



Consumer Retail (Pet) Industry

Symbol: FRPT

Recommendation: Buy

Headquarters: Secaucus, NJ

Current Price: \$79.72

Target Price: \$112.56, 39.88% implied premium

Value Analysts:

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Business description:

Company overview

Freshpet, Inc., together with its subsidiaries, manufactures, distributes, and markets natural fresh meals and treats for dogs and cats in the United States, Canada, and Europe. It sells dog food, cat food, and dog treats under the Freshpet brand name; and Dognition and Dog Joy labels through various classes of retail, including grocery, mass, club, pet specialty, and natural, as well as online. The company was incorporated in 2004 and is headquartered in Secaucus, NJ. FRPT went public in 2014, raising \$164 million in the IPO.

How does FRPT generate revenue?

Revenue is broken down into 'Grocery, Mass, International and Digital' and 'Pet Specialty and Club. With the former making up 82% of revenue and the latter with the other 18%. In the past two years, we have seen Pet Specialty rise up from 15%. At these in person stores (Target, Walmart, PetSmart, Whole Foods Market, Trader Joe's), FRPT utilizes company-owned refrigerators to ensure their products are fresh and have an increased visibility.

Why has the stock been moving up or down

In 2024, FRPT had a breakout year, rising 70% over the whole year based on consistently strong sales growth with Q3 2024 being the 25th consecutive quarter of at least 25% top-line growth. This along with the increased pet ownership and increase in spending on premium foods have driven the market overall, matching the niche that FRPT has carved out for themselves.

But very recently in 2025, due to a Q4 earnings miss, the stock has dropped ~20%. Also, FRPT operates on the higher end of consumers, and with concerns in discretionary spending slowdown due to a tighter consumer and macroeconomic stage, the valuation was affected severely.

After Q1 2025 results, which showed a net sales increase of 17.6% driven by volume gains of 14.9% and favorable price/mix of 2.7%, FRPT stock didn't move much. Due to revising guidance downwards and some hesitancy on the consumer's preferences, there wasn't too big of a jump in share price.

Industry Analysis:

How FRPT differs vs. traditional pet food companies

FRPT differs from their competitors because of FRPT's emphasis on using fresh, natural, and nutrient rich ingredients. FRPT also operates in the premium pet food market, specifically the fresh/refrigerated

segment. Typically many traditional pet foods rely on preservatives and extensive processing so they can maximize their product's shelf life. This means producing dry pet food that is usually not in the premium segment.

Major players

Their biggest competitors are some of the largest pet food manufacturers such as Nestlé Purina Pet Care, J.M Smucker Company US Retail Pet Foods, Colgate-Palmolive Pet Nutrition, Mars Petcare, General Mills North America Pet, and Post Consumer Brands. The market shares of the top brands are as such: Purina – 29%, Mars – 17%, J.M. Smucker – 8%, Hill's – 7%, Blue Buffalo – 6%, Private label – 8%, Others – 25%.

While it is important to look at FRPT in context of the entire pet food market, it is specialized in the premium and fresh food sector, so their competitors are more concentrated within this sub-market.

FRPT holds a dominant share (96%) of the fresh pet food market, but there are a few other players trying to carve out space, particularly in the premium and fresh food sectors.

The Honest Kitchen, Instinct Raw, Farmer's Dog, Ollie, Tylee's, Raised Right, and JustFoodForDogs are all competitors in this sub-market in one way or another. Whether they are making human-grade pet food, frozen meals, fresh meals, or anything related to FRPT's mission, they all miss the mark in some way. Some brands only sell online, some aren't refrigerated, and almost none are just not available at the scale and convenience that FRPT is.

For instance, Farmer's Dog does a frozen DTC business model, and despite its potential scale, it is unlikely they can become sustainably profitable because of the high cost of shipping frozen food, which requires specialized packaging and trucks to maintain the correct temperature. Their packaged chicken would be approximately 20% more expensive through Farmer's Dog than Freshpet.

Overall pet food industry dynamics

Forbes found that pet ownership is at an all time high (66% of US households have a pet) and how important the pet is to the family (33% of dog owners live on a tighter budget to afford their dog expenses). Also, there is a higher rate of pet ownership among Gen Z: specifically for dogs, Gen Z (86% have dogs), Millennials, Gen X, and Baby Boomers are all below 69%. This generates a positive tailwind as pet owners tend to remain so throughout their lives. Finally, better pet health, through better veterinary care, is making dogs live longer, and older dogs need better nutrition to age well.

Premium/Fresh/Refrigerated Pet Food Industry Dynamics

US pet food → premium pet food → refrigerated and fresh pet food

The entire US pet food market in 2024 was \$61.9 billion, and in 2023 it was \$57.4 billion. Estimates expect the US pet food market to grow at a 6.04% CAGR until 2025, reaching about \$80 billion in market size. The fresh pet food sector grew to \$2.8B of total revenue in 2023, with a CAGR of 21.2% since 2019. Refrigerated and frozen pet food represents 31.7% of total premium pet food sales. This equates to growth of over 30% per year since 2019.

The percentage of consumers who mostly feed their dog's fresh formats rose from 4% in 2018 to 8% in 2024. For comparison, the percentage of consumers who feed dry pet food decreased from 74% in 2018 to 67% in 2024.

Not only is the entire pet food market growing, the segment that FRPT operates in is experiencing some of the most positive tailwinds with the possibility to grow even more.

Private Labels

Private label brands are becoming increasingly prominent in the pet food market, as major retailers seek to offer affordable, high-quality alternatives to legacy brands like Mars and Nestlé. These in-house brands often appeal to cost-conscious consumers and are positioned around transparency, quality ingredients, and value. Walmart, Target, and Amazon all offer private pet food labels.

While we have seen a proliferation of private labels taking over human food, it is not the exact same dynamics in pet food. Private label pet food sales in the U.S. rose 25.6% in 2023, but at US\$1.7 billion, it still accounts for only 3.3% of the US\$51 billion U.S. dog and cat food market.

There is some risk from private labels because a vast majority (73%) of consumers are buying both. Private labels are also most popular with those whose household income ranges from 25K to 50K, not FRPTs target customer. 90% of Freshpet's customer households earn over \$80,000 annually.

End analysis

The trend toward refrigerated, fresh pet foods is growing, especially among pet owners who are more health-conscious about the foods they feed their pets. The market for fresh and refrigerated pet food is still relatively small compared to dry kibble and canned foods, but it's growing rapidly due to increasing demand for premium and natural options. In other words, pet owners are becoming more aware of the nutritional benefits of fresh, whole foods, and this is driving the growth of the fresh and refrigerated pet food sector.

Business Analysis:

Supply Chain

Manufacturing

All FRPT products are manufactured in the US, except select products in the EU for those customers. They have a 240,000 sq ft facility in Bethlehem, PA and have 6 production lines. FRPT Kitchens South opened in 2020 with 3 production lines and is adding 1 more in early 2025. FRPT Kitchen Ennis has 3, with 2 more being added currently. 99.1% of product volume is manufactured by FRPT owned equipment.

Ingredients and packaging

Raw ingredients are sourced in a 300-mile radius of all FRPT kitchens.

Distribution

Most outbound transportation from the distribution centers is handled by a network of refrigerated asset-based carriers.

End customers

Products are sold in the US, Canada, and Europe, with the majority of revenue in the US. Blue-chip retailers really like FRPT because they believe FRPT grows sales in the pet category, drives higher traffic, and increases shopper frequency, all while having category-leading margins. FRPT is sold in 28,521 stores as of May 5, 2025. There are 37,044 fridges across these stores with 22% of stores having a 2nd and 3rd FRPT fridge.

Products are sold through grocery, mass, international, digital, pet speciality, and club. In 2024, the largest distributor by net sales was Animal Supply Co. (7.9%). Walmart was the largest customer (24.5%).

Management & Capital Allocation

CEO (Billy Cyr): Joined in September 2016, before FRPT, was President and CEO of Sunny Delight Beverage Co. for 12 years, before that was VP and GM of Procter & Gamble North American Juice Business and Global Nutritional Beverages – extensive background in the C&R segment. In addition, he holds a Bachelor of Arts degree from Princeton University. During his time at Sunny Delight he led the LBO of SunnyD from Procter & Gamble in 2004, and he helped lead the business through two strategic acquisitions and 2 divestitures that shaped the company into one of the largest privately held beverage companies in NA.

COO (Nicki Baty): Joined in September 2024, previously had almost 20 years at Colgate-Palmolive. Held various roles during that time including President & GM of Hill's Pet Nutrition US from 2020-2024

President & Founder (Scott Morris): Was previously COO of FRPT until Nicki Baty took on the role in 2024, has founded another company, Hive, which is an online retailer selling foods and household goods – can be considered competitive against FRPT. Morris does not have any active operational role in FRPT anymore.

CFO (Todd Cunfer): Joined December 2022. Has 25 years of experience in consumer packaged goods, previously worked with major companies like Hershey and Simply Good.

Overall the board of 12 members are composed of highly knowledgeable and experienced retail executives with valuable expertise in consumer packaged goods (CPG).

Conflict of Interest: In fact, there has actually been a history of FRPT employers working in Hive as well. In 2022, FRPT engaged in a proxy fight with Jana Partners over its refusal to change up board & management structure to account for the significant risk of conflict of interest – ended up resolved by FRPT appointing 2 more board members at Jana Partners' discretion

No major recent hirings or firings that can impact the management of FRPT.

Capital Allocation:

In Q1 2025, FRPT had CapEx \$26.5 million. The majority of the spend is on the installation of new capacity to support their future growth in the out years.

Customer perception

MVP customers who spend a lot of money are very loyal. They grow faster than the average user and we will discuss this more later.

Product Recall

June 2022, voluntary product recall of single lot of FRPT Select Fresh From the Kitchen Home Cooked Chicken Recipe due to potential contamination of Salmonella

Product Reviews:

- Reddit
 - Many mention the price as pretty costly, mixed opinions on whether it is worth it or not but typically associated with up-charging for (almost) top-tier quality pet foods
 - Some talks about how the focus on legumes is particularly susceptible to developing mold
 - Most reviews say no mold and no upset stomachs, good quality
- Blogs
 - One blog that tries to comp between JustFoodForDogs and FRPT suggest that FRPT has less transparency
- Walmart Review
 - Each FRPT product would have between 1 to 4 thousand reviews, and they all average around 4.5/5 stars. Overall, highly positive reception from customers. In addition, a majority of their competitors don't have a large direct presence on Walmart's platform such as Ollie, Tylee's, Raised Right, etc.

Financial Information (5/28/2025):

Total Revenue	\$1014.6 MM
EBITDA	\$115.1 MM
EBIT	\$35.6 MM
Net Income	\$15.6 MM
Market Cap	\$4049.5 MM
Total Enterprise Value	\$4236.2 MM
Cash	\$243.7 MM
Total Debt	\$396 MM

Investment Thesis 1: Market Overreaction in Short Term, Overlooking Strong Growth Potential and Medium to Long-Term Through MVP Customers and Household Penetration

What the market fears:

Following a Q4 2024 earnings miss—\$0.36 EPS compared to forecasted \$0.40, and \$262.7m revenue compared to forecasted \$263.94m, the market has become very pessimistic on FRPT's future. They fear that the company cutting guidance from 25% growth to ~22% is a sign that FRPT is hitting a wall and won't be able to succeed in a competitive market with strapped consumers. Even after a great Q1 2024 that exceeded expectations of almost everyone, the stock barely moved.

What we believe:

We believe the market's reaction appears excessive. While short-term performance fell short, the company has very strong fundamentals and they have a unique ability to drive volume-based growth and household penetration through MVP customers.

First of all, when a company's stock drops 19% after earnings come out, you would expect that the earnings miss was very drastic or there was a terrible outlook for the company/market in the coming years. But, FRPT only had a 10% EPS miss (\$0.36 EPS compared to forecasted \$0.40) and 0.5% revenue miss (\$262.7m revenue compared to forecasted \$263.94m). Not only that, but guidance remained similar and was even raised in some areas—adjusted gross margin is now expected to reach 48% by 2027, compared to 45% previously. Adj. EBITDA margin was also raised to 22% versus the prior goal of 18%.

Basically, guidance could result in a slight drop, but not this egregious. In 2025, FRPT expects \$1.12-1.15 billion in sales or approximately 15% to 18% growth year over year. In terms of cadence, growth rate should be slightly higher in the 2H2025 as FRPT reaccelerates the household penetration growth that they constrained last year to live within our capacity limits. The growth rate is below the 25% target that was set to be achieved through 2027, but FRPT is already well ahead of that growth rate through 2024, so it is not necessary for them to grow 25% for the next few years to deliver a \$1,800,000,000 net sales target for FY 2027.

Adding on, while 2024 was a somewhat bad year for consumer companies, with a market cap weighted composite containing beverage, food product, and household products companies only up 1% the whole year. Compared to 23% for S&P and 71% for FRPT. Even XLP was just at 9% growth over the year. Even in weaker consumer environments, FRPT performs well, and we believe they can carry that into the future.

MVP customers: FRPTs products are priced at a premium, around 2x the cost of entry level diets. 90% of Freshpet's customer households earn over \$80,000 annually, with penetration exceeding 30% in dog-owning households earning more than \$125,000 per year. MVP customers are Most Valuable Pet Parents, they buy around 25x a year. In 2025 Q1, MVP customers accounted for 2.2 million of the 14.1 households that were FRPT customers, up 21% YOY, representing 69% of sales in the last 12 months with an average buy rate of \$498. Total buy rate for all customers was up \$110, 6% YOY, pushed by MVPs. The first point to make is that these consumers are very resilient to price changes and prioritize their pets.

Simple growth to Freshpet, where their revenue = household penetration x frequency of buys x buy rate.

They have been focusing on household penetration in the premium segment, and they believe their core market is 33 million/65 million US households owning dogs. But after this last quarter due to a softening consumer and some macro-headwinds, they realized that value-oriented products are necessary to add. Under the “Complete Nutrition” label, they are targeting the more hesitant consumer. This also comes with channel expansion in value-oriented retailers such as Sam’s Club. Sales volume still rose 15% YOY but for the future, this is necessary, especially to achieve their goal of 20 million households by 2027. Also, adding more consumers will mean more products sold out of each fridge, allowing the company to amortize high fixed costs over larger custom cases.

Then there is the frequency at which customers are choosing FRPT. Right now, 60% of customers use FRPT occasionally or for treats, but FRPT is pushing for subscription based customers and more usage. This is happening through the subscription and delivery, promoting higher frequency. It is also worth mentioning that frequently altering a dog's diet is usually a several weeks ordeal and can bring some digestive issues, once converted to the brand, customers tend to not want to change the dog's diet creating customer stickiness. 51%, said a flat-out no; they will not switch their pets’ food. Further, 83% of these U.S. pet owners said they have a preferred brand of pet food, more than for any other type of pet product.

Finally, there is the buy rate, which is a combination of product mix and pricing power. Buy rate factors in the size of dogs (larger dogs need more food), mix of products, and pricing of the product. During Covid-19, FRPT implemented price increases of over 27% to offset inflation, and only experienced a 6% decline in volume. The company has pretty low price elasticity which is good to know for the future, as customers are very loyal. They can have bundles of pet food and price according to inflation and their customers will still display resiliency.

Given FRPT’s solid growth track record, its disruptive potential, and the market’s overly negative reaction, the stock presents a compelling long-term investment opportunity at current levels. The company’s strong market position and optimistic future projections suggest a recovery and continued expansion.

Investment Thesis 2: FRPT will be able to take market share of the evolving US pet food market due to their moat and vertical integration.

FRPT is best-positioned to benefit from a few key trends: the rise in pet ownership, the premiumization of pet food, and the growing focus on pet wellness. They are better positioned than the rest of the pet food competitors because they have monopolized the market and they are vertically integrating.

It’s necessary to understand what is driving growth in the pet food market first. The overall pet food market has a predicted CAGR of 5.79% from 2025-2030, and the fresh pet food market has a CAGR of 21.2% from 2025-2029, with global projections for the pet industry to reach \$500 billion in 2030.

3 trends

- Premiumization

- Fresh pet food growth
- Humanization of pets with Gen Z

FRPT's positioning in the premium pet food segment is a catalyst for long-term growth opportunity as pet owners, especially Gen Z and millennials, continue to humanize their pets and show a willingness to pay for high-quality nutrition. In fact, the younger generation, which makes up about 50% of all pet owners in the US, has driven positive growth in pet-related spending by 11%. In addition, 67% of Gen Z pet owners say they "treat their pets as well as themselves" and 58% prioritize health-conscious pet food products. Overall, with millennials and Gen Z making the largest generational cohort in this segment demonstrates how significant their influence is on the market. So, with over 51% of pet owners considering their pets to be as much a part of their families as human family members, the pet health category is booming. On top of that, Gen Z is taking the pet world by storm since their pet buy rate grew by 11%, compared to just 4% for Boomers. Even more, 33% of pet owners live on a tighter budget to afford their dog expenses.

Alongside Freshpet's premium categorization, we believe its strategy of targeting affordability going forward will be crucial in sustaining demand in a time of economic uncertainty and increasing addressable market to take on more market share. In the most recent earnings, management has expressed desires to continue releasing value packs and more affordable options. The point is not only for consumers to buy at cheaper price but to incentivize price-sensitive consumers to try Freshpet products and experience its benefits so that they become a new consumer group. We believe management's persistence on staying away from discounting is the right strategy so that the company can maintain margins and more importantly maintain its premium brand image.

Most importantly, with tailwinds in the fresh pet food market known, we believe FRPT will be able to reap most of the growth in the fresh pet food market. This is because they have an impenetrable moat with their 36,000 in-store fridge. One, the infrastructure costs associated with refrigeration logistics and store-level refrigerator management is high, which creates significant barriers to entry, \$4000 installation cost per fridge. Second, fridges take up physical space so it doesn't make sense for retailers to install even more fridges from multiple brands. And since the switching cost is very high, retailers lack incentive to switch to another branded fridge instead of FRPT.

FRPT is still growing, with it being in 28,000 retail stores right now, with the possibility of 38,000 in the next 10 years as Morningstar projects, citing 46,000 supermarkets in the US. FRPT's fridges give them the opportunity to easily expand into things such as cat food, treats, and food for other pets. As they have the infrastructure which already puts them far ahead of other brands.

Other brands who are in the pet food market can't compete, such as Nestlé and Mars (total 50% of the US pet food market). Others have tried to enter the market but the overall logistical challenges have deterred them. Even DTC companies such as Farmer's Dog and others can't compete as shipping frozen food is insanely expensive. Ex. Farmer's Dog chicken pack is 20% more expensive than Freshpet, which is more expensive for consumers—not ideal given the high cost of fresh/premium pet food already. There is no real competitor and there is no real threat from competition in the near term, allowing FRPT to take a majority of the growth in the premium/fresh pet food market.

The vertical integration factor comes in to help operational efficiencies and margin improvements. In 2024 alone, their adjusted gross margin went up 6.5% to 46.5%. They also have plans to add 10 more lines of production in their 3 factories, with one line that just got added in Kitchen South. This increased production spreads out fixed costs over more goods and makes the company more efficient.

FRPT is well-positioned for long-term growth, benefiting from the global rise in pet ownership, the surge in pet wellness spending, and the purchasing power of Gen Z. The company's alignment with these key trends makes it a compelling investment opportunity.

DCF:

Average price target: \$112.56

Average implied premium: 39.88%

WACC: 6.32%

Exit multiple: 10.00x

PGR: 2%

Competitive Advantages:

Customer loyalty

- In 2023, FRPT's customer retention rate was around 72.4%. FRPT's health-conscious model appeals to a population through not only product but moral alignment.
- The repeat purchase rate was 68.7% in 2023
- Among existing customers, 78% expressed brand loyalty, further underscoring FRPT's strong customer base.

This premium and health-related edge is something that its competitors cannot provide and thus make FRPT's customer base more loyal. FRPT is also supported by strong technological infrastructure that has reduced call volumes by nearly 40% and cut wait times for customers to speak with a live agent by 29%. All these factors offer pet owners a unique customer experience and have compelled many to stay.

Risks:

Softening consumer:

Although consumers are resilient, FRPT growth targets a robust consumer. We even saw lower sales in Q12025 and management pulled guidance back a bit. If an uncertain and unfavorable macro environment persists, FRPT could face problems. As a result, many consumers could potentially switch to cheaper alternatives.

Mitigant: FRPT relies on MVP customers that don't change their buying habits, people are proven to spend on their pets even if they spend less on themselves, and FRPT is pivoting to more affordable options on the side.

Supply Chain Disruptions:

FRPT's reliance on fresh, natural ingredients makes it vulnerable to supply chain disruptions, including potential shortages, rising costs of raw materials, or challenges in sourcing sustainable ingredients. This could affect production and increase costs.

- In April 2025, President Donald Trump announced a comprehensive 10% tariff on all imported goods into the U.S., with higher rates for countries with significant trade deficits, including China, Japan, and the European Union.
- Projected to increase the average U.S. household's annual expenses by approximately \$3,800, affecting a wide range of products, including pet food items. Consumers may shift from luxury pet food options (ex. FRPT) to kibble/cheaper options as goods become more expensive.

Mitigant: However we believe Freshpet is well-positioned to mitigate this risk. More than 50% ingredients: sourced from suppliers located within a 200-mile radius of its Kitchens, and 96% are from the North American region. This will help mitigate some supply chain risks associated with international trade.