



Freshpet, Inc.
Third 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*

Ivan Garcia – *Interim Chief Financial Officer*

PRESENTATION

Rachel Ulsh

Good morning, and welcome to Freshpet's third quarter 2025 earnings call and webcast. On today's call are Billy Cyr, Chief Executive Officer, and Ivan Garcia, Interim 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 strategies to re-accelerate growth, progress and opportunities in capital efficiencies, timing and impact of new technology, capital spending, adequacy of capacity, expectations to be free cash flow positive, 2025 guidance and 2027 targets. 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 we are quickly adjusting to the new economic reality and remain one of the best performing pet food businesses. We continue to outperform the US dog food category, we are building market share across every channel, and we are winning a disproportionate share of new pet parents. We also continue to deliver strong operating performance despite the slowdown in volume growth.

Further, we have maintained financial discipline and appropriately managed our capital spending to match our growth and that – in combination with strong operating performance – has enabled us to achieve positive free cash flow in the third quarter and will enable us to become free cash flow positive for the full year, which is one year ahead of our original 2026 target.

Taking a step back, the deceleration in sales growth this year was unprecedented. We clearly started this year expecting to operate in a much different environment and have had to shift our strategy to address these challenging and dynamic times. While we can't control consumer sentiment, we can adapt our consumer proposition and make sure we are best positioned to increase household penetration by winning both new and existing pet parents while also improving our profitability and free cash flow generation.

We believe we are taking all of the necessary steps to stabilize and then reaccelerate our topline growth by continuing to focus on areas that are within our control. To address the consumer environment, we have adjusted our media and go-to market strategy to both reach and appeal to more households while super serving our MVPs who account for 70% of our volume. This includes starting to test new digital touchpoints and expanding our focus and resources on eCommerce channels, including DTC. The transition to this updated and improved commercial framework began earlier this year, but it is an evolution so we will gradually increase the investment behind it as we get increased evidence of its effectiveness.

We are also doubling down on our three key strategies designed to expand the appeal of Freshpet – particularly amongst our MVP's. Those strategies are:

Best food: We believe that Freshpet's highly differentiated product offers an enhanced experience for our consumers that we need to highlight in order to expand our franchise. We launched a new media campaign at the end of August and early September showing the lengths we go to produce the best food and -- at the end of October -- launched another new ad showcasing our ingredients. The new ads are much more focused on the benefits of fresh food than our previous creative and early in-market data is encouraging.

Second, strong value proposition: We are operating in an environment where economic uncertainty has led to less trade-up than in the past. To address this, we have now launched our new Complete Nutrition bag product in select retailers to help encourage trial, as well as new multipacks and bundles both online



and in-store for the more value-focused consumer. We have also sharpened our price point on our 1lb chicken roll, which we believe will help drive more trial and increase household penetration.

Third, improved accessibility: We continue to make good progress on the visibility and availability of Freshpet – one of our greatest competitive advantages. You may recall that we showed a rendering of a fridge island back in February at the CAGNY Conference, which is a new concept with a mix of both open air and closed-door fridges. It is designed to change the way the consumer shops the fresh pet food category – changing it from a search for a packaged good in an aisle to “grocery shopping for your pet.” We believe this is the next big unlock in our retail visibility and availability strategy and will create increased awareness of the brand, and greater trial of our wide range of items. Last month, we started testing new fridge islands in the first 16 stores of a large mass retailer, and we’ve included a picture in our earnings presentation. It is still very early days, but we believe this expansion demonstrates how leading retailers view Freshpet as the future of the dog food category because of its enormous growth potential.

We have also further increased distribution in a large club customer. We were in our first store in this retailer in April, 125 stores at the end of July, and are now in 590 stores as of the end of September. The sales are still ramping up; however, we are very encouraged by the launch so far and the future potential. At another club retailer, we have also expanded our range to have a third SKU in select stores and have also just started a small test in a rural lifestyle retailer.

As we look to the next leg of distribution, we expect the majority of growth to come from stores where we have (or can have) second and third fridges, or outside of aisle placements like fridge islands, as well as the online channel. We plan to leverage our retail strength where we are the clear category growth driver and, at the same time, we are really excited about our continued growth of ecommerce.

We had another strong quarter of growth in digital orders, up 45%, and we recognize we are significantly underpenetrated in the ecommerce channel, including DTC. We are keenly focused on increasing our presence to capture the omnichannel and online customers, and plan for this to be a more meaningful part of the business as we head into 2026.

In total, we believe these strategies will enable us to re-accelerate our growth. Each of these strategies drive actions that we can control and leverage our unique capabilities and proposition. That will ensure that we will continue to outperform the category and drive the transition of the dog food business to fresh food regardless of the macro environment.

Our efforts to adapt to the current environment are not limited to driving the top line. We are also focused on driving operational efficiency through a variety of approaches. First, via our new technology. The current demand environment means that our team has more available line time to lean in and test new technologies and formulations. We have been working on new bag technology since 2019 that is designed to produce significantly better products at a lower cost. It does this by increasing throughput, improving yields, and reducing the amount of product that requires secondary processing. We expect this to result in increased bagged product margins and decrease the margin gap between bags and roll products. Our goal is to deliver both meaningful product improvements and significantly improved economics. It can also unlock new innovation capabilities. The first new production-scale line that uses this new technology



is now fully installed and in the final stages of commissioning. We expect to produce saleable products on that line in Q4, and we are very excited by what we have seen so far.

Second, we are also taking a pragmatic approach to managing our capacity. It is not clear how long this period of consumer uncertainty will last so we are using a variety of approaches to ensure that we have adequate capacity to meet our growing demand, but also don't get too far ahead of ourselves on capital spending and staffing. Fortunately, our facilities are running very well now and that has provided us with "free capacity." In conjunction with further operating improvements that we expect to deliver, we expect to have adequate capacity to support our growth for a while. We are a much more stable business than we were 3 or 4 years ago, and when you couple that with the new technology, it enables us to reduce our capital spending this year and next year. We do not believe this reduction in capex will limit our ability to grow over the next 2-3 years as we already have \$1.5 billion of installed capacity available to us if the growth re-accelerates, and can add staffing as needed.

Now I'll provide some highlights from the third quarter. Our third quarter net sales were \$288.8 million, up 14% year-over-year, primarily driven by volume. Adjusted gross margin in the third quarter was 46.0%, compared to 46.5% in the prior year period, and Adjusted EBITDA in the third quarter was \$54.6 million, up approximately \$11 million, or 25% year-over-year.

From a category perspective, we continue to be the number one dog food brand in US Food, with a 95% market share within the gently cooked fresh/frozen branded food dog segment in Nielsen Brick and Mortar Customers, defined as XAOC + Pet. We compete in the nearly \$56 billion US pet food category per Nielsen Omni-Channel data for the 52 weeks ended September 27, 2025, and within the nearly \$38 billion US dog food and treats segment, we have increased our market share to 3.9%.

From a retail perspective, competitive entrants have not slowed our expansion to-date. In fact, we believe that new competition will ultimately grow the category, as we have seen many times before in other categories (such as Greek yogurt and coffee). Freshpet products are now in 29,745 stores, 24% of which have multiple fridges in the US. Looking ahead, we expect this percentage to increase as we add more fridges to the highest velocity stores. We ended the third quarter with 38,778 fridges, or nearly 2.1 million cubic feet of retail space, with an average of 20.1 SKUs in distribution. Our percent ACV in grocery, where we're the dog food market leader, was 79% at quarter-end, and in XAOC only 68%.

From a household penetration and buy-rate standpoint, we remain one of the only dog food companies that consistently grows both. Our household penetration as of September 28th was 14.8 million households, up 10% year-over-year, and total buy rate was \$111, up 4% year-over-year. MVPs, which are our super heavy and ultra heavy users, are continuing to grow faster, with a total of 2.3 million of those households, up 15% year-over-year. MVPs represented 70% of our sales in the latest 12 months, with an average buy rate of \$490. We are still growing households across every age and income group, and gaining market share. The dog food category is declining, but Freshpet continues to be a clear winner. We are seeing that we are attracting a large portion of new pet parents, which is very encouraging.

Turning to capacity... We feel good about our manufacturing footprint today. Ennis continues to be the most profitable Freshpet Kitchen and accounts for ~38% of sales volume, our Overall Operating



Effectiveness— or OEE, our measure of operating efficiency— continues to improve, and the new technology line in Bethlehem is expected to produce saleable product later this quarter, as I mentioned a few minutes ago. This will be our 16th line across the network, and we are very excited by its potential. The technology to make fresh pet food is still very nascent, and we constantly try to push the limits and come up with ways to drive greater returns. Next spring, we also plan to retrofit another bag line in our Bethlehem Kitchen with the “light” version of the new technology that could prove to deliver a meaningful portion of the same benefits of the full technology line, with minimal line downtime to install the new technology, and minimal capex.

Our capital efficiency framework is centered around three key areas: First, getting more volume out of existing lines, primarily through OEE improvements; second, getting more out of existing sites whether that be finding ways to add more lines on our campuses or network optimization; and third, developing and implementing new technologies. We have made tremendous progress with this framework and believe there is still a significant opportunity to create incremental shareholder value.

Now turning to our outlook for the remainder of the year. We are currently tracking to the lower end of our previous net sales and adjusted EBITDA guidance ranges, so we now expect net sales growth to be approximately 13% for the year and adjusted EBITDA to be between \$190 and \$195 million. We are updating our capex guidance to approximately \$140 million as we are able to shift more projects out. The silver lining of the slower than expected sales growth this year is that it has now positioned us to achieve positive free cash flow a year earlier than anticipated— a significant company milestone. Ivan, our Interim CFO, will walk through more details of our 2025 guidance in a few minutes.

In regard to our fiscal year 2027 targets, we remain confident in our ability to achieve 48% adjusted gross margin and 22% adjusted EBITDA margin in 2027 if our sales volume growth is at least low teens. If we were to grow high-single digits, we believe we can still achieve an adjusted EBITDA margin of approximately 20%.

In summary, we have taken actions in strategic areas to focus on what we can control and make sure we continue to deliver category leading growth despite the current category softness and competitive entrants. Dog food has historically been one of the best, most recession-resistant categories, and we believe we are best positioned to capture the future growth of the category. We expect to continue to build market share, grow household penetration, and win a disproportionate share of new pet parents, to ultimately capture the lion’s share of profit in the category, too.

Before I hand it to Ivan, I want to address the ongoing CFO search. We have hired an independent executive search firm, and we have a very long list of very exciting candidates. We hope to select the next CFO quickly, but will take our time to find the right person. In the interim, we are confident in Ivan and his team’s capabilities and believe we can still deliver the necessary business results until we find a permanent successor. Ivan has been with Freshpet for 11 years— having joined the company shortly before the company went public in 2014 from KPMG. He has been involved in every aspect of our financial operations since then including leading accounting, financial planning, systems development, and our data analytics



operation. Ivan is a trusted member of our team, and his move into the interim CFO role has been seamless.

With that, I'll turn it over to Ivan to walk through more details of our financial results. Ivan...

Ivan Garcia

Thanks, Billy, and good morning, everyone. The highlight of the third quarter results is that we demonstrated our ability to deliver category leading growth while also achieving positive free cash flow. Now let me provide more details on our financials and updated guidance.

Third quarter net sales were \$288.8 million, up 14.0% year-over-year. Volume contributed 12.9% growth, and we had positive price/mix of 1.1%, primarily driven by mix. We saw broad-based consumption growth across channels. For Nielsen measured dollars, we saw 10% growth in XAOC, 10% in Total US Pet Retail Plus, 8% in US Food, and 2% growth in pet specialty. As a reminder, the third quarter benefited by about a point of growth from a slight shift in timing of orders from the end of June to early July, which we shared on the Q2 call. We also expanded into most of a major club retailer's stores in the third quarter, and the initial pipeline shipments helped boost our shipment growth vs. last year. When you net all that out, we believe that consumption growth in the quarter was ~12%.

Third quarter adjusted gross margin was 46.0%, compared to 46.5% in the prior year period. The 50-basis point decrease was driven by reduced leverage on plant expenses, partially offset by lower input costs. The deleveraging of plant costs are a result of ending the quarter with lower inventory.

Third quarter adjusted SG&A was 27.1% of net sales, compared to 29.3% 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 11.2% of net sales on media in the quarter, up from 10.8% of net sales in the prior year period. Logistics costs were 5.5% of net sales in the quarter, compared to 5.6% in the prior year period. This continues to be a great strength of ours and something that we are very proud of.

Third quarter net income was \$101.7 million, compared to \$11.9 million in the prior year period. The significant increase in net income was primarily due to the deferred income tax benefit resulting from the release of a \$77.9 million valuation allowance in the current period, higher sales, and decreased SG&A expenses, and was partially offset by a decrease in gross profit as a percentage of net sales. The release of the \$77.9 million valuation allowance is being taken now because we have demonstrated consistent profitability over a meaningful period of time. As a result, our accumulated NOL's are now believed to have meaningful value, so they must flow through the P&L and end up on our balance sheet as an asset. We view this as another milestone in our progress towards becoming a highly profitable company.

Third quarter adjusted EBITDA was \$54.6 million compared to \$43.5 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 third quarter was \$35.2 million, while operating cash flow was \$66.8 million, and we had cash on hand of \$274.6 million at the end of the quarter. As Billy mentioned, we achieved positive free cash flow in the third quarter and now expect to be free cash flow positive for the full year. We intend to utilize our balance sheet to support our growth going forward, with no need to raise outside capital.

Now turning to guidance for 2025... As Billy said earlier, we are tracking to the lower end of the guidance ranges we provided last quarter, so we now expect net sales growth of approximately 13% compared to our previous guidance of 13% to 16% growth year-over-year.

We now expect adjusted EBITDA in the range of \$190 to \$195 million, compared to the previous guidance of \$190 to \$210 million. We continue to expect adjusted EBITDA dollars and margin to improve in the fourth quarter compared to the third quarter. Media as a percent of sales for the year is expected to be greater than 2024, however, the fourth quarter will be the lowest total dollars spent and as a percent of net sales- in line with our past practices.

We now anticipate adjusted gross margin to be flat year-over-year based on lower plant leverage related to our inventory levels which caused a timing impact to our P&L. We have been able to successfully tighten our inventory without seeing any impact to fill rates. In regard to tariffs, we are currently seeing a small impact on vegetables sourced from Europe and mitigating them where we can.

Capital expenditures are now projected to be approximately \$140 million this year, compared to our guidance last quarter of approximately \$175 million and original guidance earlier this year of \$250 million. We have included some impact from tariffs 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 and the implementation of our new technology, but, as Billy mentioned, we are seeing greater capital efficiencies in our existing facilities.

While it is too early to provide guidance for next year, we do expect that ordinary capex for new capacity, fridges and maintenance will be in line with this year's spending. However, if our new production technology demonstrates the potential we are expecting and we have the opportunity to accelerate either conversions of existing lines or the installation of new lines using that technology, we would certainly consider those opportunities. We believe the new technology could generate sizable economic benefits, improve our competitive position, and elevate the quality we can deliver to consumers. Similarly, if we have a breakthrough in new distribution – particularly if it is a sizable expansion of the island fridges – we would also fund that initiative due to the significant growth it could deliver. In either case, they would not impact our ability to deliver positive free cash flow in 2026, but our capex spending could be higher than 2025.

In summary, despite a challenging year, we are proud to have delivered another quarter of best-in-class CPG growth and demonstrated our cost discipline to deliver even stronger adjusted EBITDA margin expansion and become free cash flow positive. We believe Freshpet has a long runway for growth and is well positioned to capture the sales growth and profit growth of the high growth fresh/frozen dog food 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?