as we would like it to be today. We believe our growth rate vs. year ago has now stabilized, and we are encouraged by some green shoots; however, given we have not seen a greater increase in our year-over-year net sales growth yet, we believe it’s prudent to adjust our net sales guidance for the year.

Our updated guidance assumes the macroeconomic environment stays relatively the same, and that we execute our plans—focusing on areas that are in our control. The three key areas we are most concentrated on are:

- I. **Marketing:** We have updated advertising on air that better explains the difference that fresh food can make, and plan to launch another media campaign later this month that we believe will help drive



greater household penetration. We have also shifted marketing dollars to other channels like digital/social and connected TV where we have been underdeveloped previously and we can be more targeted with MVP's.

- II. **Distribution expansion:** We are working on greater visibility in value channels such as club and mass, expanding our small DTC business called Freshpet Custom Meals, as well as several other opportunities. Digital orders, which we previously referred to as e-commerce, continue to have outsized growth and were up 40% in the second quarter. Digital now accounts for 13% of our sales. Our revised topline guidance also incorporates a much greater level of certainty on our expansion within the club channel, specifically. As of last week, we have expanded our test in a leading club retailer and are now in 125 stores, and we are optimistic we will be in more stores later this year. Other customers have also committed to adding second fridges and have expressed interest in testing some of the island fridges we previously shared sometime later this year or early next year.
- III. **Value-focused products:** We are launching a new Complete Nutrition bag product and rolling out new multipacks and bundles of rolls and bags both online and in-store later this year. These will be available in select retailers.

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

- Second quarter net sales were \$264.7 million, up 12.5% year-over-year, primarily driven by volume growth. This was slightly lower than our expectations as shipment growth lagged consumption growth due to a small shift in orders from the end of June to early July.
- Adjusted gross margin in the second quarter was 46.9%, compared to 45.9% in the prior year period.
- Adjusted EBITDA in the second quarter was \$44.4 million, up approximately \$9 million, or 26% year-over-year.

From a category perspective, we continue to be the number one dog food brand in US Food and have a 95% market share within the gently cooked fresh/frozen branded dog food segment in Nielsen Brick and Mortar Customers (defined as XAOC + Pet). We compete in the \$54 billion US pet food category per Nielsen Omni-Channel data for the 52 weeks ended 6/28/25, and we have only a 3.6% market share within the \$37 billion US dog food & treats segment.

From a retail standpoint, our products are now in 29,141 stores, 24% of which have multiple fridges in the U.S., and we expect that percentage to continue to grow as we focus on adding second and third fridges in the highest velocity stores. We ended the second quarter with 37,985 fridges or more than 2 million cubic feet of retail space, with an average of 20.8 SKUs in distribution. Our % ACV in grocery – where we're the dog food market leader – was 79% at quarter-end, and in xAOC only 68%. Discussions with retail customers continue to be very positive, as they recognize the growth in the category has been –and we believe will continue to be—led by fresh pet food.

Household penetration as of June 29th was 14.4 million households, up 11% year-over-year, and total buy rate was \$110, up 6% year-over-year. Our heaviest users, what we refer to as MVP's, are growing even



faster, and totaled 2.2 million of those households, up 18% year-over-year. MVPs represented 70% of our sales in the last twelve months with an average buy-rate of \$501.

Turning to capacity... As I mentioned earlier, we are expanding capacity to keep up with demand, and are able to push out capital expenditures because of the progress we have made operationally. Our operating efficiencies – particularly in Ennis – are well ahead of our glidepath and that frees up significant capacity with no incremental capital.

We currently have 15 lines across our manufacturing footprint, with an additional bag line expected to commence production in the fourth quarter this year. As I said earlier, this new bag line will be the first time we are testing our new technology at scale, not just at a pilot plant level, but we are very encouraged by its potential.

Now turning to our outlook. For fiscal year 2025, we now expect net sales growth of 13% to 16% year-over-year. We are reiterating our adjusted EBITDA guidance of \$190 to \$210 million and now expect capital expenditures of approximately \$175 million. Todd will walk through more details of our 2025 guidance in a few minutes.

In regard to our long-term outlook, today we are removing the \$1.8 billion net sales target and the related 20 million household target in fiscal year 2027. The sizable reduction in the category growth rate and new pet additions have made it increasingly difficult to maintain our previously projected rate of growth so we believe it is prudent to remove those targets. To be clear, we do expect to grow at a rate well in excess of the category, thus increasing our market share. We have a large and growing TAM and believe it will provide many years of strong, sustained growth.

Additionally, our strong operating performance has given us increased confidence in our ability to deliver our 48% adjusted gross margin and 22% adjusted EBITDA margin targets in 2027 – even without the benefits of the added scale, as long as our sales volume growth remains at least in the teens. As a reminder, the new production technology was excluded from the long-term margin targets which allows even more upside to margins if it works.

In summary, we believe we have an incredible opportunity to improve the lives of pets everywhere through the power of fresh, natural food and we have not lost sight of that mission. We are taking actions to adapt to the current macro environment, and our scale advantages make us better positioned now than ever to address those challenges. We have a healthy balance sheet, solid operating performance, ample capacity, and we are a stronger organization than we were a few years ago. We have always been resilient and nimble, and our scale today gives us the flexibility to lean into certain areas such as marketing, new technology and innovation, to develop solutions to consumer uncertainty today, while also expanding our competitive moat.

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



Todd Cunfer

Thank you, Billy, and good morning, everyone. The second quarter results demonstrated strong operational effectiveness and profitability improvement but were slightly below our expectations on sales. Now I'll give you some more color on our financials and updated guidance.

Second quarter net sales were \$264.7 million, up 12.5% year-over-year. Volume contributed 10.8% growth, and we had positive price/mix of 1.7%, primarily driven by mix. We saw broad-based consumption growth across channels. For Nielsen measured dollars, we saw 13% growth in XAOC, 13% in Total US Pet Retail Plus, 12% in US Food, and 6% growth in pet specialty. Consumption growth in the quarter was approximately 14%, however we saw a slight shift in timing of orders from the end of June to early July that impacted net sales growth by about a point.

Second quarter adjusted gross margin was 46.9%, compared to 45.9% in the prior year period. The 100 basis point increase was driven by lower input costs as a result of higher yields and leverage from our Ennis Chicken processing facility, and reduced quality costs, partially offset by reduced leverage on plant expenses.

Second quarter adjusted SG&A was 30.1% of net sales, compared to 31.0% in the prior year period. This decrease was primarily due to a lower variable compensation accrual, partially offset by increased media as a percentage of net sales. We spent 15.0% of net sales on media in the quarter, up from 12.2% of net sales in the prior year period. Logistics costs were 5.7% of net sales in the quarter, compared to 5.8% in the prior year period.

Second quarter adjusted EBITDA was \$44.4 million compared to \$35.1 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 second quarter was \$33.4 million, while operating cash flow was \$33.9 million, and we had cash on hand of \$243.7 million at the end of the quarter. We are confident in our ability to be free cash flow positive in 2026 and intend to utilize our balance sheet to support our growth going forward.

Now turning to guidance for 2025... As Billy said earlier, we now expect net sales growth of 13% to 16% compared to our previous guidance of 15% to 18% growth year-over-year. We are assuming the macroenvironment and consumer uncertainty stays relatively the same and have adapted our growth strategy to reaccelerate growth. In terms of cadence, we expect a sequential increase in net sales per quarter. We invested more heavily in media in the second quarter to drive household penetration growth in the second half, will be launching a new marketing campaign later this month, adding more value-oriented offerings in the fall, and expect to increase distribution throughout the remainder of the year, including our expanded test in the club channel.

We continue to expect Adjusted EBITDA in the range of \$190 to \$210 million. 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, however, we are monitoring the spend closely and will pull back if we are not seeing the returns. We still 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 currently seeing a small impact on vegetables sourced from Europe, and spare parts, and mitigating them where we can.

Capital expenditures are now projected to be approximately \$175 million this year, compared to our guidance last quarter of approximately \$225 million and original estimate of \$250 million. Some impact from tariffs, particularly on the cost of steel for new construction and new equipment, is included in the updated capex projection. The majority of our capex spend is focused on the installation of new capacity to support demand in the outyears, but we are seeing greater capital efficiencies that are allowing us to reduce our spend both this year and next year. We anticipate 2026 capex will be the same or less than what we are spending in FY25, which gives us even more confidence in our ability to be free cash flow positive in 2026.

Based on today's guidance for 2025, it is evident that our ability to hit our 2027 net sales target is unlikely, so we believe it's prudent to formally remove the \$1.8 billion target. We believe we will have industry leading growth, and if we are able to maintain net sales growth in the teens on an annualized basis, we are confident in our ability to manage costs, operate effectively, and still achieve our long-term margin targets of 48% adjusted gross margin and 22% adjusted EBITDA margin.

In summary, while this year is not where we planned from a topline perspective, we are aggressively managing costs and are very pleased with our performance on the bottom line. By focusing on the areas of the business we can control, we are seeing our operational efficiencies continuing to drive margin expansion and reduce capital requirements as we further build capacity. We are also further strengthening our competitive position via new, more efficient production technologies, expanded distribution, and operating expertise that is delivering great consumer experiences at lower operating costs. We are building a stronger, more profitable business and believe we have a significant runway for growth.

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?