Vital Farms Inc

ICR Conference

Tue Jan 14 2025 Conference Transcript

ICR Conference *(Corrected version)*

Summary NEW

Key Takeaways

Vital Farms' management, Russell DiezCanseco (CEO) and Thilo Wrede (CFO), participated in a fireside chat at the ICR Conference on **January 14, 2025**. The discussion, led by analyst **Brian Holland**, covered Vital Farms' business overview, financial performance, supply chain, farmer relationships, growth strategies, and outlook. Key themes included the company's commitment to ethical food production, its unique supply chain model, brand strength, and capacity expansion initiatives.

Business Overview

- Vital Farms was founded in 2007 with a mission to improve the lives of people, animals, and the planet through food .
- The company is a Certified B Corporation driven to bring ethically produced food to the table .
- Vital Farms is the second-largest egg brand in the US , with a leading share in the fast-growing pasture-raised segment .
- The company works with a network of over 425 small family farms in the "Pasture Belt" .
- Vital Farms aims to support these farmers and maintain their rural lifestyle .

Key Financial Results

- From 2018 through 2023 , Vital Farms grew net revenue at a 35% CAGR and adjusted EBITDA in excess of 40% over the same period .
- 2024 year-to-date revenues and EBITDA are up 31% and 96% , respectively .
- The company has grown to approximately $600 million in revenue .
- Fiscal 2024 total revenues are expected to be at least $600 million and adjusted EBITDA at least $80 million .

Capital Allocation

- Vital Farms is self-funding its growth with a strong balance sheet .
- The company is expanding its own egg packing plant in Springfield, Missouri .
- Vital Farms is adding farms to meet the needs of its consumers .
- The company is adding $200,000 as a construction bonus upfront for new farmers to keep the economics whole for them .

Industry Trends and Dynamics

- More than half of consumers attribute more value to the term "free-range" than to "pasture-raised" .
- There is a lot of confusion for consumers about eggs .
- The industry looks at scan data and terms assigned to the product and says pasture-raised is where all the growth is .

Competitive Landscape

- Vital Farms faces competition from other brands offering pasture-raised eggs .
- Cal-Maine has had a pasture-raised egg since at least 2016 .
- Every one of Vital Farms' top 10 customers has at least one private label pasture-raised egg offering and multiple branded offerings .
- Vital Farms has the highest price and is growing faster than its competitors .
- The company's moat in branded CPG is the brand .

Growth Opportunities and Strategic Initiatives

- Vital Farms is focused on improving outcomes for its network of small family farms .
- The company is building accelerator farms to do some innovation, do some R&D , and try some new technology .
- These accelerator farms are a way to make the business model work even better .
- The company is focused on distribution and velocity .
- Vital Farms does not think about its retail partnerships as transactional .
- The company wants to make its money in ways that benefit it and the retailer over time .
- Marketing is the primary tool to drive brand awareness .

Financial Guidance and Outlook

- The company is adding a third line to its plant, which will be incremental on top of the $800 million capacity that has been previously discussed .
- The new farms signed up in the fourth quarter will come online in the second half of 2025 .
- With the additional line, the capacity is now up to over $1 billion .
- When the new facility in Indiana comes online in late 2026 , early 2027 , another $350 million of revenue capacity will be added .
- The supply increase is probably a bit more back half weighted in 2025 .
- The company will maintain marketing levels as a percent of net sales probably in 2025 .
- The company has targets for 2027 of 12% to 14% adjusted EBITDA margin .

- SG&A leverage, when and if it comes, will allow the company to reinvest in the business primarily .

Q & A Highlights

The conference call transcript reveals that the analyst, Brian Holland, focused on several key themes related to Vital Farms. These include understanding the company's unique supply chain and farmer relationships, assessing the competitive landscape and brand positioning within the egg market, exploring the drivers behind the company's distribution gains and financial performance, and evaluating the company's capacity to meet growing demand and achieve its financial targets. The analyst also touched upon the company's strategic initiatives such as the accelerator farms and expansion plans.

Farmer Network and Supply Chain

- **Q: Can you walk me through how Vital Farms' unique supply chain works?**
- A: Vital Farms collaborates with a network of over **425 small family farms** located in the **Pasture Belt** region. These farmers operate as independent entrepreneurs, owning their farms, chickens, and means of production. Vital Farms provides them with a clear set of standards for quality and animal welfare, along with support to ensure their success. This approach fosters mutual accountability, distinguishing Vital Farms from other brands with potential power imbalances in their farmer relationships.
- **Q: How do you attract and retain farmers, and is it getting easier or harder?**
- A: Vital Farms follows the tenets of **conscious capitalism**, aiming for long-term sustainability for all stakeholders, including farmers. In the early days, the company paid a premium to compensate farmers for the risk of working with an upstart. As Vital Farms grew and consistently delivered on its commitments, it developed strong relationships with farmers and their bankers. During the **2016 avian influenza** outbreak and subsequent market downturn, Vital Farms supported its farmers by paying them not to produce eggs, reinforcing its commitment and attracting new farmers. The company is adding a **$200,000 construction bonus** to keep the economics whole for the farmer.
- **Q: Could you clarify the purpose of the accelerator farms you're building and why this isn't a step towards a vertically integrated model?**
- A: There's no change in our business model, which is to partner with a large network of small family farms. The accelerator farms are not a change in our approach. They're actually a way to make it work even better. If we decide it makes sense in the future to potentially sell those farms as a turnkey operation, that's certainly something we'd be open to. But it's not something we plan to expand or replace our existing network. The accelerator farms are intended for innovation, R&D, and testing new technologies to benefit the entire farmer network.

Market and Brand Positioning

- **Q: What is pasture-raised share of total eggs today and what is Vital Farms' share of pasture raised? How do you think about the size of the prize and what are the barriers to entry?**
- A: Vital Farms is the largest brand of pasture-raised eggs in the United States and the second largest egg brand overall. Despite consumer confusion about egg labels, people trust the Vital Farms brand. While other companies offer pasture-raised eggs, Vital Farms maintains the highest price and fastest growth, indicating the strength of its brand.
- **Q: What is driving the increased shelf space, how is the pipeline shaping up, and how long is the runway for increasing shelf presence?**
- A: Vital Farms focuses on long-term partnerships with retailers, built on trust and transparency. The company provides retailers with fact-based insights on category performance and avoids overpromising on supply or promotions.

Financial Performance and Capacity

- **Q: What caused shipments to trail consumption in the most recent quarter, and was that bottleneck tied to supply or capacity?**
- A: In the back half of **2024**, Vital Farms experienced a constraint at **Egg Central Station (ECS)**, its primary egg packing plant. A water main break and the impact of running the machines **24/7** contributed to the issue. The company is investing in incremental maintenance and configuration changes to unlock more capacity. Egg supply was not a constraint.
- **Q: Is it reasonable to assume that 2024's new farms equate to 2025's incremental supply, and what can you tell us about these farms relative to the company's legacy footprint?**
- A: Farm growth will ultimately lead to volume growth. The company is not in the business of creating excess supply of eggs. There is a time lag between signing a farm and the eggs showing up on a shelf. Farms signed in the fourth quarter will mostly come online in the second half of **2025**. There is roughly a **nine-month lag**.
- **Q: Can you describe the new egg grading system and then quantify the impact on capacity at ECS?**
- A: The new machine being added is similar to the existing ones at ECS, but slightly smaller, resulting in a **30% increase** in capacity. The smaller machine lowers the cost to run and allows for focusing shorter runtime, lower volume SKUs on that machine, and it reduces the cost of a changeover. The additional line takes the capacity up to **over $1 billion**. The new facility in Indiana, coming online in late **2026** or early **2027**, will add another **$350 million** of revenue capacity.
- **Q: Can I assume that the fiscal 2024 total revenues of at least $600 million and adjusted EBITDA of at least $80 million outlook still holds today?**
- A: We're still very comfortable with that.
- **Q: Could you expand on some of the building blocks that we should be thinking about for 2025?**
- A: The growth in supply quarter by quarter, as I just alluded to. And when we sign up new farms, there's a time lag until they're actually productive. So, with the majority of the farms that we signed up having happened in the second half **2024**, the supply increase is probably a bit more back half weighted in **2025**. We keep spending on marketing. We'll maintain the levels as a percent of net sales probably in **2025**.
- **Q: Do I understand that advertising in 2024 grew a little bit faster than revenue, or did that grow - or roughly in line with - how would you frame that?**
- A: Maybe slightly faster than revenue. **2024**, year-to-date, it was a very successful year for us and delivered a bit more profit than what we had initially planned for, which then gave us room to reinvest in the business. And marketing was one of the areas where we reinvested.
- **Q: Down the road, do you see SG&A as a point of leverage potentially in the model as we scale or reach some point of maturity?**
- A: As we grow, we should get scale benefits and that will then allow us to reinvest in the business. We've put out targets for **2027** of **12% to 14%** adjusted EBITDA margin. Year-to-date, we are ahead of that target already. SG&A leverage when and if it comes for us, it will allow us to reinvest in the business primarily, because to Russell's point - earlier point about conscious capitalism, we are running this business for the long term.

Event Details

Date: 2025-01-14
Company: Vital Farms, Inc.
Ticker: VITL-US

Company Participants

Russell DiezCanseco - Vital Farms, Inc., President, Chief Executive Officer & Director
Thilo Wrede - Vital Farms, Inc., Chief Financial Officer

Other Participants

Brian Holland - Analyst

MANAGEMENT DISCUSSION SECTION

Brian Holland

Great. Hello, everyone. Thank you for joining us today. My name is Brian Holland, senior research analyst at D.A. Davidson. I'm pleased to have the CEO, Russell Diez-Canseco and CFO, Thilo Wrede from Vital Farms with us to discuss their business.

A Certified B Corporation. The company is driven to improve the lives of people, animals and the planet by bringing ethically produced food to the table. Today, **Vital Farms is the second largest egg brand in the US, underpinned by its lordly share of the fast-growing pasture-raised segment**.

From 2018 through 2023, **the company grew net revenue** at a 35% CAGR and adjusted EBITDA in excess of 40% over that same period. **2024 year-to-date revenues and EBITDA are up 31%** and 96%, respectively. I look forward to diving into the drivers behind this outsized growth this morning. Russell, Thilo, good morning. Thank you both for being here.

For those who may be getting introduced to the story for the first time today, Russell, perhaps we could just start with a brief background on the company, who is Vital Farms and what's your mission?

QUESTION AND ANSWER SECTION

Answer – Russell DiezCanseco: Sure. Thanks, Brian. Great to be here. Many of you may have enjoyed our eggs. Maybe you are already consumers. But it's important for you to also know that we went public in 2020. **We've grown to on the order of $600 million in revenue, and we've done it all with a strong balance sheet** and with the ability to self-fund our growth, the capital required to fuel our growth.

A recent announcement that we made yesterday was that **we continue to fuel our growth in advance of the need, the expansion of our own egg packing plant in Springfield**, Missouri, and we continue to add farms apace to ensure that we can continue meeting the needs of our loyal fans.

As you mentioned, we were founded in 2007 with a mission to improve the lives of people, animals and the planet through food. And we started that with the eggs for which we're known. Our founder, Matt O'Hayer, believes really strongly in improving animal welfare. And at the time, more than 95% of the laying hens in the country were confined to cages, and he felt like that was something that needed to be disrupted. And that's where it got started.

Analyst: Brian Holland

Question – Brian Holland: If we kind of continue down that path, Vital Farms has a unique supply chain that I know we'll be digging into during this discussion. So, just high level, can you walk us through how that works?

Answer – Russell DiezCanseco: Sure. So we work with a network of now over 425 small family farms, and they're spread across several states in an area of the country we call the Pasture Belt, because we feel like you can't really do great outdoor access conditions for raising laying hens in any part of the country. It doesn't work well where it snows a lot in the winter. Doesn't work well where there's not a lot of rainfall in the summer. So the Pasture Belt is where we're focused, which is sort of in the near south.

And we work with those farmers as the consummate entrepreneurs. We buy eggs from each of those farmers. They own their farm, they own the chickens, they own the means of production. What **we brought to them was an opportunity, a very clear set of standards for quality and animal welfare and an awful lot of support** to help make sure they're successful.

That's in contrast to the way **some other brands might work with their farmers, where there's a bit more of a power imbalance in the relationship**. If I own the chickens, if I own the feed, maybe you don't have as much of an ability to walk from our relationship if I'm not treating you the way I committed to. So we believe in mutual accountability. And in that respect, we've got a really unique relationship with our farmers.

Question – Brian Holland: And maybe if we stay on that, because I think there's some lack of understanding with respect to the farmer network, how you attract and retain it. So maybe you could talk briefly about that, but also dig into is recruitment and retention of these farmers getting easier or harder? Obviously, there was a change in working capital to support new family farms, which **you attributed to higher construction costs and interest rates**.

And I think there's some question about whether that's a defensive move, or maybe you can point to, because obviously you've been around much longer than you've been public, other instances where the company has a history of supporting your partners through challenging or dynamic periods in the category.

Answer – Russell DiezCanseco: Yeah. I appreciate that, Brian. We're very much – first of all, we follow the tenets of conscious capitalism, which is a fancy way of saying like we're playing for the long run, and we want to make sure that what we're doing is sustainable for all of the stakeholders, including the farmers. And that means that the decisions we make have an eye toward that long term. In the early days, when we were small and didn't have a well-known reputation in the farming community, we had to pay a premium essentially for the risk the farmer took on working with an upstart. Bankers saw us as less of a well known – a known (00:14:09) quantity. And if for some reason **we ran into trouble in those early days, the farmer potentially had a stranded asset, and that wasn't a positive outcome**.

As we've grown and as we've consistently delivered on our commitments to our farmers and to their bankers, **we've enjoyed a very strong relationship in both communities**. And I think the example that really cemented that relationship was in 2016 – 2015, 2016 was the prior example of when the industry experienced avian influenza, as we're experiencing now. And like any agricultural commodity, there's inevitably in the broader egg market a boom and then a bust. A boom attracts a lot of new entry. And then at some point there's **a fallout** as supply catches up once again.

And that inevitably happened in 2016. We were still very small. Our revenue was well under $100 million. **We were EBITDA positive**, but in single-digit millions of dollars, and we had too many eggs. We didn't yet have a brand that differentiated what we were doing, and we weren't the only source for pasture-raised eggs even back then. And we had more eggs coming off of the farms than we needed.

And I think, in those circumstances, a lot of brands were walking away from their farmers. We had contracts with them. The contract said we needed to keep buying the eggs, but there are a lot of brands for which that didn't matter as much. Our farmers are often Mennonites and Amish, and for religious reasons, they don't turn to the courts to sue in the case of non-performance.

Back then, we went to our private company board and said, we need to raise some money. I need money to pay farmers to not produce eggs for a while, to keep them whole with the agreement we made, but not to produce eggs because I don't need them right now. And our private investor board took dilution, did an equity raise so I could spend at the time about $6 million paying farmers not to produce. We kept them whole. And then when growth resumed and we needed more farmers, there was a line out the door because we were the ones that stuck by them and did what we said we'd do. And nothing has changed about that today.

So **we have no challenge** attracting new farmers, as evidenced by the incredible growth we continue to bring to that network, as evidenced by our press release yesterday. Adding $200,000 as essentially a construction bonus upfront is nothing more than what we need to do to keep the economics whole for the farmer. They're paying more to build their farms and they're paying more to finance the loan. And we have to pay more in order for them to be fairly compensated for those increased investments.

We had an option to just pay all of our farmers more for their eggs, but it was only the new ones **that were facing this increased construction cost**. So we chose to do it in a way that focused that investment on them alone. We amortized it over the course of the contract and it's simply – it's not defensive. It's simply about recognizing that we have to clear the market for what we're doing.

Question – Brian Holland: And I think that's important context for thinking about the long-term nature of these relationships that the farmers don't necessarily view this as an arbitrage opportunity, but really a sustainable long-term partnership. And I think that builds into my next question, which is folks have asked, certainly me and I know you a ton, about these accelerator farms that you're building that those are in your – around your second ECS facility in Indiana, scheduled to break ground later this year.

Could you just clarify or kind of reiterate the purpose of this initiative and I guess why this isn't the first step towards what some, some presume to be a step towards a vertically integrated model?

Answer – Russell DiezCanseco: Yeah.

Question – Brian Holland: And maybe – I'm sorry, maybe why a vertically integrated model doesn't or couldn't work for you guys.

Answer – Russell DiezCanseco: Sure. So a lot to unpack there.

Question – Brian Holland: Yeah.

Answer – Russell DiezCanseco: Yeah. So there's no change in our business model, which is to partner with a large network of small family farms. That's an important part of our purpose because it's harder and harder for them to get the right economic opportunity and maintain the rural lifestyle that they want to maintain. And we see that as an important part of kind of why we exist.

When you get to a certain scale in terms of the number of those farmers, suddenly the value of improving their outcomes can have a significant impact across the network. And we finally hit a point at over 300 farms where having a few farms in which we could do some innovation, do some R&D, try some new technology that we're seeing, frankly, in Europe, where what we do is much more common, started to make sense, where we could allocate some capital to that and bring best practices back to that network of farmers and see them all benefit from it.

So these accelerator farms are not a change in our approach. They're actually a way to make it work even better. If we decide it makes sense in the future to potentially sell those farms as a turnkey operation, that's certainly something we'd be open to. But it's not something we plan to expand or replace our existing network.

Question – Brian Holland: Appreciate all that color. And so now let's maybe take a step back. Just level set us on the segment in which you play. What is pasture-raised share of total eggs today and what is Vital Farms' share of pasture raised? How do you think about the size of the prize and what are the barriers to entry?

Answer – Russell DiezCanseco: So it's funny. Yeah. We're the largest brand of pasture-raised eggs in the United States, and we're the second largest brand of eggs, period, of any kind. But it's funny. When we – we do a lot of consumer research. And very consistently over a lot of years, we have found that there's a ton of confusion for consumers about eggs. There are all kinds of claims, all kinds of types of eggs. There's free-range eggs and pasture-raised eggs. There's cage-free which is being mandated in some states, organic, non-GMO. You name it. Those cartons are full of words.

Surprisingly, more than half of the people that buy our eggs don't know that they're called pasture-raised. And in fact, more than half of our consumers attribute more value to a term free-range than they do to this thing called pasture-raised.

Our takeaway is people are looking to us because they trust us in the way that we operate. They trust us to be transparent. They trust the brand. And if you've noticed over a number of years, the words pasture-raised in our carton are getting smaller and smaller and the logo Vital Farms is getting bigger and bigger.

The industry looks at scan data and they look at terms assigned to the product, and they say, gosh, pasture-raised, **that's where all the growth** is. We should all offer a pasture-raised egg, and they have been for years. Cal-Maine has had a pasture-raised egg since at least 2016. Their brand, Eggland's Best, brought it out as a control brand and now they've branded it Eggland's Best. Every one of our top 10 customers has at least one private label pasture-raised egg offering and multiple branded offerings.

Yet we've got the highest price of all of them, and **we're growing faster than all of them**. I think that speaks to the fact that it's not about the term or the claim; it's about the brand. And maybe there's a little bit of hubris when I say it, but I think if we had decided to call it Something Else 15 years ago, then that Something Else would be the fastest growing part of the egg system. And everybody would be racing to offer a Something Else egg. It's incidental that we called it pasture-raised.

Question – Brian Holland: No. I mean, I think most folks would agree that the moat in branded CPG is the brand, generally speaking, with very few exceptions. And our analysis, which we've done multiple times, would point to the mix of distribution and velocity on your business, which **I think is a really strong measure of the quality of the growth** and the predictability of it going forward. And it's you guys, it's Freshpet and it's Bowering Brand (00:22:25). So that's pretty heady company at the top of the heap there.

Speaking of the distribution component of that, **you've seen some material distribution gains over the past year**. Importantly, **your velocity has accelerated as you've gotten the distribution gains**. So we can get into that. But maybe, first, what is driving that increased shelf space? Second, how is the pipeline shaping up? And then just kind of looking forward, frame how long the runway you believe to be for increasing the shelf presence from here.

Answer – Russell DiezCanseco: I keep going back to that conscious capitalism notion and this idea that we really think about long-term outcomes for all of our stakeholders. And those retail partners are no exception. We don't think about our retail partnerships as transactional. For example, **we're not rushing to raise prices**

in this current environment in which there's an egg shortage because that's not how we want to make our money. We want to make our money in ways that benefit us and the retailer over time.

So, I mean, at the end of the day, the retailer has a strategy and has goals for the category. They want to grow the category. They want to grow it profitably. They want to attract and meet the needs of their consumers. And we've built a brand **that drives really high performance from our items**, from our products. And so we can have a very fact-based conversation with the retailer about how our items perform in the category, maybe in their competitors, how the ones they've already added to their stores are performing, and how the next item or items might outperform some of the other items in their set.

And as long as we're delivering on superior economics and as long as we continue to be transparent in our dealings with them, **we don't overreach.** We don't shoot for more distribution than we can – than we think we can supply. We don't promise promotions that we won't be able to support. They've come to trust us in the same way that consumers trust us. And that's what drives the next placement and the next placement. And in many cases, we become their advisors on where the category is headed because **we're where the growth** is in the category.

Question – Brian Holland: Yeah, it's funny how the world works, right? In September of 2023, you laid out 2027 financial targets. The market largely dismissed this as too ambitious at the time. Fast forward a year, the number one question I get is whether you can keep up with demand. So I'd like to spend a few minutes here.

In the most recent quarter, **total net revenue grew an impressive 31%**, led by volume growth of 22%. However, while the top line matched consensus forecasts, **it certainly lagged what the track sales data was telling** us and thus raised questions about where the ceiling might be on sales in the near to intermediate term. So, for starters, just remind us what caused shipments to trail consumption? Was that bottleneck tied to supply, i.e. your network of family farms that we made reference to earlier or capacity, i.e. Egg Central Station?

Answer – Russell DiezCanseco: Yeah. So what we found in the back half of 2024, and as highlighted in the results we announced for Q3, was that **we started to hit a constraint at Egg Central Station** where we packed the vast majority of our eggs. We built that in 2017, we expanded it in 2021, and there's still untapped capacity there, but we're achieving it primarily through continuous improvement of the existing assets. And we announced that we're going to add a third line to that plant, which will be incremental on top of the $800 million capacity that we've talked about previously.

There were a few things that kind of came together. One was there was a water main break in Springfield, Missouri, that took us offline for a few days. And then as we started to hit the limits of expanding our capacity through more hours in the day, we started to run 24/7, suddenly, we started to see the impact of running those machines non-stop. And we identified opportunities to invest in some incremental maintenance and configuration changes at the plant to unlock more capacity. That also took some days of production out of circulation as we made those investments in future growth.

Long story short, we – egg supply was not a constraint in Q3, but we started to hit the limits of what we could push through that building in Q3.

Question – Brian Holland: Okay. And per a press release issued yesterday, which you've made reference to, Vital Farms added – has added 125 family farms to the network in 2024. I think **that's roughly a 40% increase**. Is it reasonable to assume that 2024's new farms equate to 2025's incremental supply? Also, what can you tell us about these farms relative to the company's legacy footprint and how that translate – translates to your egg sourcing supply growth?

Answer – Thilo Wrede: So, in general, the assumption that farm growth will ultimately lead to volume growth is the right assumption. And we are not in the business of creating excess supply of eggs. Whatever eggs we buy from our farmers are ultimately eggs that we want to put into cartons and sell to consumers. The supply increase through this increased size of the farm network, there's a time lag between us signing a farm and the eggs showing up on a shelf. The farms that we signed up in the fourth quarter, for example, it's roughly 50 farms, most of them will come online in the second half next year or this year, I should say, 2025. And so you will see that ultimately this will lead to volume growth, but it's not an immediate translation. There is roughly a nine-month lag, give or take.

Question – Brian Holland: Okay. And Russell, you made reference to some of the dynamics at ECS more recently. Yesterday's press release also highlighted the company will be installing a new egg grading system...

Answer – Russell DiezCanseco: Yeah.

Question – Brian Holland: ...which I understand is the primary automation technology used in washing, sorting and packing shell eggs. Can you describe the new technology and then quantify the impact on capacity at ECS?

Answer – Russell DiezCanseco: Yeah. So the new machine we're adding is actually similar to the ones we already have at ECS. It's actually a bit smaller than the existing ones, which is why **we've announced a 30% increase in capacity** coming from it, not a 50% increase, because we already have two. One of the benefits of having a smaller machine is that the cost to run that machine is lower and therefore we can actually focus our shorter runtime, lower volume SKUs on that machine, and it reduces the cost of a changeover. So we'll actually see some efficiency from that at the same time that it increases our capacity and our flexibility to have that third machine.

Question – Brian Holland: And I think some folks – go ahead.

Answer – Thilo Wrede: Yeah. Just to put some numbers behind it, right? So far, we had always talked about ECS can support about $800 million in net revenue capacity from shell eggs. With this additional line, **we're now taking this capacity up** to over $1 billion. And when our new facility in Indiana comes online in late 2026, early 2027, we'll add another $350 million of revenue capacity.

Question – Brian Holland: You not only anticipated my question, but – my next question, but I think addressed...

Answer – Thilo Wrede: Good.

Question – Brian Holland: ...what has been...

Answer – Thilo Wrede: Did I just throw you off?

Question – Brian Holland: No, well, always. But a key overhang in the stock also addressed there, I think, exiting 3Q. So congratulations on the progress there. Thilo, we're down to under 4 minutes, so we'll test that German efficiency here, right? Exiting third quarter results in early November, **you raised fiscal 2024 total revenues** to at least $600 million and adjusted EBITDA to at least $80 million. Can I assume that outlook still holds today?

Answer – Thilo Wrede: We're still very comfortable with that. Yes.

Question – Brian Holland: I appreciate you are not – that is efficient. I appreciate you are not providing specific fiscal 2025 guidance here today. Now I'm going to test it. But at a category level, **supply demand dynamics appear favorable**, which presumably keeps a lid on promotion. Feed costs look as though **they'll remain a tailwind**, albeit at lesser magnitude than perhaps 2024. On the other hand, you've reinvested year-to-date in 2024, looking backwards in the supply chain, advertising and head count, among others. So perhaps you could just expand on some of the building blocks that we should be thinking about for 2025.

Answer – Thilo Wrede: Yeah. I think, first building block is our – the growth in supply quarter by quarter, as I just alluded to. And when we sign up new farms, there's a time lag until they're actually productive. So, with the majority of the farms that **we signed up having happened in the second half 2024, the supply increase** is probably a bit more back half weighted in 2025.

Marketing. We keep spending on marketing. We took it up in 2024. We'll maintain the levels as a percent of net sales probably in 2025. Marketing for us is the primary tool to drive brand awareness. That brand awareness then over time translates into household penetration. So we want to keep spending on marketing investments to make sure that more and more consumers know about the brand. Our aided brand awareness right now stands at about 27%. So only roughly a quarter of the population knows about Vital Farms. So one actually asked him (00:31:54) about the brand. This is not unaided awareness. So there are still plenty of investments that we can make to further drive the brand. And there are more capabilities that we want to build as a growing company. So those are all components that will factor into this year.

Question – Brian Holland: And advertising in 2024, do I understand that that grew a little bit faster than revenue, or did that grow – or roughly in line with – how would you frame that?

Answer – Thilo Wrede: Maybe slightly faster than revenue. 2024, year-to-date, **it was a very successful year for us** and delivered a bit more profit than what we had initially planned for, which then gave us room to reinvest in the business. And marketing was one of the areas where we reinvested.

Question – Brian Holland: And obviously, **you've pulled forward hiring and to manage or to help support this outsized growth**. Down the road, do you see SG&A as a point of leverage potentially in the model as we scale or reach some point of maturity?

Answer – Thilo Wrede: Yeah. I think as we grow, **we should get scale benefits** and that will then allow us to reinvest in the business. We've put out targets for 2027 of 12% to 14% adjusted EBITDA margin. Year-to-date, **we are ahead of that target** already. So SG&A leverage when and if it comes for us, it will allow us to reinvest in the business primarily, because to Russell's point – earlier point about conscious capitalism, we are running this business for the long term. And whatever we can do to ensure success three, four, five years down the road, those are decisions that we make today. And that is where scale leverage will allow us to continue investing in the business and in the future growth.

Fantastic. Russell, Thilo, I want to thank you so much for doing this today. I want to thank everyone in the room for joining us. There is swag in the back here for Vital Farms. It's Girls on Grass and good weed is for the birds. So I look forward to taking this back to Oregon. We'll all fit right in, but – so please grab a T-shirt. There's hats and bags in the back as well. I want to thank everyone for joining us today. Best of luck to you all in 2025. Thank you.

(00:25:01) Brian.