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Vital Farms Inc

Furey Research Partners Hidden Gems Conference - Fireside Chat

Mon Nov 25 2024 Conference Transcript

Furey Research Partners Hidden Gems Conference - Fireside Chat *(Corrected version)*

Summary NEW

Key Takeaways

Vital Farms Inc. management discussed the company's business overview, key financial results, growth opportunities, and strategic initiatives, including their long-term financial targets and brand strength. They also addressed supply chain management, farmer recruitment, and capital allocation.

Business overview

- Vital Farms was founded in Austin, Texas in 2007 .
- The company is a certified B Corp and a public benefits corporation .
- Their mission is to bring ethically produced food to the table, and their purpose is to improve the lives of people, animals, and the planet through food.
- About 95% of their revenue is generated with eggs and egg-related products .
- The remainder is a small but fast-growing butter business .
- The company sources eggs from over 375 family farms in the US.
- They process all of them in one central egg processing facility in Springfield, Missouri .
- They are working on a new facility that will become operational by the end of 2026 in Seymour, Indiana .
- The eggs are sourced from farms located in the Pasture Belt , where chickens have 108 square feet of outdoor space.
- The company operates with a stakeholder model , considering animal welfare, the environment, farmers, vendors, employees, customers, consumers, and shareholders.

Key financial results

- Last year's revenue was $472 million with $48 million in adjusted EBITDA .
- The current guidance for this year is $600 million of net revenue and $80 million in adjusted EBITDA .
- The longer-term target for 2027 is $1 billion in net revenue, 35% gross margin, and 12% to 14% adjusted EBITDA margin.
- Since their IPO in 2020 , they are guiding that they'll deliver almost 30% net revenue CAGR and a 47% adjusted EBITDA CAGR over that same timeframe.
- More than two-thirds of this revenue growth is coming from volume, with less than one-third generated by pricing.
- The company uses pricing mostly to protect gross margin against commodity cost fluctuations, not to drive growth.

Industry-specific KPIs

- The company tracks aided brand awareness, household penetration, and buy rate.
- Since their IPO , they have almost doubled their household penetration.
- Consumer buy rate has increased 75% .
- The growth in the buy rate was due to consumers purchasing more frequently and buying more units per year.
- The total average items carried have grown 20% or 30% over the last four years, depending on the channel.
- Average items carried in both channels have roughly doubled over the last four years.
- As they gain distribution, they're selling more and more of the items.

Competitive landscape

- Vital Farms' eggs are often the most expensive option on the shelf.
- The brand stands for transparency, trust, and quality.
- In channels where they operate, branded eggs have gained share over the last five years.
- In channels where they don't operate, private label eggs have gained almost 12 points of share.

Growth opportunities and strategic initiatives

- The company is focused on long-term growth and long-term success, not short-term margin maximization.
- They are building out a handful of accelerator farms to test and learn new things and then spread best practices across their independent pharma network.
- The goal is to make all of their family farmers more productive.
- They don't intend to become vertically integrated, keeping the accelerator farms to about mid-single digit percentage of their overall supply.
- They are in the process of building a new processing facility in Seymour, Indiana , where they will break ground next year and then they'll put eggs into cartons at the end of 2026 .
- As marketing spend increases, brand awareness increases, which translates into revenue growth with about a four-quarter lead time.
- The number of hens under contract is a leading indicator of volume performance, with about a five-quarter lead time.

Financial Guidance and Outlook

- By 2027 , the company guides to generate $1 billion in net revenue, 35% gross margin, and 12% to 14% adjusted EBITDA margin.
- They believe that they are on a good path to deliver this guidance.
- In the year-to-date, they are above the gross margin and adjusted EBITDA margin targets.

- Based on consensus forward growth expectation, they're trading at a meaningful discount to the food CPG space.

Farmer Recruitment and Supply

- It takes a little over a year to sign up farms from first contact to them producing.
- The company recruits farmers through advertising and direct contact.
- They prefer to work with farmers that have livestock experience, but not necessarily chicken or egg experience.
- Farmers need to bring about 50 acres into this operation.
- The company guarantees to buy all the eggs that the farmers are producing.
- They adjust prices up or down for the farmers depending on where commodity costs are going.
- If they want 40% more revenue in three years, they'll probably need 40% more farms than they have today.

Capital Allocation

- The company has $163 million of cash and investment securities on the balance sheet.
- All the investments that they have planned over the coming years, they intend to fund them out of operating cash flow.
- Cash returns to shareholders are not on the agenda yet.

Q & A Highlights

Vital Farms' Furey Research Partners Hidden Gems Conference fireside chat featured analyst James Hamilton Furey questioning CFO Thilo Wrede on supply chain management, specifically farmer recruitment and capacity expansion, and on financial strategy, including margin targets, pricing power, and capital allocation. The discussion also covered brand strength, market share growth, and potential category expansion beyond eggs.

Supply Chain and Farmer Recruitment

- **Q: How do you recruit farmers, given that supply seems to be a gating factor for demand?**
- A: Vital Farms' supply planning is a long-term exercise. It takes a little over a year to sign up farms, from the first contact to production. The company advertises, recruits, and talks to farmers, with farmers contacting them daily. The company screens potential farmers, ensuring they are good community members, and helps them secure loans to build barns. Most farmers they work with do not have prior egg experience. Vital Farms prefers farmers with livestock experience but not necessarily chicken or egg experience, so they can learn the company's specific production methods. Farmers need to bring about **50 acres** into the operation. The company guarantees to buy all the eggs that the farmers are producing and provides clear visibility of pricing, adjusting prices based on commodity costs.
- **Q: What are you guiding towards the number of farms for the next three years?**
- A: Vital Farms has not provided specific guidance on the number of farms for the next three years. Since the company hasn't figured out how to get the birds to produce more eggs, if they want **40%** more revenue in three years, they'll probably need **40%** more farms than they have today.

Financial Performance and Strategy

- **Q: Given that this year has seen Vital outperform on revenue and gross margins while reinvesting the excess profits for long-term growth, what is their commitment to showing operating leverage in 2025 and 2026?**
- A: Vital Farms has not provided guidance for **2025** or **2026** yet. Their gross margin and adjusted EBITDA margin are already ahead of their **2027** targets. There are still a lot of investments that they have to make in order to capture the growth opportunity that they see out there. The company wants to maintain the flexibility to be able to invest in the business and continue to grow revenue before they think about operating leverage. Capturing the growth is really the priority right now.
- **Q: Where do you think your pricing advantage can get to? Has that peaked out? Will there be risk to it? And where do you think your unit volume share can reach?**
- A: Pricing for Vital Farms is really a tool to protect gross margin from commodity cost fluctuations, and inflation in particular. The company had to take pricing in **2022** and **2023** in particular that protected margin. That's why they have such a healthy margin right now. It is not part of the growth algorithm to get to the **$1 billion**. All the growth has to come from volume. If they are at **8%** volume share right now and they want to grow the business by another **66%** until **2027**, that gives a rough idea of how much their volume share has to grow.
- **Q: How do you think about the return of capital, given you're a distribution company with a very strong brand? How do you think about that and will you do share repurchase? Will you do dividends? How do we think about that over the next few years?**
- A: Vital Farms does not have debt on the balance sheet. They have **$163 million** of cash and investment securities on the balance sheet. All the investments that they have planned over the coming years, they intend to fund them really out of operating cash flow. The company thinks there are plenty of opportunities for them to expand this brand into different categories down the road. Cash returns to shareholders, be it through dividends, share repurchases, you name it, it's not really on the agenda yet for them.

Brand and Market Share

- **Q: What does that mean about the advantage of organic eggs are thicker shells and better yolks? Why is that an advantage that matters?**
- A: Vital Farms' yolks have a beautiful color when you crack them or make a fried egg. The egg yolk really stands up. In their mind, that's a sign of quality. The thicker shells is also a sign of quality. There's less risk of the eggs breaking on the way to the store.
- **Q: You're in 24,000 stores, I believe, currently. You talked about SKUs. Can you talk to the number of stores? Is that mature? Can you expect more? Are there step function relationships to add? And then help me explain the - how important SKUs are in the egg business in particular, because the butter business is much, much smaller, right and is more difficult to grow.**
- A: By Vital Farms' count, there are about **32,000** stores in the US that sell what's called specialty eggs. They are in **24,000** of these **32,000** stores. Over time, there is an opportunity to get into more. The focus for them is getting more SKUs on channels. SKUs for them, it's a **12 count** or **18 count**. They roll it out. Even after they reached these four big SKUs, they continue to gain distribution within smaller SKUs. When they put more SKUs on the shelf, it actually generates a benefit for them that they now create a brand block on the shelf.

Category Expansion

- **Q: When you talk about categories, I think to my home shopping and my family likes organic beef and insists that I do get it, and it comes at a big premium. Would organic meat be a category that makes sense for you?**
- A: It's one of these never say never questions. Vital Farms has looked at various categories in the past. They've talked in the past about looking at poultry and dairy. They want to make sure that whatever a new category would be that it is something where they can actually improve the food system, similar to what they have - what they are doing in eggs, where the hens that lay their eggs are living a much better life than your average egg in the US - or hen in the US. For the time being, they see so much growth in eggs that that is where their focus is.

Event Details

Date: 2024-11-25
Company: Vital Farms, Inc.
Ticker: VITL-US

Company Participants

Thilo Wrede - Vital Farms, Inc., Chief Financial Officer

Other Participants

James Hamilton Furey - Analyst

MANAGEMENT DISCUSSION SECTION

James Hamilton Furey

Okay. Thilo Wrede, we are here in a vitally important presentation. Sorry, I could not resist, so.

Thilo Wrede

Usually, we get puns about eggs.

James Hamilton Furey

Yeah.

Thilo Wrede

Vitally then, that's a new one for us.

James Hamilton Furey

Well, when my family and our firm's admin saw that you were presenting, they said, those are the only eggs I will eat. They're the best.

Thilo Wrede

(00:00:42)

James Hamilton Furey

So we're very excited to have you here today. Thank you very much for presenting in all the one on ones. And with that, I will toss it over to you and say for people new to the conference, just dialing in, please feel free to reach out with questions via the chat. And with that, I'll turn it over to you. Thank you.

Thilo Wrede

Wonderful. We prepared a few pages. I'll quickly go through them, and I think we'll have plenty of time at the end for some questions. So let me just put up the pages here. First of all, thank you for having us here. Happy to be here today And I appreciate the opportunity to introduce you to Vital Farms, so our – if you know us already, to deepen your understanding of the company. Just see if we get a few housekeeping items out of the way. I'm not going to read this page. You'll be able to find this presentation on our Investor Relations website later today if you want to read the fine print in detail.

So with that, let's get to it. My name is Thilo Wrede. I am the CFO at Vital Farms. Joined the company in March last year, and I thought I would give you a brief overview today of who we are and what we do, and then talk a little bit about what our outlook for the future is.

Vital Farms was founded in Austin, Texas in 2007. We're a certified B Corp and **we're a public benefits corporation**. Our mission is to bring ethically produced food to the table, and our purpose is to improve the lives of people, animals and the planet through food. About 95% of our business, or of our revenue is generated with eggs and egg-related products. The remainder is a small but fast growing, again, butter business.

And you can see our financials on the page here. Last year we generated revenue of $472 million with $48 million in adjusted EBITDA. Our current guidance for this year, which will end at the end of the year, is $600 million of net revenue and $80 million in adjusted EBITDA. And we have a longer-term target for 2027 of $1 billion in net revenue, 35% gross margin and 12% to 14% adjusted EBITDA margin.

You'll see on this page here some of the products that we are selling. We also put some of the awards that **we have won over the last few years on this page**. And there are two that I want to point to in particular. The first one is this SQF certified banner. We have the only egg processing facility globally that has an Excellent rating from the Safe Quality Food Institute. And earlier this year, **our Quality Assurance Manager, Robert Clark, was recognized for his excellent in food safety leadership**. It really points to how important food safety is to us, how important processing quality is to us. That's why I pointed this one out.

The other one is the Brands That Matter logo here. That's an award that Fast Company hands out every year. And last year we were recognized for **our industry leading transparency around our products**. I'll come back to that in a few minutes.

What sets us apart is we're selling premium products and **we have a powerful brand**. Our eggs are often the most expensive option on the shelf, and **we're currently seeing faster percentage growth from higher priced items**, be that organic eggs, 18 count cartons or super premium eggs like our blue eggs or restorative eggs. And in the context of low trust by consumers and the food system in the US, our brand stands for transparency, trust and quality. All of these are aspects that our consumers appreciate and are willing to pay a premium for.

We operate with a stakeholder model. That means that we consider animal welfare at the environment, treatment of farmers and vendors, our employees and customers and consumers all along with our shareholders. We consider all these stakeholders in all of our decisions. And that means that we are running this business for the long term, for long-term growth and long-term success, and not short-term margin maximization. This adherence to the stakeholder model gives us a unique culture, and that unique culture, **I think, attracts very strong talent**. And between the culture and the talent, those are probably some of the key strengths that we have. And with that setup, that leads to these aggressive growth targets that I talked about on the previous page.

So, let me give you a bit of an overview of how we operate. For the rest of the presentation, I'll mostly talk about our egg business since it's the majority of our business. And when you talk about the egg business, we're currently in over 11 million households in the US. Our products are distributed through 24,000 plus retailers in the country. We source our eggs from over 375 family farms in the country and we process all of them right now in one central egg processing facility, we call it Egg Central Station. It's located in Springfield, Missouri. And we're working on a new facility that will become operational by the end of 2026 in Seymour, Indiana.

We source all of our eggs from these 375 plus family farms that are located in what we call the Pasture Belt. That's the part of the country where the climate is not too cold, not too hot, not to dry, not too rainy. It's just right for chickens to go outside every day of the year. When they go outside, they get 108 square feet of outdoor space. They roam around during the day in that outdoor space. They forage for their own food. They can express their natural behavior out there. And at night, they come back into the barn to be protected from predators. That's where they lay their eggs. But while they are outside, they are scratching the ground, they're really ensuring that they improve the soil health of the farms that they're on. We rotate them around pasture throughout the year so that no part of the land ever gets overused. And **that to us is really one of the advantages of this pasture-raised egg model**.

As I said, these – the eggs that get produced on farms, we pick them up from the farms using a third-party logistics provider. We pick them up every two years. We bring them to a third-party operated cold storage facility in Springfield. And then eventually, we bring them to Egg Central Station where they get washed, graded, sorted and packed. And then we use third-party distributors to ship the eggs to retailers and to restaurants where consumers can then buy them.

This business model allows us to focus our own efforts on areas that we can scale, namely the egg processing by relying on great partners that have their own distinct competencies to scale other parts of our value chain. And with this business model, so far since our IPO in 2020, we are guiding that **we'll deliver almost 30% net revenue CAGR since 2020** and a 47% adjusted EBITDA CAGR over that same timeframe. More than two-thirds of this revenue growth is coming from volume, with only a smaller part, less than one-third generated by pricing. We use pricing mostly to protect gross margin against commodity cost fluctuations, not to drive growth per se.

And you see this approach to pricing reflected in our gross margin performance. We're showing here our gross margin going back all the way to 2019 in the red line compared to the largest publicly listed egg producer in the blue line. And you see here that **we have a relatively steady margin in the 30% to 40% range**, that is not going up or down based on supply/demand imbalances or commodity cost fluctuations. We're really pricing our product like a branded player does. And that is one of the things that retailers appreciate about us.

Our focus on operating as a brand in a commoditized category can also be seen in the channels where we operate. What you see here on the left side is the market share for private label eggs in the blue line and branded eggs with the orange line going back to 2019. And you see here that in the channels where we operate, which is the left side of the chart, these channels are the food channel, including national retailers and the mass merchant channel. In those channels, **branded eggs have actually gained share over the last five years**.

Contrast that with the channels where we don't really operate, which is on the right-hand side. Here **private label eggs have almost gained 12 points of share**, all at the expense of branded eggs. And we think that our – the brand that we bring to the shelf and the brand that we offer consumers is one of the reasons why the channels where we operate perform differently from the channels where we don't operate.

Two other quick things I want to talk about just to give background on Vital Farms. **We built an expansion of our Egg Central Station in Springfield** that was completed in 2022. Since then, **we've had very strong track record of generating operating cash flow and free cash flow for many companies in our IPO class from 2020**. That's not necessarily the case. And since our IPO in 2020, **we have consistently outperformed expectations**. You see here a long history of meeting or raising guidance and finishing the year better than what we thought at the beginning of the year.

So, with that as a background on who we are, let's talk about the outlook for Vital Farms. Let me start again with the long-term guidance that we established last year. By 2027, as I said, we guide to generate $1 billion in net revenue, 35% gross margin and 12% to 14% adjusted EBITDA margin. We believe that we are on a good path to deliver this guidance. In the year-to-date, we are **above** the gross margin and adjusted EBITDA margin targets.

In several important metrics that we track, the strength of our brand and the connection of our consumers are really important pieces that we're tracking. And **we're making meaningful progress in establishing brand strength and consumer connections**, especially when you compare us to the rest of the category. Here we're showing aided brand awareness, household penetration and buy rate. And you see Vital Farms, as shown in the red line here, we're growing all of these metrics, and in several of them, we're really opening up a gap to competition.

Let me talk a bit more about household penetration and buy rate, then I will also get back to brand awareness a bit later. Since our IPO, **we have almost doubled our household penetration**, that is the red line on the left side here. **We've doubled household penetration in our egg business**, while also growing the consumer buy rate, that is how much – how many dollars consumers spend on us per year. And so, while we have doubled household penetration, **consumer buy rate has increased 75%**.

And it's not just pricing **that has driven this growth in the buy rate**. On the right side **we show that the growth in the buy rate** was really due to consumers approaching us – or purchasing us more frequently and buying more units per year. To us, that's an indication of the consumer loyalty that we are generating. And where consumers, once they start buying us, over time, they buy more of our products.

Over the last three years, we have also shown that **we can grow revenue**, which is the red line here, and unit market share, which is the black line independent of price gaps to either conventional eggs or to premium eggs. In other words, consumers and even premium egg consumers do not purchase us based on the price decision. They buy our products because of the Vital Farms brand and what the brand stands for, which is trust, transparency and consistent quality.

Another indication of the strength of our brand is the distribution expansion that we have delivered. On the left side, we are showing that the total average items carried, including butter, so the number of different stock keeping units or SKUs that **a retailer has on the shelf has grown** 20% or 30% over last four years, depending if you look at the food channel or the natural channel. And on the right hand side, we're looking at just eggs, and here are **our average items carried in both channels have roughly doubled over the last four years**. With that, **we have gained significant new total distribution points**.

And the other important point to make here is that **we have much higher distribution in the natural channel** compared to the food channel. The natural channel is where Vital Farms got its start. And the natural channel, **I think, gives you an idea of how much more distribution opportunities** we have in the food channel and even the natural channel where we have been operating for quite a while since the company was founded in 2007. Even there, **we are still gaining distribution and distribution points**.

And what makes this growth so unique in our view is that while we have grown this distribution, while we have put more items on the shelf, **the average velocity per item is also increasing**. Meaning we're – as we're gaining distribution, we're selling more and more of the items, making the shelf for the retailer more productive and making us a very attractive partner for retailers.

So, everything **I've shown you so far has talked about the status quo, some of these pointing more towards future opportunities**. But I also want to point out two leading indicators that we've talked about. The first one is, and this gets me back to brand awareness, what we are showing here is that it's revenue – 12-month rolling revenue and 12-month rolling marketing spend. And you can see on the left side of the chart, then as we're increasing marketing spend, **brand awareness increases for the Vital Farms brand**.

And **that brand awareness then with about a four-quarter lead time translates into revenue growth**. It's not a perfect correlation. It's not a one-to-one relationship. But both are going up and to the right, and it gives you an idea of future growth potential for revenue for us.

The other leading indicator that we have is the number of the farms that we work with, right. I mentioned earlier that we now work with over 375 family farms, and that translates into, at this point, 6.7 million hens that are on our farms producing eggs.

Going back to 2020, you can see there's a pretty good correlation here between the number of hens that we have under contract and our volume performance. Again, there is a lead – the number of hens under contract is a leading indicator. **It's about a five quarter leading** indicator, and it's that much of a leading indicator, because it takes time between the moment when the farmer signs up with us to the moment they have actually built a farm for us, to the moment that hens get placed on the farm, and then the time when we can collect the eggs and put them in cartons and sell them to consumers. Similar to the previous page, it's not a perfect correlation, but it's very much both pointing in the same direction: up into the right.

Last thing I want to touch on is **we are expanding our footprint**. We have these 375 plus family farms that we work with. We are also building out a handful of accelerator farms that we will own and operate to test and learn a few new things and then spread best practices across our independent pharma network. Ultimately, our goal is to make all of our family farmers more productive. And we don't intend to become vertically integrated, so we're keeping this initiative of accelerator farms to about mid-single digit percentage of our overall supply. And as I've mentioned before, we're in the process of building a new processing facility in Seymour, Indiana, where we will break ground next year and then we'll put eggs into cartons at the end of 2026.

So, in summary, we are a company that is disrupting the food system for good. We are living our purpose. **We have strong and growing connections with our consumers,** and we have ambitious targets for 2027. Those are the main pages I'm allowed to go through. But since this is the Hidden Gems Conference, I want to add one more page, which we are actually hiding in the appendix. But I would be remiss if I wouldn't point out that based on our consensus forward growth expectation, we're trading at a really meaningful discount to the food CPG space, I figured that for this context, that was important to point out as well.

All right, I'll stop sharing, and Jim, I assume you have a bunch of questions for me.

QUESTION AND ANSWER SECTION

Analyst: James Hamilton Furey

Question – James Hamilton Furey: Fabulous Thilo. That was a great presentation. And in addition, I want to congratulate you and your firm on just amazing accomplishments.

Answer – Thilo Wrede: Thank you.

Question – James Hamilton Furey: I will encourage people to reach out with their own questions. But let me start with a statement that leads to a question, which is you seem to have no problem generating demand. **The demand is just terrific** and it's evidenced by your pricing power. So the first question would be, is the gating factor what appear to be eggs in supply? So you touched on this.

I'd like to drill down a little bit more.

How do you recruit farmers? You talk about how it takes five quarters to get them. It's almost like you're going out and going to existing farms that may or may not be in the egg business and saying, let's get in the egg business together, we will increase your yield manifestly, and **it'll be a lot more profitable for you,** and we'd like to set up this size, 108 square foot per chicken, et cetera. Can you start to expand on this? Because if you're going to have 10 years' worth of growth, you need to convince investors that you've got that runway and then your multiple will expand. Multiple, I think, is gated by this restriction.

Answer – Thilo Wrede: It's a great question. So, let me start with our supply planning. It's really – it's a long-term exercise, right? It takes a year, a little bit over a year to sign up farms all the way from first contact with a farmer to them producing. It takes some amount of time for us to increase the processing capacity that we have at ECS in Springfield. We're operating 24/7 already, so any kind of capacity increases that we get there, it's about running more efficiently, it's about tweaking how we staff our facility and so on. We are working on this new facility, but in the meantime, we need to tweak what we are doing.

On farmer recruiting in particular, yes, you're absolutely right. We are out there. We are advertising. We're recruiting to farmers. We're talking to farmers. Farmers contact us every day wanting to work with us. And usually it starts with – we're screening them. We're making sure that they're good members of their own communities. We talk to the neighbors if these are people that we want to work with. We help farmers going through a process of actually getting loans to build a barn for us.

Most of the farmers – the vast majority of the farmers that we work with are actually not in eggs by the time they start with us. Our business model is quite different from the rest of the industry. And so, we prefer to work with farmers that actually have livestock experience, but not necessarily a chicken or egg experience. We want them to learn how we want them to produce eggs rather than having to unlearn something else first.

The farmers need to bring about 50 acres into this operation, right at 108 square feet times roughly 20,000 hens on a farm. And farmers either have this corner of the farm, where they don't know what else to do with it, because the land is rocky or has too many trees on it or so. That's actually land that the chickens really like. They like rocks that they can jump up on and perch on. They like tree cover because it protects them from predators. And so, farmers who have this land already, now they can do something with the land. Other farmers, they might have to buy the land, but they see the value in working with us, because we guarantee that we buy all the eggs that the farmers are producing. They have clear visibility of what the price is that they will get for the eggs, and we adjust our prices up or down for the farmers depending on where commodity costs are going, because we don't want the farmers who really have no pricing power with us to eat the bill for commodity costs that are out of their control.

And so, with that, if we want to continue to grow, we have to continue to recruit farmers. As I said, we're working with 375-plus farms right now. Each farm is about 50 acres. So, you can do the math. It's about 20,000 acres spread across seven states or so. Missouri alone has 27 million acres of farmland. There's plenty of farmland in that Pasture Belt that where we can still recruit farmers. And with this new facility that we're putting into Indiana, we're really putting out or creating a whole new geography of where we can recruit farmers.

Question – James Hamilton Furey: So, what are you guiding to towards the number of farms for the next three years?

Answer – Thilo Wrede: We haven't provided that guidance yet, but an individual farm, as I said, has about 20,000 birds. We haven't figured out yet how we get the birds to produce more eggs. We have tried singing to them and we have tried different colored lights in the barn. It makes no difference, right? The chickens lay a certain number of eggs every week. And so, if we want to grow, we have to grow one farm at a time, right? If we want 40% more revenue in three years, we'll probably need 40% more farms than we have today.

Question – James Hamilton Furey: We have a question online. **This year has seen Vital outperform on revenue and gross margins** while reinvesting the excess profits for long-term growth. What is their commitment to showing operating leverage in 2025 and 2026?

Answer – Thilo Wrede: Yeah. We haven't provided guidance for 2025 or 2026 yet. As I pointed out during the presentation, **our gross margin and adjusted EBITDA margin is already ahead of our 2027 targets**. We're not at a point yet where we would revise our targets. There's still a lot of investments that we have to make in order to capture that – the growth opportunity that we see out there. And so with that, we want to maintain the flexibility to be able to invest in the business and continue to grow revenue before we think about operating leverage. Operating leverage gives us the ability to make the investments in capturing the growth, but capturing the growth is really the priority right now.

Question – James Hamilton Furey: I'm told that the advantage of organic eggs are thicker shells and better yolks. What does that mean? Why is that an advantage that matters?

Answer – Thilo Wrede: Look, the – our yolks have a – they have a beautiful color when you crack them or make a fried egg. The egg yolk really stands up. And in our mind, that's a sign of quality. The thicker shells is – I grew up in Germany. In Germany, we really like to eat our eggs soft boiled. Meaning you dump an egg into a pot of boiling water and there's temperature stress on the eggshell. Since we started – my family started boiling Vital Farms eggs six years ago, I think we've had maybe one cracked egg when we soft boiled them. So the thicker shells, it's a – it's also a sign of quality, right. There's less risk of the eggs breaking on the way to the store. And when I make my soft-boiled eggs, there's less risk of a leaker in the pot.

Question – James Hamilton Furey: Your market share has gone in 2021 from 5.4% – excuse me, from 4.09% to 4.82% this year. Your dollar market share has gone from 5.4% to 8%, **which gives you a not only unit volume growth, but a pricing growth**. Where do you think your pricing advantage can get to? Has that peaked out? Will there be risk to it? And where do you think your unit volume share can reach?

Answer – Thilo Wrede: Yeah, the – so **pricing for us is really a tool to protect gross margin from commodity cost fluctuations,** and inflation in particular. After COVID started, commodity costs for the two main commodities that constitute our feed, namely corn and soybean meal, really shot up. Costs are still above pre-COVID levels. And so, we had to take pricing in 2022 and 2023 in particular that protected margin. That's why **we have such a healthy margin** right now. But it is not part of the growth algorithm to get to the $1 billion, right. Pricing, we take it if we have to, but it's not part of the growth toolkit. So, that means all the growth has to come from volume. So, if we are at 8% volume share right now and we want to grow the business by another 66% until 2027, that gives you a rough idea of how much our volume share has to grow. In the past, the biggest brand that was out there had about 20% market share – revenue share. So, we are still a long ways from reaching those kinds of level, which gives us more confidence that the targets that we've put out there are very much achievable and then some.

Question – James Hamilton Furey: You're in 24,000 stores, I believe, currently. You talked about SKUs. So, I'm going to – clearly, butter can have different SKUs. You talked about 12 versus 18 eggs packaging. Can you talk to the number of stores? Is that mature? Can you expect more? Are there step function relationships to add? And then help me explain the – how important SKUs are in the egg business in particular, because the butter business is much, much smaller, right and is more difficult to grow.

Answer – Thilo Wrede: All right. So, it's really three questions in one. Let me go through them. First one is number of stores. By our count, there are about 32,000 stores, give or take, in the US that sell what's called specialty eggs. And specialty eggs is really any eggs that don't come from chickens in cages. So, we are in 24,000 of these 32,000 stores. And over time, there is an opportunity to get into more. But we are already in all the national chains. We have very strong presence in the natural channel, the grocery channel, the mass channel. Less so maybe in dollar club or the drugstore channel, but that's probably not where our consumers do most of their egg purchases, right. Club, maybe there is a bit more that we can do there. But the focus is really on the channels where we are. And if we have done our work right, we are in the 24,000 most attractive stores for us. So, any other stores that we get into would be a bit of diminishing returns.

And so, with that, the growth focus for us is getting more SKUs on channels. And SKUs for us, it's a 12 count or 18 count. Those are two different SKUs, right. Conventional versus organic are two different SKUs. As I showed in the pages I just presented, in the grocery channel, the food channel, we have roughly three egg SKUs on the shelf. We think of four big SKUs as our biggest SKUs as 12 and 18 count conventional and organic eggs. We usually start with the 12 count conventional eggs. So it's the first SKU that we get on the shelf and then we add a 12-count organic or an 18-count conventional and so on. So we roll it out. But even after we reached these four big SKUs, we continue to gain distribution within smaller SKUs. They can be 6 counts, they can be 24 counts. They can these – can be these super premium eggs that we have. We call them true blues. That's actually an egg that has a blue shell or restorative eggs. These are eggs that come from farms that have certified regenerative agricultural practices. So they really – they get value for pursuing soil management. And so we can sell different egg sizes.

So, these SKUs, they allow us to have ongoing conversations with retailers about putting more items on the shelf. And when we put more SKUs on the shelf, it actually generates a benefit for us that we now create a brand block on the shelf. So all of a sudden, when you have one SKU with one facing, consumers easily overlook us. When you have three SKUs with maybe five facings, all of a sudden at eye level, it says Vital Farms, Vital Farms, Vital Farms. So consumers all of a sudden pay attention to us. And this increased distribution creates an increased awareness, which ultimately will lead to a more distribution, right? So, getting more SKUs on shelves and getting more facings for the SKUs that we have, that's actually where our sales team is focused right now.

Butter does play into that. Butter is small for us. We have two stick packs and four stick packs of salted and unsalted butter. In the past, we've also sold tub butters that's easily spreadable. That's something that we had to discontinue last year because we had a limited butter supply. But there are ideas in butter that we have done in the past that we might be able to revive and get more butter SKUs back on the shelf as well.

Question – James Hamilton Furey: One of the things that investors love is return of capital. But you're a growth stock. You have no debt. You have capital spending that apparently is not going to put on debt. How do you think about the return of capital, given you're a distribution company with a very strong brand? How do you think about that and will you do share repurchase? Will you do dividends? How do we think about that over the next few years?

Answer – Thilo Wrede: Yeah, that's a great question. As you rightly pointed out, we don't have debt on the balance sheet. We have $163 million of cash and investment securities on the balance sheet. So, we are sitting on a very healthy cash amount, and all the investments that we have planned over the coming years, we intend to fund them really out of operating cash flow. So, we have a healthy reserve of cash, but we are also still a quite young high growth company. We think there are plenty of opportunities for us to expand this brand into different categories down the road. There's more investments than what we've talked about so far that we'll need to keep going after this growth that we see because we are not going to stop at $1 billion by 2027, right? There will be more after that.

And for that, I prefer to keep a very healthy keg of dry powder. So, cash returns to shareholders, be it through dividends, share repurchases, you name it, it's not really on the agenda yet for us. Once we stop seeing growth opportunities in that very healthy double-digit, 20%, 30% range, then we can start talking about returning cash to shareholders. But for now, we think there's plenty of opportunity to put this cash to work. Not right now, but I'd rather maintain the cash reserve because the opportunities will come.

Question – James Hamilton Furey: So, when you talk about categories, I think to my home shopping and my family likes organic beef and insists that I do get it, and it comes at a big premium. Would organic meat be a category that makes sense for you?

Answer – Thilo Wrede: I think it's one of these never say never questions, right? We have looked at various categories in the past. We've talked in the past about looking at poultry and dairy. I think the first time we mentioned that was two or three years ago, and obviously, we haven't done anything in that area yet. There are other categories that we look at. We want to make sure that whatever a new category would be that it is something where we can actually improve the food system, similar to what we have – what we are doing in eggs, where the hens that lay our eggs are living a much better life than your average egg in the US – or hen in the US. So, we want to be able to make a difference, we want to be able to scale it nationwide, and we want to be able to make money with it, right?

We think **we have a very strong brand** that can play in various categories, but these three criteria that I just talked about, they have to be fulfilled as well. For the time being, **we see so much growth in eggs** that that is where our focus is. Our CEO likes to say that there are more companies **that die of indigestion than dying** of being starved for new ideas. We don't want to die of indigestion, right? We need to focus on making sure we capture all the opportunities that we have in eggs. And when the right time comes, then we'll talk about other categories.

I don't have any other questions. I don't know if folks in the audience do. But if they do, please let us know. But congratulations on what is a very dynamic story. **Your balance sheet is strong, your growth outlook is strong,** and we very much appreciate your time today, not only during this presentation, but all the one on ones. So we hope you have a great experience and I thank you.

With that, we're going to take a little break until my presentation at noon East Coast time. And so we thank everybody for participating so far, and I hope you join me at noon Eastern Standard Time for my thoughts. So thank you. We'll see you in a little bit.