Vital Farms Inc

Q1 2025 Earnings Call

Thu May 08 2025 Earnings Call Transcript

Q1 2025 Earnings Call *(Corrected version)*

Summary NEW

Key Takeaways

Vital Farms' Q1 2025 earnings call highlighted record revenue and volume growth, driven by price mix benefits and butter business growth, offset by egg supply constraints. The company reaffirmed its 2025 financial outlook, focusing on expanding farm networks and supply chain investments. Tariffs and a price increase were also discussed.

Key Financial Results

- Net revenue for the first quarter was $162 million , up 10% from last year .
- The first quarter marked the 20th consecutive quarter of year-over-year volume and net revenue growth since the IPO in 2020 .
- Volume related growth was below trend due to egg supply constraints and depleted inventory levels .
- Gross profit for the first quarter rose to $62.5 million , or 38.5% of net revenue .
- Adjusted EBITDA for the first quarter of 2025 was $27.5 million , or 16.9% of net revenue .
- Net income for the first quarter of 2025 decreased 11.2% to $16.9 million or $0.37 per diluted share .

Business Segment Results

- Butter business net revenue was up 41% year-over-year .

Capital Allocation

- As of March 30th, 2025, the company had total cash, cash equivalents, and marketable securities of $161.3 million with no debt outstanding .
- Fiscal year 2025 capital expenditures are expected to be in the range of $50 million to $60 million .
- The company plans to fund current plans for Seymour and all other projects this year with existing cash and operating cash flow .

Industry Trends and Dynamics

- Consumer demand for Vital Farms products continues to grow .
- More consumers prefer cleaner labels and want to know where their food comes from and how it is produced .
- The category is still far from fully servicing the demand that retailers are placing through their orders .

Competitive Landscape

- The company believes its strong consumer relationships represent an enormous and sustainable competitive advantage .
- Aided brand awareness continues to improve, reaching 31% by the end of the first quarter .

Macroeconomic Environment

- The company expects to be affected by recently announced tariffs .
- The guidance includes any expected impacts from the current understanding of the new tariff environment .

Growth Opportunities and Strategies

- The company is making strong progress on initiatives to expand capacity and strengthen its supply chain .
- Approximately 25 additional farms were added to the network during the first quarter of 2025 .
- Construction of the new egg grading system at Egg Central Station (ECS) in Springfield, Missouri, remains on schedule for completion in the fourth quarter of this year .
- The company intends for accelerator farms to allow acceleration of the pace of innovation and create a flywheel as learnings are shared and the exchange of best practices is encouraged within the existing farm network .

Financial Guidance and Outlook

- The company continues to expect net revenue of at least $740 million for full year 2025 , or at least 22% growth versus 2024 , and adjusted EBITDA of at least $100 million , or at least 15% growth .
- The company expects to deliver significantly faster year-over-year net revenue growth in the back half of this year, consistent with the 2025 outlook .
- Long-term guidance remains unchanged; the company is continuing to target $1 billion of net revenue by 2027 , with a gross margin of about 35% and an EBITDA margin of 12% to 14% .
- Volumes are expected to accelerate over the course of the year as supply improves .
- A modest, low double-digit percentage price increase for shell egg products will go into effect this month .

Q & A Highlights

The earnings call Q&A session focused on key themes including pricing strategies in light of tariffs and retailer actions, volume growth expectations considering egg supply and processing efficiencies, retail distribution changes due to data provider transitions, consumer behavior amid macro uncertainties, and the progress and impacts of farm expansion and capital investments. Analysts probed into the details of Vital Farms' financial outlook, seeking clarity on how various factors influence their projections and strategic decisions. Management provided detailed responses, reinforcing their confidence in achieving financial targets and long-term growth.

Pricing Strategy and Tariffs

- **Q: Given that retailers have already raised prices on your products due to category dynamics, did you consider raising prices more, and how do you ensure retailers won't further increase prices?**
- A: Vital Farms primarily focuses on protecting its gross margins through pricing, aiming for long-term sustainable growth with good relationships and economics for retail partners and value for consumers. Retailer pricing is beyond the company's direct influence, with retailers setting prices based on competitive needs and brand commitments.

- **Q: How has the recently announced pricing impacted your outlook, and was it contemplated in the initial guidance?**
- A: The price increase was not anticipated in the initial guidance but was implemented in response to the impact of tariffs on commodity costs. This modest increase ensures the company can meet its commitments for the year, with flexibility to allocate revenue to build a sustainable brand and meet financial goals.
- **Q: Can you elaborate on the cost pressure you're seeing from tariffs, particularly on the egg business?**
- A: Tariffs affect imported butter, packaging from Canada, and farm equipment from Europe used in accelerator farms and by recruited family farmers, increasing construction costs. However, Vital Farms' exposure is limited, and the price increase sufficiently covers the tariff impact, positioning the company well for the year.

Volume Growth and Egg Supply

- **Q: Was the low-single-digit volume growth in Q1 consistent with expectations, and is the step-up in growth uniform throughout the year as new farms onboard?**
- A: The low-single-digit volume growth was lighter than the actual growth of the commercial business due to a decrease in waste eggs sold into the breaker market, with a 5.6% volume growth if normalized. Volume growth in Q1 was also affected by limited egg inventory compared to the previous year. Volume growth will reflect farm growth, with Q2 being a transition point and acceleration expected in the back half of the year as farms come online.
- **Q: To what extent are you fully up to speed at retailers in line with the rest of the category, which also appears to be back to normal?**
- A: The category is still not fully servicing retailer demand, with continued elevated orders reflecting the desire to refill channels. Despite another avian influenza impact, Vital Farms' volumes continue to increase, with hopes for a more normalized market in the back half of the year.
- **Q: Can you talk about the visibility you have into the phasing of egg availability and whether the timeline is consistent with previous expectations?**
- A: Farms are coming online at the anticipated pace and magnitude, consistent with announcements from previous quarters. The timeline between signing a farm and it coming online remains around nine months, providing the necessary visibility for the remainder of the year.

Retail Distribution

- **Q: Can you elaborate on the distribution increase from 24,000 to 26,000 stores and characterize the retailers included in that increase?**
- A: The change from **24,000** to **26,000** stores is primarily due to switching data providers from **Nielsen** to **Circana**, which tracks a different universe of stores. There were some distribution gains, but not to the degree implied by the change in numbers.

Consumer Behavior

- **Q: Have you seen any changes in recent weeks to consumer behavior in the pasteurized egg category or your brand, and have you seen any evidence of increased trial by new customers?**
- A: This quarter has been a proof point of the brand-building model, with consumers predictably moving from awareness to trial to repeat to heavy user, even with the macro backdrop. Brand awareness has increased significantly, partly due to eggs being more in the news, and the company has continued marketing efforts to drive household penetration.
- **Q: Given potential global trade and economic tensions, what impact could this have on consumer spending?**
- A: Vital Farms does not foresee a significant impact on sales growth from potential macro impacts due to tariffs, as consumers are less willing to trade down from the brand. The brand's connection with consumers and higher exposure to high-income households insulate it from trade-down risks.

Farm Expansion and Capital Investments

- **Q: How is the recruitment and onboarding process going as you continue to scale and reach a much higher baseline of farms?**
- A: Vital Farms continues to recruit farmers on schedule, with a team that builds awareness, educates prospective farmers, and provides support. The number of farms producing today reflects decisions made 9 to 12 months ago, with continued success in adding chosen farms this year.
- **Q: Can you elaborate on any impact you see on the expansion into Seymour due to tariffs, and are you expecting your pricing to increase in a material way for that project?**
- A: There will be some tariff impact on the Seymour expansion due to equipment from Europe and increased construction costs, but this is within the budget for Seymour. The CapEx guidance of **$50 million** to **$60 million** accounts for the impact of phase one of Seymour, with no need to change it.
- **Q: Can you talk a bit more about the dynamics of building the supply side of the butter business and what levers you have to expand supply and capitalize on growing demand?**
- A: Vital Farms transitioned its butter supply chain in 2024 to source high-quality cream and butter, primarily from Ireland, which aligns with growing and production practices. This change ensures no anticipated bottlenecks to continued growth for years to come.
- **Q: Given the price increase, could you have raised the guidance, and is it prudent to leave some cushion given consumer uncertainty and flexibility to go after demand in the second half?**
- A: The company has less concern about consumer uncertainty due to the brand's resilience and consumers' reluctance to trade down. The current mix of levers, including the price increase, is expected to deliver on the guidance given at the beginning of the year. Having just finished Q1, which played out as expected, and with increased uncertainty in the US economy, it's prudent to wait and see more of the year's performance before reconsidering guidance.
- **Q: How did the gross margin of 38.5% in the quarter come in relative to your expectations, is there anything transitory we should be thinking about, and how should we think about the phasing of the rest of the year for gross margin?**
- A: The gross margin was pretty much where the company thought it would be, with the first quarter being more of a normal quarter operationally compared to the exceptionally well-run ECS in the previous year. The egg supply constraint and staffing up in anticipation of growth also contributed to the year-over-year decline in gross margin, which was expected. The pricing announced might benefit the full year, but tariffs and commodity costs in the back half of the year likely mean gross margin won't repeat at the same level as last year.

Show The Company's Guidance And Outlook

Vital Farms' Q1 2025 earnings call provided a reaffirmation of the company's full-year 2025 financial guidance, while also offering insights into the company's expectations for future growth and strategic initiatives. The company reaffirmed its annual guidance for net revenue and adjusted EBITDA. Additionally, management shared their outlook on demand, supply, and capital expenditures.

Annual Guidance

- Net revenue: At least $740 million , representing at least 22% growth compared to 2024 .
- Adjusted EBITDA: At least $100 million , indicating at least 15% growth.
- Capital expenditures: Expected to be in the range of $50 million to $60 million .

Outlook

- The company expects volume growth to accelerate over the course of the year as supply improves.
- Sequential capacity increases are expected to drive accelerating year-over-year volume growth each quarter as the year progresses, due to recently added farms ramping up production and additional farms coming online.
- Long-term guidance remains unchanged, targeting $1 billion of net revenue by 2027 , with a gross margin of about 35% and an EBITDA margin of 12% to 14% .
- Every dollar of CapEx investment in Seymour is projected to generate more than $5 of annual revenue capacity.
- The digital transformation initiative launch date has been updated from summer to early fall 2025 to ensure a flawless switchover.

Quarterly Guidance

- No specific quarterly financial guidance was provided.

Event Details

Date: 2025-05-08
Company: Vital Farms, Inc.
Ticker: VITL-US

Company Participants

John Mills - ICR, Managing Partner
Russell DiezCanseco - Vital Farms, Inc., President, Chief Executive Officer & Director
Thilo Wrede - Vital Farms, Inc., Chief Financial Officer

Other Participants

Brian Holland - Analyst
Robert Moskow - Analyst
Jon Andersen - Analyst
Matthew E. Smith - Analyst
Ben Klieve - Analyst
Eric Anthony Des Lauriers - Analyst
Benjamin Mayhew - Analyst
Megan Alexander Clapp - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and thank you for standing by. Welcome to the Vital Farms First Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. Please be advised that today's conference is being recorded.

I would now like to hand it over to your host, John Mills with ICR.

John Mills

Good morning and welcome to Vital Farms first quarter 2025 earnings conference call and webcast. I am John Mills, Managing Partner at ICR. On the call today are Russell Diez-Canseco, President and Chief Executive Officer; and Thilo Wrede, Chief Financial Officer. By now, everyone should have access to the company's first quarter 2025 earnings press release issued this morning. This is available in the Investor Relations section of Vital Farms website at investors.vitalfarms.com.

Throughout this call, management may make forward-looking statements within the meaning of the federal securities laws. These statements are based on management's current expectations and beliefs and do involve risks and uncertainties that could cause actual results to differ materially from those described in these forward-looking statements. Please refer to today's press release. The company's quarterly report on Form 10-Q for the fiscal quarter ended March 30th, 2025 filed with the SEC today, as well as other filings with the SEC for a detailed discussion of the 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 adjusted EBITDA and adjusted EBITDA margin, which are non-GAAP financial measures. 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 our earnings press release for a reconciliation of adjusted EBITDA and adjusted EBITDA margin to the most comparable measures prepared in accordance with GAAP.

And with that, I will turn the call over to Russell Diez-Canseco, President and Chief Executive Officer of Vital Farms.

Russell DiezCanseco

Thank you, John. Good morning and thank you for your time today. Our first quarter performance was in line with our expectations. **We hit new record levels for first quarter volume and net sales** and maintained our momentum in delivering ethical food to the table. With this solid foundation in place, I'm pleased to reaffirm our 2025 financial outlook. **Consumer awareness and demand for Vital Farms products continues to grow, confirming the strength of our brand** and the relevance of our mission. I'm grateful to all of our stakeholders, our farmers, suppliers, customers, crew members, stakeholders and communities who make our progress possible every day.

Net revenue for the first quarter was $162 million, up 10% from last year. And the first quarter marked our 20th consecutive quarter of year-over-year volume and net revenue growth since our IPO in 2020. First quarter net revenue growth was driven primarily by price mix benefits and volume related growth. Volume related growth was **below** trend due to egg supply constraints and depleted inventory levels. As we previewed last quarter. We entered the first quarter with significantly lower egg inventory relative to the same period last year, **which pressured** our year-over-year growth rate. **We believe the volume growth headwinds** we experienced in the first quarter will ease beginning this quarter, setting the stage for net revenue growth to reaccelerate as the year progresses.

Turning to our butter business, **growth continues to be very robust with first quarter net revenue up 41% year**-over-year. Looking ahead, we expect to deliver sustained growth driven by increasing demand for our products and improving supply as farm expansion initiatives and supply chain investments bear fruit. Let me talk a bit more about each of these drivers, starting with demand. While demand for our egg products has been consistently strong, we've recently not been able to fully keep up with increased orders in our supply constraints just as avian influenza disrupted the market and egg prices surged.

We are confident the demand for our egg products will continue to grow as a result of two primary factors. First, **we have built strong relationships with our consumers based on trust in the brand** and a sense of shared values. We believe our strong consumer relationships represent an enormous and sustainable competitive advantage we have earned through years of consistent execution, strong brand building, and our mission driven culture. **Our aided brand awareness continues to improve, reaching 31% by the end of the first quarter, a 5-point increase since the beginning of the year**, partly attributable to the unusually high level of media attention our industry has received in recent months. Our data indicates that brand awareness has been a strong leading indicator of net revenue growth, with a lag of several quarters.

Second, **we benefit from secular trends** as more consumers prefer cleaner labels and want to know where their food comes from and how it is produced. With low levels of market penetration today. We believe we have a long runway for growth in the years ahead as these trends build momentum. **We are also encouraged by the increased demand across all segments of consumers** as they continue to place more emphasis on the values of companies they buy from. A closer look at the data reinforces our belief that we have only scratched the surface of our market opportunity.

Despite **strong growth**, we are still in only 11.3% of US households, a small fraction of what we believe to be our long-term market opportunity. And as we are landing in the fridges of a growing number of households in the US, our consumers are becoming more loyal. As **we have doubled our household penetration over**

the past four years, we've also doubled the number of heavy and ultra-heavy buyers of our brand. In other words, even while we are entering new households, already loyal consumers are becoming even more loyal. This trend has held true in the past, even in years when inflation in the United States outpaced wage growth.

Moving to the supply side, **we're making strong progress on several of the important initiatives** to expand capacity and strengthen our supply chain that we outlined on our last call, and we're on track to deliver our commitments on time. Last year, we added about 125 family farms to our network in the Pasture Belt, and today we're pleased to share that we added approximately 25 additional farms to our network during the first quarter of 2025. As a result, **we are now working with more than 450 of the best family farmers in America, an increase of roughly 50% since the end of 2023**, with 8.2 million hens under contract. With **a strong pipeline of new family farm candidates**, we're confident in our ability to grow our network at a healthy pace over the remainder of the year and beyond. I'd like to take a moment to thank our world class farm team for their hard work and expertise in explaining the appeal of the Vital Farms model to our family farmer prospects.

The network growth we expect to achieve leaves us very well positioned to deliver $1 billion of net revenue by 2027, and we are already above our gross margin target of about 35% and our adjusted EBITDA margin target of 12% to 14%. In addition to adding new family farms to our network, **we are investing in our supply chain infrastructure to increase capacity** and support ongoing innovation. As we enter the second quarter, the work to break ground at our new facility in Indiana is progressing as planned, and we remain on schedule for an early 2027 opening.

In addition, the construction of our new additional egg grading system at Egg Central Station or ECS in Springfield, Missouri, remains on schedule for completion in the fourth quarter of this year. We anticipate that **this new system will expand ECS capacity by the end of 2025 by 30% from current levels**, which will bring us to ECS revenue capacity of more than $1 billion. Finally, our first company owned accelerator farms are progressing as anticipated. We intend for these farms to allow us to accelerate the pace of innovation and create a flywheel as we share our learnings and encourage the exchange of best practices within our existing farm network.

Before I hand it over to Thilo, I want to address one more topic. Just like everyone in our industry, we expect to be affected by the recently announced tariffs. While we believe our consumer to be very loyal and resilient, **we're anticipating cost impacts on our business**. To offset this anticipated impact and provide us with operating flexibility, we've announced to our retailer partners a modest, low double-digit percentage price increase for our shell egg products that will go into effect this month.

In summary, **we delivered a strong first quarter** that leaves us well positioned to achieve our financial targets. Egg supply remains tight, but we expect it to improve beginning this quarter as farms recently added to our network ramp up production and new farms continue to come online over the course of the year. As a result, we expect to deliver a significantly faster year-over-year net revenue growth in the back half of this year, consistent with our 2025 outlook. Over the long-term, we expect **demand growth to remain healthy as we drive increased market penetration from low levels** and target a loyal and resilient consumer. I'm very excited about our future and believe we are on our way to becoming America's most trusted food company. I'm certainly looking forward to it, and I hope you are, too.

And with that, I'll now turn the call over to Thilo.

Thilo Wrede

Thank you, Russell. Hello, everyone, and thank you for joining us today. I will now review our financial results for the first quarter ended March 30th, 2025 and then provide color on our guidance for fiscal year 2025.

Net revenue for the first quarter of 2025 rose to $162.2 million, an increase of 9.6% compared to the prior year period. This was driven by price mix benefits and volume related growth of $1.9 million. **The volume related growth was well below trend** due to limited egg supply. As a reminder, we expected **the first quarter to be our slowest volume and net revenue growth quarter this year** due to the previously discussed supply constraints. And **we continue to forecast improving** year-over-year volume and net revenue growth beginning in the second quarter.

Gross profit for the first quarter rose to $62.5 million or 38.5% of net revenue from $58.9 million or 39.8% of net revenue last year. **The increase in gross profit dollars** was primarily driven by revenue growth. Lower conventional commodities and diesel costs also contributed to the profit gain. **Gross profit margin was down year**-over-year due to increased investments in crew members to keep pace with expected company growth and less efficient operations due to the limited egg supply after an exceptional operating quarter last year.

SG&A expenses for the first quarter were $31.9 million or 19.7% of net revenue compared with $27.1 million or 18.3% of net revenue in the first quarter of last year. **The increase in SG&A in the first quarter** was driven primarily by employee related costs, including stock-based compensation and increased head count, professional service expenses, and technology and software related expenses. **These costs all reflect the expansion of the business**. Shipping and distribution expenses for the first quarter of 2025 were $8.8 million or 5.4% of net revenue compared to $7.6 million or 5.1% of net revenue in the first quarter of 2024. **The increase was driven by higher sales volumes and higher linehaul rate**.

Net income for the first quarter of 2025 decreased 11.2% to $16.9 million or $0.37 per diluted share compared to $19 million or $0.43 per diluted share for the first quarter of 2024. The decrease in net income was driven by increased investments and future growth of the business, partially offset by higher sales and gross profit. Adjusted EBITDA for the first quarter of 2025 was $27.5 million or 16.9% of net revenue compared to $29.1 million or 19.7% of net revenue for the first quarter of 2024. **The decrease in adjusted EBITDA** was driven primarily by higher personnel investments, partially offset by higher sales and gross profit.

Turning now to our balance sheet. As of March 30th, 2025, we had total cash, cash equivalents and marketable securities of $161.3 million with no debt outstanding. Our balance sheet reflects the land parcel in Indiana valued at $3.2 million as an asset held for sale, which was previously acquired for potential accelerated farm development. We have identified available land that better meets our needs and are therefore selling this plot. I believe this situation exemplifies exactly the kinds of learnings we can only gain through putting ourselves into the shoes of our family farmers and reinforces the rationale for developing our accelerator farms. It is also worth noting that this decision has no impact on our ability to deliver the about 15 accelerator farms we have committed to as our existing landholdings fully support our development plans.

Before I discuss our guidance, I would like to address our progress on remediating the material weakness in internal controls previously highlighted in our 2024 Annual Report on Form 10-K filing. The finding relates to the revenue recognition process. Specifically, we elect automated reconciliation between purchase orders and sales reporting. Importantly, this was a design deficiency only. No revenue inconsistencies were found and we do not anticipate any restatements. Our remediation plan is progressing well and remain on track to address this issue. We remain confident in our financial reporting integrity and overall control environment.

Now, looking ahead. For full year 2025, we are happy to confirm that **we continue to expect net revenue of at least $740 million or at least 22% growth versus 2024, and adjusted EBITDA of at least $100 million or at least 15% growth**. The guidance includes the price increase Russel had mentioned and any expected impacts from our current understanding of the new tariff environment. Given **the increasingly dynamic and uncertain macroeconomic backdrop** created by the recent tariff announcements, we are reiterating our full year guidance. Though recently announced tariffs could impact the purchasing behavior of our consumers as well as our cost structure, we believe we will be relatively insulated from these pressures given our premium consumer base, domestic focus, and the non-cyclical nature of our product category.

As for the cadence of the year, we expect volumes to accelerate over the course of the year as supply improves. As recently added farms ramp up production and additional farms come online, we expect **sequential capacity increases** to drive accelerating year-over-year volume growth each quarter as we move through the year.

Lastly, we still expect fiscal year 2025 capital expenditures in the range of $50 million to $60 million. As previously discussed, CapEx spending will be elevated in 2025 and 2026 because of the new egg grading system at ECS Springfield; the planned new facility in Seymour, Indiana; the construction of accelerator farms; and our internal digital transformation project, which I'll provide an update on in just a moment. We plan to fund our current plans for Seymour and all other projects this year with existing cash and operating cash flow. We project that every dollar of CapEx investment in Seymour will generate more than $5 of annual revenue capacity, which **we consider a very strong return**. As always, we continue to evaluate and monitor our capital allocation priorities. After the last several quarters, we want to ensure that we have enough capacity in place ahead of expected demand growth and that we optimize the use of capital and the return for all of our stakeholders. We will provide updates on this as necessary.

Now to discuss our digital transformation initiative, which includes our new ERP system implementation. We've updated the launch date from summer to early fall 2025 to ensure flawless switchover. The timing adjustment supports our commitment to minimize any risk for operational disruptions and does not add costs to the budget for the project. We remain fully committed to this investment, which is fundamental to the operational improvements we are planning, including streamlined processes, increased efficiency, and an enhanced ability to compete and reinforce our position as an industry leader.

Our long-term guidance remains unchanged. We're continuing to target $1 billion of net revenue by 2027, with a gross margin of about 35% and an EBITDA margin of 12% to 14%. The financial outlook **I've just shared reflects the strength of our business model and the proven success of our strategy**. Our loyal customer base provides us with a resilient foundation for our growing network of family farms that insures product quality and supply chain stability. Every investment we make to increase retail penetration and brand awareness is delivering measurable results as our egg and butter products reach more households quarter-after-quarter.

We are executing against our commitments and remain confident in the value we are creating for all stakeholders. Once again, we thank you for your time and interest in Vital Farms today and for the confidence that you have placed in us as your investment.

With that, we are now happy to take your questions.

QUESTION AND ANSWER SECTION

Operator

Thank you. We will now begin the question and answer session. Your first question comes from the line of Brian Holland with D.A. Davidson. Your line is now open.

Answer – Thilo Wrede: Hey, Brian. We can't hear you. Brian, we don't hear you.

Operator

As a remainder, if you are called upon to ask your question and are listening via loudspeaker on your device, please pick up your handset and ensure that your phone is not on mute when asking your question.

Analyst: Brian Holland

Question – Brian Holland: Hey. Try again.

Answer – Thilo Wrede: Brian, we heard you for a second.

Operator

Your next question comes from the line of Robert Moskow with TD Cowen. Your line is now open.

Analyst: Robert Moskow

Question – Robert Moskow: All right. Hopefully we'll have a little better luck here. Thilo and Russell...

Answer – Russell DiezCanseco: Hey, Rob.

Question – Robert Moskow: Hi there. Good morning. The price increase that you've announced, you described it as low-single digit. My perception is that a lot of retailers have raised prices already on your products a lot more than that just because of category dynamics. So, did you consider raising prices more in line with what retailers have already done? And then secondly, I guess, what I would hope is that if the retailers have already raised prices a lot, that they won't take this as a signal to raise them even further. So, can you talk a little bit about that balance?

Answer – Russell DiezCanseco: Absolutely. Hey, Rob, it's Russell. Great questions. So, as we've said before, we think about pricing primarily in service of protecting our gross margins, which we believe are reflective of the power of our brand. A lot of what we're focused on is driving long-term sustainable growth. And so, we want great relationships and, frankly, great economics for our retail partners and pricing that ensures great kind of consumer surplus or value for our consumers as well relative to the price they're paying. So, **we drove this** primarily based on our assessment of what we thought we needed to do in order to ensure a strong make on our guidance this year.

Now, as for retailer pricing, there's – every retailer has their own process for that, and it's not really something we have a lot of influence over or any packaged goods company I think for that matter. I can only speculate that they'll continue to price relative to their competitive needs and making sure that they're meeting their own brand commitment to their consumers.

Question – Robert Moskow: Okay. And then as a follow up, I mean, just anecdotally, you look at the shelves today, they look a lot more full in the egg aisle than they were during the height of the avian influenza. So, to what extent are you right now fully up to speed at retailers in line with the rest of the category, which also appears to be back to normal?

Answer – Russell DiezCanseco: Yeah. I think the category is still far from fully servicing the demand that retailers are placing through their orders. **We certainly see continued elevated orders from retailers**, which we think reflects both their desire to refill their channel with our eggs, but also with eggs from throughout the category. So, we're not out of the woods yet. In fact, there was **yet another layer flock impacted**, not ours but in the industry, by avian influenza within the last few weeks.

That said, as you can see from our own scan data in recent weeks, the volumes continue to go up as we execute on the plan that **we shared at the end of the year to increase our volumes throughout the year**. And I'm hopeful that we'll see a reprieve from avian influenza and we'll get back to a more normalized market in the back half.

Question – Robert Moskow: Okay, great. Thank you.

Answer – Russell DiezCanseco: Thanks, Rob.

Operator

Your next question comes from the line of Jon Andersen with William Blair. Your line is now open.

Analyst: Jon Andersen

Question – Jon Andersen: Good morning. Thank you for the questions. I wanted to ask about volumes both in the quarter and then kind of the full year. Was the kind of low-single digit volume growth in Q1 consistent with kind of your expectations? And as you progress through the year, is your expectation that the way that kind of the egg supply kind of on-boards via your new farms and your capacity processing capacity of those eggs that the step up in growth from quarter-to-quarter as you move through the year is fairly uniform? Or are you expecting more of an unlock at some point during the year? I'm just trying to get a little bit more sense of that. And then I did want to confirm on the price increase that you said low-single digit on all shell eggs. Thanks.

Answer – Russell DiezCanseco: Thanks, Jon. Great question. I appreciate you asking the question about volume because there is a little bit of detail I want to make sure we share. I'll ask Thilo to answer the question about the price increase. So, we did show, as you saw, a low-single digit percent increase in volumes year-on-year, **which is lighter** than I think reflects the actual growth of our of our strong commercial business. And the X factor here is the volume of sort of waste eggs or second grade eggs that we sell into the breaker market and don't make it into a Vital Farms carton.

We have become much more efficient at processing our eggs, and so we have much fewer eggs that aren't making it into a carton. So, our yields are up, which supports our strong gross margins, but the volume that we end up sending into that market is down. And in fact, if you normalize, if you take out breaker volume both last year and this year, our volume growth was 5.6%. So, the underlying branded business had much stronger growth than the financial volume reporting would indicate. Thilo, do you want to comment on pricing?

Answer – Thilo Wrede: Yeah, Jon, what we said about pricing was that it was low-double digit increase in pricing, what we're charging retailers. And so, that will come into effect this quarter. And then, as we're going through the year, I think the question you asked about the cadence of volume growth, as you look at the rest of the year, I think the volume growth that you'll see will reflect a bit more of the farm growth that we've talked about over the last few quarters. As those farms come online, we can now start selling those eggs. What dragged down the volume growth in Q1 in addition to the what Russell just said about the wholesale market not showing up in scanner data, for example, but showing up in our results. The other part that dragged down Q1 was the fact that we had inventory last year that we could sell to retailers and we didn't really have egg inventory this year. And so, as we are now starting to bring farms online in Q2, we'll still be somewhere at a transition point in terms of volume growth. And then as we get into the back half of the year, it will really accelerate.

Question – Jon Andersen: Super helpful. Thank you so much.

Answer – Russell DiezCanseco: Thanks, Jon.

Operator

Your next question comes from the line of Matt Smith with Stifel. Your line is now open.

Analyst: Matthew E. Smith

Question – Matthew E. Smith: Hi. Good morning. Thank you for taking my question.

Answer – Russell DiezCanseco: Good morning.

Question – Matthew E. Smith: You reiterated the guide for the year, but can you talk about how the recently announced pricing has impacted your outlook? Was the pricing contemplated in the initial outlook? Or – and can you talk about the visibility you have into the phasing of egg availability? Thilo, you just talked about the farms coming online, but is the timeline consistent with your previous expectation of when you sign up a farmer and when they start taking or start producing eggs off the farm? Thank you.

Answer – Russell DiezCanseco: Thanks, Matt. I'll take the first part of that, which was that, no, we did not anticipate a price increase when we offered guide at the beginning of the year. I think we were really clear in our guidance that there was no anticipated price increase. But as we progressed into the year and we started to learn more about the impact of tariffs, for example, on the cost of various commodities, we thought it was prudent to take this modest price increase to ensure that we're in good, great shape to deliver on our commitments for this year.

And so, that's all that it is. We have built in a fair bit of flexibility into our operating model as we've always had to make sure that we can deliver the plan. And we may find in the back half that we have different ways to allocate the revenue that we get from that price increase, again, to ensure we deliver both on our long-term goal of building a sustainable brand and our short-term financial commitments.

Answer – Thilo Wrede: And then, Matt, just to add to the visibility of farms coming online, farms are coming online pretty much at the pace and at the magnitude that we anticipated 12 months ago. They're coming online at the pace that the announcements from last year quarter-over-quarter would imply. The timeline between signing a farm and the farm coming online, what we've talked about for quite a while now, we're taking somewhere around nine months, give or take. That hasn't changed. And so, that is all pretty much – not pretty much, that is all on track. And that gives us the visibility that we need for the remainder of the year to feel really confident about our guidance.

Question – Matthew E. Smith: And just one follow up on the tariff exposure. Russell, can you talk about where some of the cost pressure you're seeing is coming from? I think the butter business is fully imported. Pretty clear that that would have an impact. But maybe where are you seeing the cost pressure on the egg business? Thank you.

Answer – Thilo Wrede: Yeah, Matt. Let me take that one. So, you're right. Butter is imported. We're importing it right now from Ireland. We're importing some of our packaging. Our packaging provider has capacity in Canada, where we're importing some of our packaging from. And as we're building out the accelerator farms, some of the farm equipment comes from Europe. Obviously, as we're building up the farm network, our family farmers that we're recruiting are also importing the same barn equipment. So, for them, **the construction costs are increasing presumably with the tariff**.

Now that being said, I think compared to the rest of the consumer space that's reporting right now, I think **our exposure to tariffs is a bit more limited** and we have a very good handle on what the tariff impact could be. And so with that, the price increase that we've talked about, that is more than sufficient to cover the impact of the tariffs. And with that, I think with the pricing power that we have or the resilience of the business that we have, I think **we are really well positioned for this year despite the tariffs**.

Question – Matthew E. Smith: Thanks, Thilo. I'll pass it on.

Operator

Your next question comes from the line of Ben Klieve with Lake Street Capital Markets. Your line is now open.

Analyst: Ben Klieve

Question – Ben Klieve: All right. Thanks for taking my question. First, I'd like to ask a question on the retail distribution. It looks like in your presentation that you noted **distribution increased from 24,000 stores to 26,000** here. That 24,000 number had been kind of stale for – my record show like about a year and a half. And so I'm wondering if you can elaborate a bit on this distribution increase and kind of characterize the retailers that were included in that increase?

Answer – Thilo Wrede: Yeah, Ben, let me take that one. That one is really more technicality rather than increase in distribution. As you know, we switched our data provider from Nielsen to Circana. Circana has a somewhat different universe of their tracking relative to Nielsen. And so, in Circana, we're now in 26,000 stores, not in 24,000 stores that Nielsen is tracking. **We had some distribution gains over the course of the quarter** but certainly not to the degree that the change in numbers in the deck would imply. And so, don't read too much in the change from 24,000 to 26,000 retailers. It really is just a change in data source. There's no underlying meaningful growth of new retailers that we are in or new doors that we are in, I should say.

Question – Ben Klieve: Got it. Okay. Fair enough. And then last one for me and then I'll pass it on. A follow up to the tariff question. It totally make sense for all the impacts in the income statement. Can you elaborate though on any impact you see on the expansion into Seymour? Are you expecting your pricing to increase in a material way for that project or have you fully considered that in the plans you've discussed today?

Answer – Thilo Wrede: Yeah. Seymour is – there certainly will be somewhat of a tariff impact. Some of the equipment that we are installing in Seymour comes from Europe. So, there will be **an impact as construction costs overall go up because of tariffs on steel, for example, that will impact us**. But that is all within the range of our budget for Seymour as it is. And so, the CapEx guidance that we have given for the year, the $50 million to $60 million, that is the impact that we're foreseeing for phase one of Seymour right now. And with that, we don't see any need right now to change that.

Question – Ben Klieve: Very good. Okay. Appreciate the color. Thanks for taking my questions. I'll get back in queue.

Answer – Thilo Wrede: Thanks, Ben.

Operator

Your next question comes from the line of Eric Des Lauriers with Craig-Hallum Capital Group. Your line is now open.

Analyst: Eric Anthony Des Lauriers

Question – Eric Anthony Des Lauriers: Great. Thanks for taking my questions. First ones for me are around consumer behavior. I apologize if any of this is being repeated. I think **I had some audio issues when you were discussing the consumer metrics, but just wondering if you've seen any changes in recent weeks to consumer behavior in the pasteurized egg category as a whole or in your brand just in light of this macro uncertainty**. And then if you've seen any evidence of increased trial by new customers given the heightened prices for (00:36:38).

Answer – Russell DiezCanseco: Thanks, Eric. Russell here. I think this quarter has been a wonderful proof point of the power of the model that we've been using to build this brand over the last decade. We shared a terrific slide in the presentation that accompanied our release, which shows how we – as **we have grown households over the last several years**, we've had a very consistent breakout of heavy users, medium users, light users, et cetera. And what that tells me is that in good times and bad, in challenged economy and not, our consumers continue to go very predictably from awareness to trial to repeat to heavy user. And that hasn't changed, including with this macro backdrop.

Additionally, we found, **I think, a very powerful increase in brand awareness**. I believe that's from 26% to 31% over the last quarter. And some of that certainly would be from the eggs simply being more in the news. But I think it's also reflective of the fact that **we did not go dark in our commercial efforts and our marketing efforts** even though we are in a period of supply constraint because we know that investing in awareness now will help us drive increased household penetration and expansion of our brand in the quarters and years to come.

Question – Eric Anthony Des Lauriers: That's very, very helpful. Thank you. And then just last one from me. **Really strong growth in the butter business**, I guess, sort of on the backs of the improving brand awareness. Just wondering if you could talk a bit more about the dynamics of building the supply side of the butter business. Wondering what levers you have to sort of expand supply and capitalize on growing demand. Thanks.

Answer – Russell DiezCanseco: Yeah. Thank you for that. So, as we have discussed over the last several quarters, we spent 2024 really transitioning our butter supply chain for several quarters. Prior to that, **we had been very limited by our ability** to source the high quality cream and ultimately butter that we thought was critical to our brand and to the product we wanted to offer consumers. And lots of structural reasons for that here in the United States. That said, the kind of butter we offer is much more consistent with growing practices and production practices in Ireland, and that's why we made that change. And so, with that change, we do not anticipate bottlenecks to our continued growth for years to come.

Operator

Your next question comes from the line of Ben Mayhew with BMO Capital Markets. Your line is now open.

Analyst: Benjamin Mayhew

Question – Benjamin Mayhew: Hi, good morning. So, my first...

Answer – Russell DiezCanseco: Hey, Ben. Welcome.

Question – Benjamin Mayhew: Hey, good to be here. So, the comments around your guidance taking into account the potential impact that global trade and economic tensions could have on consumer spending (00:40:19-00:40:38)?

Answer – Thilo Wrede: Ben, your connection broke up there. I picked guidance, consumer tariffs, price gaps, something along those lines. So, maybe try again.

Answer – Russell DiezCanseco: Let me take a shot at what I think the question was which was, hey, if tariffs challenge consumer, will that in turn impact how we think about sales growth and driving top line growth? And the answer is we actually don't see an impact from a potential macro impact from the tariffs on the consumer impacting our continued ability to drive the growth that we've put up historically year after year after year.

And I think there are two reasons for that. The most important of which is that we have a brand that connects with consumers and really creates value because we do things with a purpose and we produce our eggs in a different way than the traditional producers do. And consumers are showing us that they're much less willing to trade that down even when their wallets are challenged than perhaps some other categories. And I think that's reflected in the results we shared this morning versus some of the other results we've been seeing in this quarter's releases from other companies.

But the other reason is that we have one of the highest levels of exposure to high income households. And so, while people across the income spectrum are showing that once they've tried our eggs, once they understand our story, **they're really reluctant to trade** away from that. In general, if you believe that exposure to higher income households is a further way to insulate a brand from the risks of trade down, we have that as well.

Question – Benjamin Mayhew: Yeah. Thank you. That answered my question and just my last one here, you noted that you have exceeded 450 family farms now from 425. So, I was just hoping that you could comment on how the recruitment and onboarding process is going as you continue to scale and reach a much higher baseline of farms.

Answer – Russell DiezCanseco: Thanks. Very fair question. As we've said in the release and in the prepared remarks, we continue to recruit farmers on our schedule as we've elected to. We have a really terrific team in the field that does everything from build awareness of who Vital Farms is in the farming community to helping educate prospective farmers on what it takes to do really well working with us. And then, perhaps even most important, provides the support necessary for our farmers to be successful in the months and years to come after they've signed up with us. And with that sort of 9 to 12-month lead time between signing a contract with a new farmer and having eggs coming off of that farm, the number of farms producing today was essentially what we elected to add 9 to 12 months ago. That's always been the case, and **we're having terrific success** adding the farms we have chosen to add this year as well.

Question – Benjamin Mayhew: Great. Thank you.

Answer – Russell DiezCanseco: Thank you.

Operator

Your next question comes from the line of Megan Clapp with Morgan Stanley. Your line is now open.

Analyst: Megan Alexander Clapp

Question – Megan Alexander Clapp: Hi. Good morning. Thanks so much. Maybe a follow up to some of the comments earlier around the price increase and the guidance. Certainly, I don't want to put words in your mouth, but if you could just clarify. It does sound like maybe **you could have raised the guide given the price increase, but makes sense and is prudent to leave some cushion just given the consumer uncertainty and maybe some flexibility to go after demand in the second half**. Would just be curious, your reaction to that.

Answer – Russell DiezCanseco: Yeah. I don't think you're far off. The thing that I would add is that **we're probably have less concern about consumer uncertainty than some other companies** do. Again, lots of reasons that we believe our consumer is both resilient and much less willing to trade away from our product. And **you can see that in our ability to put up strong growth and gross margins over time** regardless of price gaps to the lowest priced eggs in the market, which I think is the – maybe the key proof point that even when there's a much lower-priced alternative in an egg that on the outside looks the same as ours, the consumers who have come to appreciate our brands and what it stands for aren't interested in trading down to those.

So – but the rest of it sounds pretty reasonable and is very consistent with what we've been doing since we went public, which is making sure that we set ourselves up for success and to be able to deliver on our commitment to all stakeholders, especially our shareholders. So, at this point, we believe **we've got the right** mix of levers, including the benefits from this modest price increase to deliver on the guidance we gave at the beginning of the year.

Answer – Thilo Wrede: Megan, let me just add to that, right? We just finished Q1. Q1 played out the way we thought it would play out with volume, with maybe slightly better price mix than what we initially thought. But overall, it played out the way we thought. This was always intended to be the smallest quarter of the year, so we still have a long way to go. And I would argue across the entire US economy, uncertainty has certainly increased. So, before we think about how high is high for the rest of the year, I would want to see a bit more of what the year-over-year look like and how the year will play out before we reconsider what guidance would be.

Question – Megan Alexander Clapp: Yeah. Fair enough. That makes a lot of sense. And then maybe just a follow-up on the gross margin, the 38.5% in the quarter (00:47:08) the back half of last year. So, would just be curious how did that come in relative to your expectations. Is there anything transitory we should be thinking about? And related to that, how should we think about the phasing of the rest of the year for gross margin?

Answer – Thilo Wrede: Yeah. The gross margin was pretty much where we thought it would be. We pointed out after the first quarter last year that we've had very healthy gross margin because ECS ran incredibly well. This year was – the first quarter was much more a normal quarter, I would say. So, for example, we had a snowstorm in Missouri that resulted in us not being able to ship any eggs because trucks wouldn't show up at ECS. Trucks just couldn't drive in Missouri, right? And so, this was a much more normal quarter in terms of operations. The quarter was also – because we have this egg supply constraint, that means that ECS just doesn't run as efficiently as it normally would because you have to do more switchovers depending on when eggs come in and so on.

And so with that, the quarter – this quarter we always thought would be lower gross margin. And then, we are staffing up in anticipation of growth for the rest of the year, right? So, we are staffing up before we actually need crew so we have the time to train them and to build up their skills. And those were costs that we started to incur in the first quarter already. And with that, the year-over-year decline in gross margin was really something that we expected.

For the full year, the pricing that we announced might benefit us a bit. But keep in mind, second quarter last year was also a very strong quarter last year because ECS, again, ran exceptionally well, probably not going to repeat this year. And then, between tariffs and commodity costs in the back half of the year, I probably wouldn't expect gross margin to repeat at the same level as last year.

Question – Megan Alexander Clapp: Okay, great. Thank you so much.

Answer – Thilo Wrede: Thanks, Megan.

Operator

That concludes our question-and-answer session. I will now turn the conference back over to John Mills for closing remarks.

Great. Thank you and thank you, everyone, for participating on our first quarter call today. We look forward to updating everyone on our progress for the fiscal year during our second quarter call. Hope everyone has a wonderful day.

Operator

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.