



Freshpet, Inc.
Fourth Quarter and Full Year 2024 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 fourth quarter and full year 2024 earnings call webcast. On today's call are Billy Cyr, Chief Executive Officer, and Todd Cunfer, Chief Financial Officer.

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, 2027 goals and pace in achieving these goals, longer term potential, prospects for and sources of growth, timing of Freshpet Kitchens expansion, the pet specialty channel, and 2025 Guidance. Words such as anticipate, believe, could, estimate, expect, guidance, intend, may, project, will, or similar conditional expressions are intended to identify forward-looking statements. These statements are based on management's current expectations and beliefs and involve risks and uncertainties that could cause actual results to differ materially from those described in these forward-looking statements including those associated with such statements. Please refer to the Company's annual report on Form 10-K filed with the Securities and Exchange Commission and the Company's press release issued today for a detailed discussion of risks that could cause actual results to differ materially from those expressed or implied in 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. The message I would like you to take away from today's call is that our full year 2024 results demonstrate that we can convert our strong growth into scale and leverage to drive significant increases in profitability.

Fiscal 2024 was a very good year for Freshpet-- marked by strong top line growth and even better profitability improvement. The strong net sales growth was almost entirely driven by volume gains which were the result of a combination of growth in household penetration and buy-rate. And it was fueled by our media investment and retail expansion which results in a loyal consumer franchise, as we do not participate in any trade promotions or discounting.

The household penetration gains were our largest on record as we added approximately 2 million households, 800,000 of which were super heavy and heavy users. We also added new distribution with approximately 1,300 new stores and almost 900 2nd and 3rd fridges for a total of nearly 2,300 new fridges.

Further, we demonstrated our ability to add capacity to support this growth on time and on budget. We threaded the needle on managing our capacity expansion and media spend to not get ahead of ourselves. We managed to maintain over 99% fill rates while adding capacity and selling 27% more volume than last year.

This disciplined growth allowed us to focus on the operational improvements needed to drive profitability as well – as we were able to beat our longer-term targets for input, quality, and logistics costs, as well as adjusted gross margin. We added 650 bps of adjusted gross margin this year, and more than 1,000 bps of adjusted gross margin over the last two years, with the lowest logistics costs as a percent of sales ever, quality costs at their best level since 2018, and input costs as a percent of net sales that were the lowest levels in the last 8 years. We began to see progress in G&A leverage, too. Adjusted SG&A, excluding media and logistics, is about half of where it was in 2017 as a percent of net sales, and 340 basis points below what it was in 2020, despite sizable incentive comp this year. In 2024, we also achieved positive net income for the first time – generating 94 cents per share of EPS – and generated \$154 million in operating cash flow.

Moreover, we have the ability to keep the growth going. As you'll hear later this morning during our CAGNY presentation, we believe Freshpet has a long runway of growth ahead and are very excited about the future. We know Freshpet is a unique brand with a differentiated product offering and an insulated business model. We view the long-term trends of the humanization of pets and a focus on natural, fresher foods as tailwinds. Across the world, people are also waiting longer to have children or having fewer children, and choosing to get a pet instead. This bodes well for Freshpet.



Despite that, we still have a very small share of a very large category. Per Nielsen Omni-Channel data for the 52 weeks ended 12/28/24, we compete in the \$54 billion US pet food category, and we have only a 3.4% market share within the \$37 billion US dog food & treats segment. In Nielsen Mega-Channel, we have a 96% market share within the gently cooked fresh/frozen branded dog food segment.

Taken together, this performance and potential demonstrate that Freshpet has become a profitable growth company with a long runway for future growth and profitability improvements. The organization we have built delivered the kind of results that one would expect of such a unique and powerful brand and business model. And we believe that the opportunity for future growth and profit improvement is quite large.

Now I'd like to provide some highlights from the fourth quarter and the full year. We had strong growth in the fourth quarter with net sales of \$263 million, up 22% year-over-year, driven primarily by volume growth. Recall, we deliberately backloaded our media investment in fiscal year 2024 to live within our capacity constraints and that resulted in a gradual reduction in our growth rate throughout the year. Once we cleared that capacity limitation in September, we increased our advertising investment for the balance of the year – with the largest increase coming in December – and we expect that will result in a gradual increase in our growth rate as we move through fiscal year 2025. It takes time for the advertising investment to generate new households and for those new households to turn into meaningful Nielsen-measured sales, but we are seeing the early signs that it is beginning to happen as it has so many times in the past. Household penetration is growing and our customer acquisition cost (CAC) remains healthy.

Adjusted gross margin in the fourth quarter was 48.1%, compared to 41.1% in the prior year period. As Todd will explain later, this was a very strong performance, even though it was helped by our efforts to build inventory in October and November so that we could take production lines down for upgrades at year end. Adjusted EBITDA in the fourth quarter was \$52.6 million, up approximately \$21 million year-over-year.

For the year, we had net sales of \$975 million, up 27% year-over-year, in line with our guidance of approximately \$975 million. Full year 2024 adjusted gross margin was 46.5%, up 650 basis points year-over-year, and full year adjusted EBITDA was \$161.8 million, up 143% or \$95 million year-over-year. We are quite pleased that we were able to deliver our fiscal year 27 adjusted gross margin target 3 years early and we are quite bullish that there is more opportunity for us there, which I will touch on shortly.

From a retail perspective, we added more than 1,300 new stores in 2024, bringing our total to 28,141 stores, 22% of which have multiple fridges in the U.S. At year end, we had a total of 36,544 fridges or approximately 1.9 million cubic feet of retail space across our network, and an average of 20.5 SKUs – and we have more room to grow. Our distribution in grocery – where we're the dog food market leader – was only 77% ACV at year-end, and in XAOC it was only 66%. Conversations with retail customers are very encouraging and the shift in mindset about this category has been palpable. We continue to



expect the bulk of our growth going forward to be from the addition of second and third fridges in the highest velocity stores rather than new stores.

Our household penetration at year end was 13.5 million households, up 17% year over year and in line with our projections, driven by our media investment. We believe we are ahead of the pace needed to meet our 20 million household goal by 2027. Our overall buy-rate continues to grow as well, up 6% year over year to \$104.89.

Please note that going forward we'll be reporting our progress on a narrower – and more important – group of consumers than the HIPPOH's that we previously reported on. We will focus on a group that we call MVP's, or Most Valuable Pet Parents, who are our super heavy and ultra-heavy users as this group represents our biggest opportunity for incremental usage. MVP's accounted for 2.1 million of our households and represented 69% of our sales in 2024. They spend \$474 per year on Freshpet on average and are growing faster than our total households at 27% year over year. Freshpet sales are increasingly concentrated in our heaviest users, and there is a significant opportunity to increase this percentage and grow our total business. We will share more detail on this group later today.

Turning to an update on our capacity, we successfully started up our fifth and sixth roll lines across our network in September and December and the next bag line in Kitchen South is expected to start up later in the first quarter of 2025.

Our capacity expansion plans are constantly evolving as we find ways to drive greater capital efficiency. As we have discussed previously, we are intensely focused on: maximizing the throughput of our existing lines, maximizing the capacity of our three existing sites, and developing and implementing new technologies that generate more throughput per line. When fully built out, we expect the three Kitchens we have today to be able to support up to \$3 billion in sales. We commit to the incremental capacity from a new line about 18-24 months out, so we are not committed to all \$3 billion of capacity today and won't be for several years.

Now for our outlook for fiscal year 2025: We expect net sales of approximately \$1.18 to \$1.21 billion, or approximately 21 to 24% growth year-over-year, adjusted EBITDA of at least \$210 million, and capital expenditures of approximately \$250 million. Todd will walk through more details of our 2025 guidance in a few minutes, but I wanted to address recent scanner data trends. Our media in the fourth quarter of 2024 was heavily weighted to December, and it always takes time for the increasing household penetration to flow through to our Nielsen-measured sales. We watch the growth trends very closely for any hint that our plan is not as effective as it has been in years past, and we have the tools and flexibility to keep it on track if it slows.

As a reminder, we are also lapping increased visibility and distribution in the club channel last year, from which we saw a significant benefit. Increasing visibility and availability has always been part of our growth model – amplifying our advertising and reaching new consumers. The big gains in retail visibility come in spurts as they did last year. Over the next two years, we anticipate other significant new fridge placements that could provide similar visibility and availability benefits and help us achieve our long-term net sales goals; however, those large additions will take some time to materialize. As



you will hear later this morning, retailers are fully engaged, and we have new fridge placement options that have the potential to change the way consumers think about shopping for their pets. In fiscal year 2025, we do expect a steady diet of the typical new store and second fridge placements, and some tests or small scale implementations of some more impactful larger placements.

Net, we believe the long-term trends remain robust, and while the pet food category trends are not where we would like them to be at the start of 2025, Freshpet and other fresh/frozen brands – including DTC brands – continue to significantly outperform the category and we do not foresee that changing anytime soon.

And one can't escape the fact that Freshpet has been a remarkably reliable growth business. Our Nielsen-measured sales, volume growth and household penetration gains have performed well over a very long period of time and through a wide variety of situations, including price increases, media timing changes, competitive entries, macro-economic pressures, and widespread out-of-stocks. And that – and the size of the Total Addressable Market – is why we are confident that we are on track for the \$1.8 billion in net sales in fiscal year 2027.

Today, we are also raising our 2027 margin targets in conjunction with our CAGNY presentation later this morning. Given the improvements we have made on our operations, we feel very confident that we can exceed our previous long-term targets for adjusted gross margin and adjusted EBITDA margin. For adjusted gross margin, we now expect a 48% margin by fiscal year 2027 vs. 45% previously, and for adjusted EBITDA margin, we now expect a 22% margin by fiscal year 2027 vs. 18% previously. We have made great progress on scaling the business and our current plans to drive greater efficiencies give us confidence in our ability to deliver these new goals. We believe we have established a robust pace of growth that enables us to capitalize on the once-in-a-generation pet food transition from kibble and can to fresh pet food and simultaneously deliver the profits that make that an attractive venture.

Longer term, we believe that Freshpet can continue to grow net sales at a very strong rate and that there is still additional room for margin improvement. Beyond fiscal year 2027, it would not surprise us if Freshpet delivered an adjusted EBITDA margin in the mid-20's. It won't happen overnight, but the opportunities for profit improvement from added scale, new technologies and operating efficiencies are sizable and the TAM continues to grow nicely. We believe Freshpet has the potential to have a very high market share in an attractive category with a well-insulated position and structurally attractive economics.

In summary, 2024 was a terrific year and one we're very proud of as an organization. We are constantly striving to be better and raising the bar for ourselves, both financially for our investors, and with our products for our consumers. We aim to have the right balance of growth, capital investment, and cash generation and we are increasingly confident that we will be free cash flow positive by 2026. We intend to self-fund our growth efforts going forward.

Now, let me turn it over to Todd to walk through the details of the fourth quarter and full year 2024 results and our 2025 guidance. Todd...



Todd Cunfer

Thank you, Billy, and good morning, everyone. As Billy mentioned, we are very happy with our 2024 results and our ability to manage growth while driving profit improvement. Now I'll give you some more color on our financials and updated guidance for the year.

Fourth quarter net sales were \$262.7 million, up 22% year-over-year. We saw broad-based consumption growth across channels. For Nielsen measured dollars, we saw 23% growth in XAOC, 22% in Total US Pet Retail Plus, 20% in US Food, and 10% growth in pet specialty. The unmeasured channel contributed approximately 2 pts of growth. Our growth was partially offset by a small trade inventory reduction. Fiscal 2024 net sales were \$975 million, up 27% year-over-year.

Fourth quarter adjusted gross margin was 48.1%, compared to 41.1% in the prior year period. This increase was driven by lower input costs, reduced quality costs and improved leverage on plant expenses. Please note that the fourth quarter gross margin had a one-time manufacturing benefit of 150 bps. We strategically built excess inventory at year-end in order to take down several lines in the network for a few weeks to upgrade equipment and improve operating efficiency. Inventory will return to normal levels in the first quarter of 2025 which will result in a 150 bps negative impact to gross margin for the first quarter. Fiscal year 2024 adjusted gross margin was 46.5%, an increase of 650 bps compared to the prior year.

Fourth quarter adjusted SG&A was 28.0% of net sales, compared to 26.6% in the prior year period. We spent 8.9% of net sales on media in the quarter, up from 6.3% of net sales in the prior year period, as the media spend was more evenly spread throughout the year vs the prior year. The biggest portion of the Q4 increase came in December. Logistics costs were 6.2% of net sales in the fourth quarter, flat compared to the prior year period. Fiscal year 2024 adjusted SG&A was 29.9% of net sales, compared to 31.3% in the prior year period. Media as a percent of net sales was 11.4%, compared to 11.1% in the prior year, while logistics improved 150 bps year over year to 6.0%.

Fourth quarter adjusted EBITDA was \$52.6 million, or 20.0% of net sales, compared to \$31.3 million, or 14.5% of net sales in the prior year period. This improvement was primarily driven by higher gross margin, partially offset by higher adjusted SG&A expenses. Fiscal year 2024 adjusted EBITDA was \$161.8 million, or 16.6% of net sales, compared to \$66.6 million, or 8.7% of net sales in the prior year period. As a result, we now believe that we can significantly exceed the original 18% target for fiscal year 2027.

Capital spending for 2024 was \$187.1 million. Operating cash flow was \$154.3 million for the year, a year over year improvement of \$78.3 million and we had cash on hand of \$268.6 million at the end of the year. As Billy mentioned, we believe that we have adequate cash to self-fund our growth moving forward and will be free cash flow positive in 2026.

Separately, we will be changing the way we approach the pet specialty channel. As you know, that channel has struggled quite a bit over the past few years and our market share is underdeveloped in that channel. We continue to believe it represents a sizable opportunity, but we need to change our



route-to-market and invest in some new approaches that would enable those customers to succeed. In conjunction with that move, we intend to change our distribution partner in that channel and we are currently in the process of assessing the non-recurring effects that may arise from exiting our relationship with the previous distribution partner.

Now turning to guidance for 2025... we expect net sales of approximately \$1.18 to \$1.21 billion, or approximately 21 to 24% growth year-over-year. In terms of cadence, we expect the growth rate to be slightly higher in the second half of 2025 as we reaccelerate the household penetration growth that we constrained last year to live within our capacity limits. We are aware that this growth rate is below the 25% rate we previously outlined as the pace of growth we would average through fiscal year 2027. As you know, we are well ahead of that growth rate through fiscal year 2024, so it is not necessary for us to grow 25% for the next few years to deliver our \$1.8 billion net sales target for fiscal year 2027.

We believe the market opportunity is there to maintain a higher growth rate and our marketing model could deliver that growth; however, raising our fiscal year 2027 net sales target and maintaining a 25% growth rate would require us to commit to bring on more capacity sooner. This would compromise our ability to be free cash flow positive in fiscal year 2026 and cause us to commit to more lines using the existing technology when we believe we are on the verge of breakthrough new technology—technology that could potentially deliver significantly better margins, quality and capital efficiency. So, we are guiding to 21 to 24% net sales growth for fiscal year 2025, and this guidance leaves us solidly on track to deliver our long-term target of \$1.8 billion in fiscal year 2027.

For adjusted EBITDA, we expect at least \$210 million. We anticipate modest adjusted gross margin expansion year-over-year driven by operational improvements, and do not anticipate any material inflation, or pricing actions. As I mentioned a few moments ago, we expect adjusted gross margin in the first quarter of 2025 to be negatively impacted by approximately 150 bps as inventory returns to normal levels.

Capital expenditures are projected to be approximately \$250 million this year due to a shift in timing of projects from 2024 to 2025. The majority of the spend is on the installation of new capacity to support our growth.

In summary, we are very pleased with our 2024 results as they demonstrate disciplined growth and we made significant profitability improvements. We are very encouraged by the progress we have made and are now comfortable enough with the stability of the operations to raise our 2027 margin targets.

That concludes our overview. Now I'll turn it back to Billy for some closing remarks.



Billy Cyr

Thanks, Todd. As a reminder, we are presenting at the CAGNY Conference later this morning at 8:00 am Eastern Time so we will not be hosting a Q&A session after the call this quarter. We look forward to speaking with many of you in the coming days and weeks.

I'll leave you with this from an unknown author, paraphrasing the song from The Police, "Every snack you make, every meal you bake, every bite you take...I'll be watching you." To that I would add: Feed your dog Freshpet and your guilt will disappear.