Vital Farms Inc

Q2 2025 Earnings Call

Thu Aug 07 2025 Earnings Call Transcript

Q2 2025 Earnings Call *(Corrected version)*

Summary NEW

Key Takeaways

Vital Farms' Q2 2025 earnings call highlighted strong financial performance, supply chain improvements, and increased financial outlook, offset by anticipated margin pressures in the second half of the year. The company is focused on expanding its farmer network and infrastructure to meet growing demand.

Key Financial Results

- Net revenue for Q2 2025 increased to $184.8 million , up 25.4% year-over-year, driven by volume growth and strategic pricing actions.
- Adjusted EBITDA reached a new quarterly record of $29.9 million .
- Gross profit for the second quarter rose to $71.8 million , or 38.9% of net revenue.
- Net income for the second quarter of 2025 increased 1.8% to $16.6 million , or $0.36 per diluted share.

Business Segment Results

- The company's revenue growth was driven by increased pricing across its shell egg portfolio and favorable mix benefits.

Capital Allocation

- CapEx spending is now expected to be $90 million to $110 million this year due to the acceleration of the Seymour facility construction.
- The company projects $5 of annual revenue capacity for every dollar of CapEx invested in the Seymour facility.
- The company had $155.0 million in cash and cash equivalents and marketable securities with no debt outstanding as of June 29, 2025.
- The company expects to fund its current plans for the Seymour facility and all other projects this year with existing cash and operating cash flow.

Industry Trends and Dynamics

- The company is experiencing continued strength in consumer demand and brand loyalty , even with recent price increases.
- Vital Farms is capturing greater market share from low penetration levels and continuing to build a loyal consumer base.

Competitive Landscape

- Vital Farms' brand resonates with consumers, establishing it as more than just a producer of pasture-raised eggs.
- The company has a record high aided brand awareness of 31% .

Macroeconomic Environment

- The company anticipates margin pressure in the second half of the year from U.S. tariffs on imported items .

Growth Opportunities and Strategies

- Expanding the farmer network to over 500 family farms.
- Construction of a third production line at Egg Central Station (ECS) in Springfield, expected to be operational in the fourth quarter, increasing capacity by 30%.
- Enhancing distribution capabilities by transitioning to an aboveground cold storage facility near ECS.
- Building two production lines simultaneously at the new Seymour, Indiana facility, expected to provide over $900 million of revenue capacity by early 2027.
- Rolling out a new advertising campaign built around Season 4 of FX's Emmy Award-winning TV show, The Bear.

Financial Guidance and Outlook

- The company is raising its full-year 2025 guidance and now expects net revenue of at least $770 million , representing growth of at least 27% versus 2024.
- Adjusted EBITDA guidance is increased to at least $110 million for the full year 2025.
- The company expects higher marketing spend as a percentage of net sales in the second half compared to the first half of the year.
- Fiscal year 2025 capital expenditures are now expected in the range of $90 million to $110 million .

Q & A Highlights

The earnings call Q&A session revealed key analyst interests, primarily focusing on **Vital Farms' volume performance**, the **impact of pricing strategies**, and the **company's capacity expansion plans**. Analysts also probed into the sustainability of consumer demand, the competitive landscape, and the implications of supply chain dynamics, including inventory management and potential tariff impacts. Additionally, there were questions about the company's approach to farm network expansion and capital allocation priorities.

Volume Performance and Future Growth

- **Q: How did the volume performance play out versus your expectations, and how should we think about what's changing in the back half and the cadence of growth from Q3 to Q4?**
- A: The volume over the quarter played out as expected, with acceleration throughout the quarter. The guidance reflects continued acceleration in volume growth every quarter, with the third quarter higher than the second, and the fourth quarter higher than the third. The volume perspective for the year is playing out as initially planned, with the price increase providing an additional benefit.

Impact of Pricing Strategies

- **Q: Given the better-than-expected price elasticity, is the positive consumer response the primary driver of the better second-half implied outlook?**
- A: The price elasticity was better than assumed, similar to previous price increases. With the positive reaction to the price increase, there is more confidence in including some of that increase in the guidance.

- **Q: Are you increasing promotions any more than you had previously expected, given the price increase, or is it mainly similar to what you had planned coming into the year to drive trial now that you have supply?**
- A: The promotions are similar to what was planned at the beginning of the year. As supply increases, the company is in a better position to support the lift from promotions, which were always back-half weighted. There is a wildcard regarding the impact from tariffs, and the better supply picture in the back half of the year gives some flexibility to potentially get more aggressive on promotions if tariffs allow while watching gross margin.
- **Q: If the tariffs are less than you think, does that mean you have more money to spend on the promo?**
- A: Pricing is a way to protect gross margin. Pricing was implemented at the beginning of the year, effective mid-Q2, in anticipation of higher costs, including tariffs. As there is more clarity on tariff levels and their impact, there will be more clarity on how much pricing needs to be kept in the market for gross margin protection. More clarity there leads to more clarity on how much could potentially be done in addition to what is already planned in terms of promotions.

Capacity Expansion and Capital Expenditure

- **Q: How much of the revenue cadence for the year is related to the full benefit price increase, and how much is related to the step-up in volume?**
- A: Primarily, it is a step up in volume. The acceleration in the back half of the year is primarily driven by better supply, with pricing giving a little bit of a cherry on top.
- **Q: What is the benefit of committing to two lines right out of the gates in Seymour and pulling forward that capital spend, and as you pull forward capital spending, does that alter your ability to self-fund that out of your own balance sheet?**
- A: The decision is rooted in a desire to catch up to the growth generated with the brand over the last five-plus years. Pulling forward the second line gives a much better chance at catching up to demand and satisfying the needs of retail customers, foodservice customers, and consumers. This does not affect the ability to fund it, as the company has a very strong balance sheet and operations are cash flow positive. It is about acceleration of CapEx spend, which was always in the five-year plans. Roughly **$150 million** plus of cash and investments are on the balance sheet with the operating cash flow being generated this year and next year.
- **Q: Why was the decision made to add cold storage to both ECS and adjacent to Seymour, to what extent are you currently utilizing cold storage, and how does it change impact profitability or throughput or otherwise improve your supply chain management?**
- A: Cold storage is a critical part of the supply chain for eggs, which are a refrigerated product. A big part of the equation is simply eliminating the need to put product on and pull it back off of trucks to move between the cold storage part of the supply chain and the farms on one end and the packing center on the other end. The economics are compelling to be able to do that in Seymour. Having a shared wall between cold storage and the facility drives up efficiency.
- **Q: How is the curve of the family farm ramp you expect over the next two years, and how are you thinking of the Seymour, Indiana curve?**
- A: Previewing the curve of new farm ramp-ups is in some sense a preview of a longer-term guide, which we're not quite prepared to do. The current plans are to continue the current pace of adding new family farms.

Farm Network Expansion

- **Q: Can you comment on your ability or perhaps the risks around potentially accelerating family farms coming into the network ahead of initial expectations, and help us understand how you're thinking about managing that pipeline?**
- A: The number one risk is compromising the quality of the farmer, our ability to train and onboard them, and set them up for success. Before accelerating the rate at which new farmers were brought on, the capability to do so was built out by building a bigger team, arming them with better technology, and bringing in a powerful leader. The plans are not to have farms in advance of the ability to pack eggs, and it's a process that is planned to be very much in sync and balanced.
- **Q: Given the success that you've had in onboarding new folks in that pipeline, if that kind of changes your philosophy around the need for accelerator farms?**
- A: The intention of accelerator farms is not as a substantial source of supply for eggs. It is to help make better the performance of, the profitability of, and the animal welfare of our network of growing family farms. It makes the work being done on those accelerator farms even more important because we're able to leverage the learnings in the future over more and more family farms.

Demand and Consumer Behavior

- **Q: Given the significant growth you've seen in the category, can you update us on your thoughts on the demand environment from a retailer perspective, and are you seeing a greater opportunity from new stores or is it more still about a greater number of items on the shelf?**
- A: The opportunity is to continue to build out the portfolio of products and shelf space in high-performing doors. Anything that can be done to continue to both highlight the availability and benefits of buying a premium egg, and more importantly to expand the holding power on those shelves of the brand Vital Farms, whether it comes in the form of additional SKUs or simply additional phasings of existing SKUs, will be an important driver of growth.
- **Q: What are you seeing specifically to give you that level of confidence and visibility, whether it's with respect to the consumer competitive landscape, your customers?**
- A: This does not reflect a change in our level of conservatism, our desire to do what we say, and say we do throughout the business. This reflects our perspective on the high level of execution we're seeing as we expand the supply of eggs coming off farms, expand the capacity that we have at Egg Central Station week over week.
- **Q: As we think about maybe the more mainstream part of the egg market where we have more avian flu disruption, can you share your updated view on what's happening there and whether or not you are seeing any impacts to your business because of that?**
- A: In our experience, the pricing of commodity eggs in the market has a very limited impact on our business, our ability to grow, our ability to attract and retain new households. That's not appearing to impact consumer demand or retailer demand for our products. We're just playing in a different part of the market and appealing to a different set of consumer needs.
- **Q: What are you guys seeing in your data specific to Vital Farms, but also, the larger food category, and can you maybe unpack that a little bit more as it relates to Vital Farms?**
- A: While there are certainly potentially macro headwinds out there, I don't know that it's having a big impact on our ability to create and communicate the value of our brand to our current and potential consumers. The important part is whether we're creating and communicating enough value to warrant to justify them spending their precious dollars on our products.
- **Q: How do you think about your ability to actively migrate a larger share of buyers up that frequency curve from one unit a year to more regular purchases?**
- A: The fact that the proportion of light, medium, heavy, extra heavy, over time has remained consistent, remarkably consistent even as we have grown the number of households as a real positive. Our primary objective is actually to continue to drive the top of the funnel awareness and new households, because there's, again, a very natural progression from trail all the way to heavy user.

Show The Company's Guidance And Outlook

Vital Farms' Q2 2025 earnings call provided an updated financial outlook for the full year 2025, raising guidance for both net revenue and adjusted EBITDA. While there was no specific guidance for the next quarter, the company shared insights into factors influencing their performance, including volume growth, pricing actions, and strategic investments. Management also discussed various aspects of the business, such as supply chain initiatives, brand awareness, and capital expenditure plans, offering a comprehensive view of the company's prospects.

Annual Guidance

- Net revenue: At least $770 million , representing growth of at least 27% versus 2024, an increase from the previous guidance of at least $740 million .
- Adjusted EBITDA: At least $110 million , increased from the previous guidance of at least $100 million for the full year 2025 .
- Capital expenditures: In the range of $90 million to $110 million , an increase from the previous guidance of $50 million to $60 million .

Outlook

- The company expects accelerated volume growth every quarter, with the third quarter higher than the second quarter and the fourth quarter higher than the third .
- The first half of the year benefited from favorable price mix, the recent price increase, and relatively stable commodity costs .
- The second half is anticipated to have margin pressure from U.S. tariffs on imported items, increased promotional activity, and higher marketing spend as a percentage of net sales .
- The third production line at Egg Central Station (ECS) in Springfield remains on track to be operational in the fourth quarter, which is expected to expand capacity by 30% .
- The new Seymour, Indiana facility is expected to have more than $900 million of revenue capacity by early 2027 .
- The company expects to fund its current plans for the Seymour facility and all other projects this year with existing cash and operating cash flow .
- The company continues to project $5 of annual revenue capacity for every dollar of CapEx invested in the Seymour facility .
- The company's transformation initiatives remain on track, and they continue to target early fall 2025 for the switch over .
- The company's remediation plan is progressing well and remains on track to properly correct this by the end of fiscal 2025 .

Event Details

Date: 2025-08-07

Company: Vital Farms, Inc.
Ticker: VITL-US

Company Participants

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

Other Participants

Megan Alexander Clapp - Analyst
Jon Andersen - Analyst
Robert Moskow - Analyst
Eric Anthony Des Lauriers - Analyst
Matthew E. Smith - Analyst
Brian Holland - Analyst
Scott Marks - Analyst
Ben Klieve - Analyst
Benjamin Mayhew - Analyst
John Baumgartner - Analyst
Sarang Vora - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and thank you for standing by. Welcome to the Vital Farms Second Quarter 2025 Earnings Conference Call and Webcast. 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 second 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 second quarter 2025 earnings press release issued this morning. This is available on the Investor Relations section of Vital Farms website at investors.vitalfarms.com and it'll be under the news banner.

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 June 29th, 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, which is the non-GAAP financial measure. The company believes this non-GAAP financial measure provides 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 reconciliation of adjusted EBITDA and to its most comparable measure prepared in accordance with GAAP.

And with that, I will now 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. Before talking about the broader business trends, I want to start with a big thank you to the entire Vital Farms crew. **We achieved several important milestones since our last earnings call,** and these were made possible by the dedication, engagement and passion of crew across our organization. **These milestones include working with more than 500 family farms, an increase of about 50 farms since the first quarter**. Breaking ground on our Seymour facility and placing birds on our first accelerator farm. All of these are supply chain milestones that deserve special recognition and support the future growth potential that we see for Vital Farms.

Another highlight worth mentioning up front is the appointment of Billy Cyr to Vital Farms, Board of Directors. As the current CEO of Freshpet and with his extensive consumer products expertise, Billy brings valuable experience in brand building, retail partnerships and scaling operations in the CPG space that will be instrumental as we continue our growth journey. We're thrilled to have Billy join our Board.

With that, let me talk more about the details of the second quarter. Our second quarter performance exceeded our initial top and bottom line expectations. **Net revenue grew to $184.8 million, up 25.4% year-over-year, driven by both volume growth and strategic pricing action**. Adjusted EBITDA of $29.9 million represents a new quarterly record for us.

I'm pleased to report that the volume growth constraints we faced in the first quarter have begun to ease as we forecast it. We've been able to start rebuilding our inventory and **we are seeing continued strength in consumer demand and brand loyalty** even as we implemented our recent price increases. These factors position us well for accelerated growth in the back half of the year.

With **this solid foundation in place, we are raising our 2025 financial outlook and Thilo** will give more details. As I reflect on our second quarter performance, I want to share two key observations that shape our outlook. First, despite the increasingly dynamic macro environment, **Vital Farms continues to demonstrate remarkable resilience and growth**, outperforming across key metrics. Second, we believe we remain a structurally advantaged business with significant runway for growth in a category with meaningful long-term tailwinds.

Key to our growth are our supply initiatives, where **we've made excellent progress** expanding our farmer network, which I mentioned earlier, and we now have 9 million hens under contract. With a robust pipeline of prospective family farm partners, we are confident in our ability to continue to grow this network at the necessary pace throughout the remainder of the year and beyond to support our updated guidance. The ongoing farm network expansion reflects the compelling value proposition we offer family farms and the expertise of our world-class farm team in communicating the benefits of our partnership model. This growing network positions us to meet increasing demand while maintaining our high quality standards. Scaling our farmer network aligns with the strategic infrastructure investments we've been advancing on multiple fronts.

At Egg Central Station or ECS in Springfield, our third production line remains on track to be operational in the fourth quarter, which **we expect will expand our capacity by 30%**. We're also enhancing our distribution capabilities in the coming months by transitioning to an aboveground cold storage facility just one mile from the ECS, improving operational efficiency. We're continuing to work with the same warehouse partner, but this expands our shipping capabilities and improves our efficiencies as the facility is now closer to ECS and with a purpose-built design to better handle outbound distribution.

Next week, we plan to break ground at our new Seymour, Indiana facility. After a thorough assessment by our Chief Supply Chain Officer, Joe Holland, who joined us in the third quarter of last year, we revised our Seymour expansion plans and are now working on installing two lines at the same time instead of the original plan of doing this in two phases. With this updated approach, we expect to have more than $900 million of revenue capacity from the new Seymour facility by early 2027.

It's important to point out here that the timing for the new facility to be operational does not meaningfully change with this increased scope. The updated approach also means that we now expect CapEx spending of $90 million to $110 million this year. Our full plan now includes a cold storage facility adjacent to the Seymour facility that we plan to build, but will be operated by our current warehouse partner.

Even with this increased scope, we continue to project $5 of annual revenue capacity for every dollar of CapEx we're investing in the facility. In other words, **our cost per square foot is decreasing** compared to the initial plan. It also means that we're anticipating higher CapEx spend next year than previously indicated. The recent jump in brand awareness **we've seen this year for Vital Farms eggs and our continued high growth rate** indicate to us there is unmet demand that we will have to satisfy in the coming years.

After several years of supply and capacity constraints, we want to get ahead and ensure we are well-positioned to meet our future demand expectations. Farm recruiting is one piece of this puzzle and we believe **we are currently in a good place** there. Production capacity is the other piece and by installing two production lines in Seymour simultaneously, we anticipate having sufficient scale for the foreseeable future.

While expanding supply is critical, the true cornerstone of our success lies in the strength of our brand and the deep loyalty of our consumers. Time and again, our consumers have demonstrated remarkable commitment to our products because of our mission and what our brand represents. In particular, **we've grown household penetration** while simultaneously increasing the loyalty of our existing consumers. **We continue to see the record high aided brand awareness of 31%** that we hit in the first quarter, and we believe we know how to turn this increased awareness into purchases over time. This is happening across all income groups, but particularly among higher income households who continue to demonstrate strong loyalty to our brand.

I think, it's important to note that this isn't just brand loyalty. It's a testament to the authentic relationships we built with consumers who fundamentally understand and value our mission. We believe they understand how we partner with family farmers, maintain rigorous ethical standards, and consistently deliver superior quality eggs. And we believe that our consumers are willing to pay a premium for these practices and for the value our brand represents.

We continue to grow brand awareness through meaningful engagement. We recently rolled out a new advertising campaign built around Season 4 of FX's Emmy Award winning TV show, The Bear, **which has already generated positive feedback**. The campaign's success demonstrates our ability to connect with consumers through culturally relevant content that resonates with our target demographic.

Another good example of our broader engagement strategy is a limited time promotional campaign that will launch later this month. It will involve products that will only be available through an online giveaway. They're not for sale and we want to make it very clear that it's not related to any thinking about a new category. It will just be a fun way to connect with some very critical stakeholders and continue to grow brand awareness. We don't want to spoil the surprise yet, so please stay tuned until later this month.

In summary, **we exceeded our initial second quarter expectations** and believe our business model is uniquely positioned to continue delivering strong results. We have a loyal consumer base, a growing network of family farms, delivering improving supply chain stability. And the investments we make in retail penetration and brand awareness are delivering measurable results. **Our volumes are improving as we enter** the back half of this year with improving supply and what we would consider to be pent-up consumer demand. Finally, all of our expansion plans are tracking as expected. **This momentum enables us to raise** our guidance for full-year 2025.

Over the long term, **we see significant potential runway for growth** as we capture greater market share from low penetration levels and continue building our loyal, resilient consumer base. I'm very excited about our future and believe we're on our way to becoming America's most trusted food company. I'm certainly looking forward to it and I hope you are, too.

Thilo will now provide additional color on our second quarter results and increased guidance for this fiscal year 2025.

Thilo Wrede

Thank you, Russell. Hello, everyone, and thank you for joining us today. I will now review our financial results for the second quarter ended June 29, 2025, and then provide color on our guidance for fiscal year 2025.

Net revenue for the second quarter of 2025 rose to $184.8 million, an increase of 25.4% compared to the prior-year period. This was primarily driven by price/mix benefits of $15.7 million and volume growth of $21.7 million. We have seen that our second quarter price increase has been well received, which we attribute to the strengths of our brands.

Gross profit for the second quarter rose to $71.8 million or 38.9% of net revenue from $57.7 million or 39.1% of net revenue last year. **The increase in gross profit dollars** was primarily driven by revenue growth from higher volume and increased pricing across our shell egg portfolio and favorable mix benefits. **Gross profit margin declined slightly year-over-year due to increased investments in crew members** to keep pace with expected company growth and less efficient operations due to limited egg supply after an exceptional operating quarter last year.

SG&A expenses for the second quarter were $39.0 million or 21.1% of net revenue, compared with $33.3 million or 22.6% of net revenue in the second quarter last year. **The increase in SG&A in the second quarter** was driven primarily by expenses to support the expansion of our business, including marketing expenses, employee-related costs, including stock-based compensation and increased head count, professional service expenses, technology and software-related expenses, and future farm expansion expenses.

Shipping and distribution expenses for the second quarter of 2025 were $9.0 million or 4.9% of net revenue compared to $7.2 million or 4.9% of net revenue in the second quarter of 2024. **The increase was driven by higher sales volume**.

Net income for the second quarter of 2025 increased 1.8% to $16.6 million, or $0.36 per diluted share compared to $16.3 million or $0.36 per diluted share for the second quarter of 2024. **The increase in net income was driven by operating profit growth, mostly offset by year-over-year increase in tax provisions**.

Adjusted EBITDA for the second quarter of 2025 was $29.9 million or 16.2% of net revenue, compared to $23.3 million or 15.8% of net revenue for the second quarter of 2024. The increase in adjusted EBITDA was driven by higher revenue and scale benefits, partially offset by higher personnel investment.

Turning now to our balance sheet. As of June 29, 2025, we had total cash and cash equivalents and marketable securities of $155.0 million with no debt outstanding. Our additional transformation initiatives remains on track, and we continue to target early fall 2025 for the switch over. Before I discuss our guidance, I want to update you on our progress with remediating the material weakness in internal controls previously highlighted in our annual report on Form 10-K for fiscal year 2024.

The finding relates to the revenue recognition process. Specifically, we like automated reconciliation between purchase orders and sales reporting. Importantly, it's also designed efficiency only. No revenue inconsistencies were found and we do not anticipate any restatements. Our remediation plan is progressing well and remain on track to properly correct this by the end of fiscal 2025.

Now looking ahead, given **our strong performance in the second quarter**, including successful implementation of our price increase. We are raising our full year 2025 guidance. **We now expect net revenue of at least $770 million representing growth of at least 27% versus 2024, an increase from our previous guidance** of at least $740 million. This **increased outlook reflects the strength** we are seeing in our core business, particularly the positive consumer response to our recent price increase, and accelerating volume growth as our newly added farms ramp up production.

We are increasing our adjusted EBITDA guidance to at least $110 million from the previous guidance of at least $100 million for the full year 2025. For the remainder of 2025, we continue to expect different margin dynamics between the first and second half of the year. **The first half of the year has benefited from the impact of favorable price mix, our recent price increase,** and the relatively stable commodity cost. However, in the second half, **we anticipate margin pressure from three key sources**.

First, the impact of U.S. tariffs on imported items. **This headwind continues to be challenging** to predict in terms of timing and magnitude of the impact, but we currently expect it to mainly affect the fourth quarter. Second, now that our supply constraints have eased, we plan to increase promotional activity in the second half of the year. And third, similar to prior years, we anticipate higher marketing spend as a percent of net sales in the second half compared to the first half of the year. **We have factored these headwinds into our** guidance and pricing decisions and remain confident on our ability to deliver on our increased full year revenue guidance.

Lastly, we now expect fiscal year 2025 capital expenditures in the range of $90 million to $110 million, pulling forward CapEx spend that was previously planned for later years. This is an increase from our previous guidance of $50 million to $60 million and reflects our strategic decision to construct both production lines at our Seymour, Indiana facility simultaneously rather than in phases together with onsite cold storage. We believe this will provide us with needed capacity for future growth and optimize our capital efficiency on a per square foot basis.

Once operational, we expect the two lines to have total annual revenue capacity of more than $900 million. As previously disclosed, we will have elevated CapEx spending in 2025 and 2026 because of the new production line at ECS Springfield. Construction of our plant and facility and Seymour, Indiana. The construction of accelerator farms and our digital transformation project. We expect to fund our current plans for our Seymour facility and all other projects this year with existing cash and operating cash flow. We continue to project that every dollar of CapEx investment at Seymour will generate more than $5 of annual revenue capacity, which **we consider a very strong return**. This decision to accelerate the Seymour buildout means we are putting our balance sheet to work and we expect **free cash flow to turn negative** this year after two very strong, positive years.

And for 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 our stakeholders. As always, we continue to evaluate and monitor our capital allocation priorities and we'll provide updates on this as necessary.

The raised financial outlook I've just shared demonstrates the strength of our business model and validates our strategic decisions. We continue to see our loyal consumer base growing and we believe expansion of our network of over 500 family farms strengthens our supply chain capabilities. **Our investments in retail penetration and brand awareness are delivering strong results** as we reach new households and deepen our relationships with existing customers.

The positive consumer response to our brand that we have seen combined with our operational execution reinforces our confidence that we are creating sustainable value for all stakeholders as we progress toward our long-term objectives. Once again, we thank you for your time and interest in Vital Farms today and for the confidence that you have placed in us with your investment.

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

QUESTION AND ANSWER SECTION

Operator

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

Analyst: Megan Alexander Clapp

Question – Megan Alexander Clapp: Hi. Good morning, Russell and Thilo. Thanks for taking my question. Maybe we could start with the volume performance, and then maybe what's changing in the guide. So, **you**

know, volumes up mid-teens in the second quarter, really nice acceleration from last quarter. Maybe you can talk about just how that played out versus your own expectations. And then big picture, it does seem like **the pricing going better than expected** and the positive consumer response you called out is the primary driver of what's changing in kind of the better second half implied outlook. But maybe, Thilo, you can just unpack a little bit more in terms of how we should think about what's changing in the back half and the cadence of growth, 3Q to 4Q? I know there's a lot in there, so thank you.

Answer – Thilo Wrede: All right. Good morning, Megan. I appreciate how you are asking three questions in one. So the – I think the volume over the quarter played out the way we thought it would play, right? First quarter call, we talked about that we want to give ourselves a bit of time to watch how retailers are reacting to our price increases from mid-May, and then how consumers are reacting to it. I think **the price elasticity (00:23:32) similar to previous price increases was better than what** we had assumed. And with that, **the volume growth** has played out over the course of the quarter. It played out the way we thought it would, right, acceleration throughout the quarter. That is what is reflected in the guidance right now that **we continue to accelerate volume growth every quarter, third quarter higher than second quarter**. Fourth quarter higher than third.

And so the year from the volume perspective, it's pretty much playing out the way we had initially planned it at the beginning of the year. And now **we have the benefit from the price increase on top of that**. Right? And that price increase, first quarter, we were hesitant to already put all of that into the guidance because we wanted to first see how the reaction is. With the reaction now in, you know, **I would call it positive territory**. We feel more confident putting a bit of that price increase into the guidance as well.

Question – Megan Alexander Clapp: Okay. That's helpful. And not to be greedy, but if I could just sneak in a follow up on that. The promotions, Thilo, that **you expect to pressure gross margin in the second half** relative to the first half, I guess it seems like, you know, those were already in the plan as supply comes online. But maybe you can just clarify that. Are you increasing promotions any more than you had previously expected just given the price increase? Or is it mainly, you know, similar to what you had planned coming into the year and it's around it's really more about driving trial now that you have supply?

Answer – Thilo Wrede: Yeah. It's really similar to what we have planned at the beginning of the year. And I think we had talked about it at the beginning of the year as well. As supply increases, we are in a much better position to support the lift that we usually get from promotions. And so promotions were always back half-weighted. There is still **a bit of a wildcard out there, which is impact from tariffs**, magnitude of tariffs and so on. And we've talked about it on the first quarter call that better supply picture in the back half of the year gives us maybe a bit flexibility to potentially get more aggressive on promotions if tariffs allow us to do that while we are watching gross margin, right? So the overall picture, the way we think about the back half of the year right now is promotions the way we have always planned them for the year. But if there's an opportunity to maybe do a bit more based on – with tariffs are landing, then we will be open to doing that.

Question – Megan Alexander Clapp: Okay. Great. Thank you. I'll pass it on.

Answer – Thilo Wrede: Thanks.

Operator

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

Analyst: Jon Andersen

Question – Jon Andersen: Hey, good morning, guys, and congrats on a good quarter. I wanted to ask on the revenue cadence for the year, **you know, the 25% growth** you put up in 2Q looks like, you know, we'll accelerate to something in the mid-30s in the back half based on the current guidance. So that kind of 10 percentage point step up. I'm just wondering, if you could give us a sense of how much of that is related to your full benefit price increase, which I think went in around the middle of 2Q? And how much of that is related to step up – its step up in volume?

Answer – Thilo Wrede: Good morning, Jon. Primarily, it is a step up in volume. All right? I think we have been talking about the cadence of the year that **we'll be able see an acceleration in growth** sequentially every quarter over the course of the year, and that continues to hold up. The pricing then is on top of that, right? So the acceleration in the back half of the year, **that's primarily driven by the better supply**. And then pricing gives us a little bit of a cherry on the top there.

Question – Jon Andersen: Great. Just a quick follow-up. I'm curious if a little bit more detail around the decision to, you know, kind of commit to two lines right out of the gates in Seymour and, you know, pulling forward that capital spend. What kind of the – kind of the benefit of making that decision to do that now? And also, you know, as you pull forward capital spending, does that alter your ability to kind of, you know, self-fund that out of, you know, from your own balance sheet? Thank you.

Answer – Russell DiezCanseco: Thanks, Jon. Good morning. So as we said in the prepared remarks, so much of that decision is rooted in a desire to kind of catch up to the – to the growth that we've generated with this powerful brand over the last five-plus years. I think we've been, to varying degrees. you know, supply or capacity constrained, **which in many respects has been a good problem** to have. But the reality is that this is really sort of a secular – secular shift in the way that people look to brands like ours to feed their families. And we need to get closer to really fulfilling that demand.

I think that pulling forward that second line, which is all this is, is pulling forward an investment we plan to make later, gives us a much better chance at sort of catching up to the demand we're creating and really doing an even better job of satisfying the needs of both our retail customers, foodservice customers and our and our consumers. I don't think this in any way affects our ability to fund it ourselves.

As you well know, **we have a very strong balance sheet**. **Our operations are cash flow positive**. And so, you know, Thilo can speak in more detail about how that works. But we've always said that we, you know, after maintenance CapEx, growth CapEx is our number one priority. And I think this is a great example of how we're leveraging our balance sheet to drive accelerated growth in the future.

Answer – Thilo Wrede: Yeah, I think that's exactly right. It's about acceleration of CapEx spend. This was always in our five-year plans to spend this CapEx. Now, we're pulling it forward and roughly $150 million plus of cash and investments that we have on the balance sheet with the operating cash flow that we are generating this year and next year. That is how we're funding this. **We will continue to maintain a very healthy cash position** just because we like to have that cushion. But there is no need to tap any loans for this. We have the money and as Russell just put it, right now we're putting it to work. And I'm happy to use some of the cash that we have been building up.

Question – Jon Andersen: Great. Thanks so much. Congrats again.

Operator

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

Analyst: Robert Moskow

Question – Robert Moskow: Hi, thanks. And congratulations. Just a couple of questions. One is, it's great to see **the price elasticity coming out better than you expected**. Can you talk also about price gaps versus other pasture-raised competitors? Our data would indicate that those gaps kind of increased a little bit, not a lot. Are you comfortable where they are compared to normal? And then I had a quick follow-up for you.

Answer – Russell DiezCanseco: Thanks, Rob. Good morning. Yeah. As we've seen, I think time and time again, the brand that we've built I think resonates with consumers and establishes us as something more than just a producer of a commodity called pasture-raised eggs. At this point, we're not seeing anything in pricing data or consumption data that would suggest that we are somehow kind of out of whack with meeting the needs of our consumers and customers at the prices at which they well value what we're doing. So I think the headline would be, yeah, I'm comfortable with where we are.

Question – Robert Moskow: Okay. Great. And Thilo, just so I'm sure, when you say that the wild card for the back half of the year is tariffs and it may influence your promotional plans, are you saying that if the tariffs are less than you think, that means you have more money to spend on the promo? Is that what you meant or something else?

Answer – Thilo Wrede: Yeah, Rob, no. Thanks for the follow-up. So just a reminder that we look at pricing as a way to protect gross margin, right? We took pricing at the beginning of the year where it became effective middle of the second quarter in anticipation of higher costs that we would have to offset in the business. And tariffs were a part of that. Obviously, tariffs are still, at least to me, they still feel like a bit of a moving target right now. And so as we get more clarity on what the tariff levels are for the countries that we are importing from and how quickly **they're impacting our business**, as we get more clarity on that, we'll have a bit more clarity on how much pricing we need to keep in the market to do this gross margin protection that I just talked about. And as we get more clarity there, we get more clarity on how much could we potentially do in addition to what we already have planned in terms of promotions.

Question – Robert Moskow: Okay. Great. Thank you.

Answer – Thilo Wrede: Thanks, Rob.

Operator

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

Analyst: Eric Anthony Des Lauriers

Question – Eric Anthony Des Lauriers: Great. Thanks for taking my questions and congrats on **a very strong quarter** here. Wondering if you could elaborate a bit on the decision to add cold storage to both ECS and adjacent to Seymour? To what extent are you currently utilizing cold storage and how does it change impact, profitability or throughput or otherwise improve your supply chain management?

Answer – Russell DiezCanseco: Thanks. Good morning. At a high level, certainly eggs being a refrigerated product, cold storage is a critical part of our supply chain, bringing eggs in off of farms, bringing them from cold storage to our processing facility in Springfield. And then, in the future, Seymour. And then, ultimately, outbound distribution from a cold storage facility. It's very tightly integrated. And we do work with a partner in Springfield, same partner of 10-plus years, which is doing a terrific job for us.

The reality is that because that cold storage facility is not co-located with our processing plant, that product has to ride on trucks. And so a big part of the equation is simply eliminating the need to put product on and pull it back off of trucks to move between the cold storage part of our supply chain, and the farms on one end and the packing center on the other end. Obviously, we'll still need to bring eggs in off of farms, but we eliminate the other half of that by eliminating the trip between the packing center and the cold storage facility. So, the economics are just really compelling to be able to do that in Seymour.

Meanwhile, we also mentioned in the prepared remarks that our partner has been able to construct a new facility that's much closer to Egg Central Station in Springfield, and **that already provides us with an opportunity for improved economics** as we ship product between the two facilities.

Answer – Thilo Wrede: Eric, let me just clarify one thing. We had always intended to use cold storage in Seymour as well to Russell's point, right, as we store the eggs before we process and we need cold storage. And as we get a more detailed planning on the facility in Seymour, we realized that literally having a shared wall between cold storage and the facility, that just drives up efficiency. And with that, we made the decision to construct cold storage on-site, so that we make this a process that is as efficient as possible, right? This goes back to how we have been talking about Seymour for a while, but all the learnings that we got from Springfield we want to apply them to Seymour to make sure that we get the best bang for the buck there.

Question – Eric Anthony Des Lauriers: That's very helpful color. I appreciate that. And then just as a follow-up to, obviously meeting this increasing demand, **nice progress in Q2, we should see further progress in the second half**. Can you just kind of comment on your ability or perhaps the risks around potentially accelerating, you know, family farms coming into the network kind of ahead of initial expectations? You know, you have a very robust pipeline there. You know, that's obviously a lever you can pull to help meet the demand. Just kind of help us understand the risks of doing that, you know, either too quickly or too slowly, help us understand how you're kind of thinking about managing that pipeline?

Answer – Russell DiezCanseco: Yeah. Great question. I appreciate it. So, as you've come to know about us, we're pretty darn intentional in everything that we do. And, the number one risk that, we work to manage in every decision is really the trust we built with all of our stakeholders, including the trusted brand we've built with consumers and retail partners. So the number one risk we would look at when we accelerate something like new farm additions to our network would be how do we do that without compromising the quality of that farmer? Our ability to train and onboard them and set them up for success, to do a great job of caring for the hens and producing a really high quality product.

So long before we accelerated the rate at which we brought on new farmers, we accelerated and built out our capability to do so by building out a bigger team, by arming them with better technology, and by actually bringing in a really powerful leader or sales leader, Pete Pappas, to lead the entire farm support and farm recruiting team. So, we really started the process of preparing for that acceleration at the beginning of the year. And what we're seeing now is the beginnings of the fruition of all those investments.

Beyond that, I think, our plans are not to have farms in advance of our ability to pack eggs. It's really a process that we plan to be very much in sync and balanced. So as **we continue to hit new production records at ECS** every week or so, as we continue to build out the team, do the training and improve our operations there. We're looking ahead to the Q4, third line being coming online in Q4 of this year. Those things are all timed so that we'll have the processing capacity to bring those eggs to market.

Question – Eric Anthony Des Lauriers: Very helpful. Appreciate that color.

Answer – Russell DiezCanseco: Thank you.

Operator

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

Analyst: Matthew E. Smith

Question – Matthew E. Smith: Hi. Good morning. Thanks for taking my question. Russell, I wanted to come back to the demand environment that you're seeing as you exit the supply constraint more from a retailer perspective. You've talked about the opportunity for growth in the future expansion of distribution to come from getting more items on shelves versus new retailers. Can you update us on your thoughts there given the significant growth you've seen in the category and how that informed your decision to expand Seymour? Or are you seeing a greater opportunity from new stores? Or is it more still about greater items of – greater number of items on shelf? Thank you.

Answer – Russell DiezCanseco: Yeah. Good morning. Terrific question. So, you know, we continue to be in – in well over 20,000 stores. I think different measures have a somewhere between 23,000 and 25,000 stores, but it's in that range. And if we did our jobs right over the last 15 years, we're in the right first 24,000 or so stores.

The opportunity, **I believe, is to continue to build out our portfolio of products and, frankly, shelf space in those really high performing doors**. And the fact that we've got entrants into the category of pasture-raised eggs, which really is a process that got started back in 2014, 2015, **I think has done a terrific job of growing awareness of different types of eggs** and expanding the, you know, TAM, as – if you will, for a very premium egg. I don't believe it's come at the expense of our own growth.

So anything we can do to continue to both highlight the availability and benefits of buying a premium egg, and more importantly to expand the holding power on those shelves of the brand Vital Farms, whether it comes in the form of additional SKUs or simply additional phasings of existing SKUs, I think will be an important driver of our growth.

Question – Matthew E. Smith: Thank you. And Thilo, as a follow-up, **price mix came in quite strong above 10%** again this quarter. I know there is – and that was with the partial benefit of the recent price increase. Can you talk about mix over the rest of the year? It sounds like pricing still remains somewhat flexible with your promotional step-up in the second half with some flexibility reserved there, but from a mix standpoint, anything to call out as we move forward? Thank you.

Answer – Thilo Wrede: Yeah. Good morning, Matt. From a mix perspective, we continue to have the long-term trend of the business shifting from conventional eggs to organic eggs. So there is a price per unit benefit that we get from that. Second quarter, **we obviously had roughly half a quarter of the benefit of the price increase**. Second half of the year, obviously, that will be full quarters, but then partially offset from the increase in promotions that we've talked about.

And then the last piece that benefited us in Q2 and that will fade in the second half is the shift from untracked channels to tracked channels. We talked about it on the first quarter call that we were sending less eggs to the breakup channel or the wholesale channel because we found more outlets in the retail channel for these eggs. And with that, **we get a price mix benefit** as well. It was a few points in the second quarter. Given that we are starting to lap this effort to move eggs from the breakup channel to the retail channel that benefits will be less prevalent in the second half year, but **it's certainly was a positive impact in Q2**.

Question – Matthew E. Smith: Thank you. I'll pass it on.

Answer – Thilo Wrede: Thanks, Matt.

Operator

Your next question comes from the line of Brian Holland with D.A. Davidson. Your line is open.

Analyst: Brian Holland

Question – Brian Holland: Yeah. Thanks. Good morning. Most of my questions have been answered, but I did want to ask about the guidance and maybe it's a bit of a philosophical question or – but you – typically you have not flowed through all of the upside that you are realizing in current quarter when you've taken guidance up, at least in the recent past. Obviously, there's – there's number of reasons for that, whether that's reinvestment or what have you. So I'm just curious because again, your flow through again, dangerous doing math, you need doing back of the envelope math this morning. But I'm curious, if you didn't flow through all the upside, right? It implies kind of second half estimates need to at least stay where they are come up. What are you seeing specifically to give you that level of confidence and visibility, whether it's with respect to the consumer competitive landscape, your customers. Just curious if there's anything you can sort of hone in on there? Thanks.

Answer – Russell DiezCanseco: Brian. Good morning. So, I'll start since you used the word philosophical. That's my love language. Well, let Thilo follow up with the math. You know, philosophically, as you've come to know, we're, you know, Thilo and I, we're pretty conservative in how we operate and how we think about and forecast the business. And so at a high level, philosophically, this does not reflect a change in our level of conservatism, our desire to do what we say, and say we do throughout the business. This reflects, you know, our perspective on the – on the high level of execution we're seeing as we expand **the supply of eggs coming off farms, expand the capacity** that we have at Egg Central Station week over week over week.

And as we continue to see really high levels of consumer awareness and consistently high levels of conversion through the funnel from awareness all the way through to the heavy user. The commercial engine, if **you will, remains strong** and has been. And our operations are now really substantially catching up to that commercial engine. And so, it's fun to see. It's not always so exciting. It's day-to-day blocking and tackling, but it's great to see our plans come to fruition this year.

Answer – Thilo Wrede: You know, Brian, and I would just add to that, we set out for the first quarter call. We wanted to give ourselves a bit more time to see the, you know, the reaction in the market to the price increase. Now, that we have had the time. Now, that we have been able to watch out how – how retailers are reacting? How our consumers are reacting? We're just getting more confident that the plans for the second half to Russell's point, that they are working out the way we thought they would work out. And with that, we thought it was the right thing to do to reflect that in the guidance, that **we continue to have strong volume growth** that we have planned since the beginning of the year. And in that regard, some additional benefit from pricing.

Question – Brian Holland: Yeah. I appreciate the color from both of you on that. But I guess directionally, what I was trying to get at, what you provided in your answer there. So, I appreciate that. But maybe just kind of double clicking on that, right? I mean, so, like if we just take last year, for instance, you know, you talked about, hey, we're going to reinvest. We're going to pull forward hiring of people, advertising, you know, infrastructure, all that good stuff. You know, as we start to look forward, you know, kind of where are we in that process of, you know, having people, having infrastructure, relative advertising levels? Are those numbers that you still think you under index to relative to where you need to be? Or conversely, as we start to look for are we getting to a point where we start to see the scale benefits of those investments in over the last 12, 24 months, whatever really flowed through the model as you continue to keep up this level of volume throughput? I'll leave it there. Thanks.

Answer – Thilo Wrede: Yeah. I would argue, Brian that we are starting to see scale benefit. So, I think, **we have been seeing scale benefits for quite a while** now. And the acceleration of hiring that we did the second half of last year after **we had very strong margins in the first half** that we're starting to lap. Right? So there's a bit of a benefit there. But remember, we continue to invest in the business. Right? I think the change in the CapEx guidance, that's one example of where we are investing in the business to make sure that we continue to deliver the high growth rate that you expect from us. And, you know, there are a few additional positions that we're creating and filling, maybe a bit ahead of time. It is less of a meaningful acceleration of the hiring than what we had last year, but given that the year is playing out pretty well. We continue to build out the organization. We have our aspiration to have a world-class organization to drive this business. And that continues to require investments.

And that's not to say that we are reinvesting all the profit that we are generating. Obviously, we want to generate margin upside from scale. But margins are also at a level where we're very comfortable with the level that we are at. And so that gives us the, I think the flexibility to make these investments in the business to ensure that we deliver the next quarter, but we also deliver the next decade.

Operator

Your next question comes from the line of Scott Marks with Jefferies. Your line is open.

Analyst: Scott Marks

Question – Scott Marks: Hey. Good morning, guys. Thanks so much for taking our questions. First thing, I want to ask about, you have made some commentary around being able to rebuild some of your own internal inventories. So, I'm wondering if you can just kind of share an update on that in terms of where you are relative to where you think you need to be in order to drive a more smooth growth rate, let's say, going forward?

Answer – Thilo Wrede: Yeah. Great question, Scott. So with inventory, if you look through the press release, you see that we have quite a bit of inventory building in the second quarter. That will – we will have to continue on the path for a little bit longer. With eggs, we are just over, you know, just over a week of inventory for eggs that come off the farm. We prefer to have two or three weeks of inventory there simply because it gives us a bit of a buffer as we go into the busy season in Q4, but also because it allows us to run ECS much more efficiently than the way we run it when we only have a few days of inventory, right? So expect to build off of additional build up there.

Our butter inventory the really busy season of the year to fourth quarter when the company gets to really a lot of baking and so we like to build up inventory going into that and then we have packaging inventory that you know, it has to grow with the business. We need to have enough packaging on hand to make sure we can keep running. So given that we started the year with a very low inventory position, it's important for us to continue to rebuild inventory. So that there will be **a drain on working capital for the year**. And, thinking back to the earlier question, how we're refunding our CapEx? Even with more inventory building, we have the cash flow and we have the cash on hand to ensure that we can fund all of our CapEx projects out of existing cash without having to go to the markets in any way.

Question – Scott Marks: Got it. Thanks for that. And then last one for me. As we think about maybe the more mainstream part of the egg market where we have more avian flu disruption. I know there's been what seems like some signs of normalization of supply there. And I know there has been some questions about what that means for kind of, pricing and shelf space and other dynamics in the egg market. So wondering if you can just share your updated view on what's happening there and whether or not you are seeing any impacts to your business because of that?

Answer – Russell DiezCanseco: Thanks, Scott. It is our sincere hope that we do not see a return of avian influenza this fall and the mass slaughter of so many laying hens in this country. And that's anybody's guess. I don't have any insight or information about the likelihood of that returning. I will say that in our experience, **the pricing of commodity eggs in the market has a very limited impact on our business**, our ability to grow, our ability to attract and retain new households. And so we are – I think we can all see in the scan data sequential decreases in egg retails as supply comes back on line, as the national flock gets rebuilt, as it were. Still, I think, above same time last year, but coming down. That's not appearing to impact consumer demand or retailer demand for our products. I think we're just playing in a different part of the market and appealing to a different set of consumer needs.

Question – Scott Marks: Got it. Thanks so much. I'll pass it on.

Answer – Russell DiezCanseco: Thank you.

Operator

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

Analyst: Ben Klieve

Question – Ben Klieve: All right. Thanks for taking my questions, and congratulations on a good quarter here. Russell, a philosophical question for you. It's really encouraging to see the expanded farm supply network, and also really encouraging to see the data point you called out of having kind of 8 times the number of folks in the pipeline relative to the number of new farms that you need here in the next year. I'm curious, given the success that you've had in onboarding new folks in that pipeline, if that kind of changes your philosophy around the need for accelerator farms.

Answer – Russell DiezCanseco: Yeah. Thanks, Ben. And I appreciate you continuing on the philosophy theme. The intention of accelerator farms, which are continue to be, I think, an important part of our long-term strategy, is not as a substantial source of supply for eggs. It is to help make better the performance of and the – the performance of, the profitability of, and the animal welfare of our network of growing family farms. It's to try out new technologies, new techniques and see on our dime, with our CapEx, limited CapEx, what else is possible to help improve the performance of those existing farms.

The reality is, if anything, ironically, it makes the work we're doing on those accelerator farms even more important because we're able to leverage the learnings in the future over more and more and more family farms. So while I certainly don't think it increases the need for additional farms, I think the number that we've planned, roughly 15 accelerator farms, will give us learnings that we can leverage over more and more and more family farms and improve outcomes for those farmers, for the hens, and for the quality of the products we bring to market.

Question – Ben Klieve: Very good. I appreciate that. Thanks for taking my questions, I'll get back in queue.

Answer – Russell DiezCanseco: Thank you.

Operator

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

Analyst: Benjamin Mayhew

Question – Benjamin Mayhew: Hey, good morning, guys, and congratulations on **a strong result**. A lot has been asked already, but I would like to just focus on maybe the health of the consumer, and what you guys are seeing in your data specific to Vital Farms, but also, the larger food category. And **you mentioned that there's an opportunity with unmet demand**. So, I was just hoping that you can maybe unpack that a little bit more as it relates to Vital Farms? Thanks.

Answer – Russell DiezCanseco: Yeah, great questions. We certainly see a lot of headlines and a lot of discussion in your world around the health of the consumer. And I think **the reality is that while there are certainly potentially macro headwinds** out there, I don't know that it's having a big impact on our ability to create and communicate the value of our brand to our current and potential consumers. And I think that's the critical point here. This is not a big sort of capital purchase for households. This is an under $10 in most cases consumption item that is in reach for a lot of American households.

And the important part is whether we're creating and communicating enough value to warrant to justify them spending their precious dollars on our products. And that's the job at hand. And so, while American consumers may be facing a different set of choices about how they spend their money, our job is simply to make sure that we're one of the choices they do make. And I think we've proven our ability to continue to do that regardless of the macro backdrop.

So, we – and what gives us confidence that there's unmet demand besides the fact that the orders that come in from retailers aren't always getting met in full week to week, but we're getting better, is the fact that **we**

have driven a substantial increase in consumer awareness of our brand this year and that the historic relationship between consumer awareness as a preview of trial and new household penetration, that there's been a gap that's formed there where we've driven a lot more awareness than we've captured in household. And I think that's driven by our limited supply in the first half of the year. So, the growth in the back half in large part simply satisfies the needs of the households we've reached, but aren't fully supplying yet.

Question – Benjamin Mayhew: Thank you. That's very clear. I'll hop back in the queue.

Answer – Russell DiezCanseco: Thanks.

Operator

Your next question comes from the line of John Baumgartner with Mizuho Securities. Your line is open.

Analyst: John Baumgartner

Question – John Baumgartner: Good morning. Thanks for the question. Maybe...

Answer – Russell DiezCanseco: Good morning.

Question – John Baumgartner: Good morning. Maybe building on that theme with the consumption but looking more at met demand rather than unmet demand, when you segment your buyers by frequency, the light, the medium, the heavy, over the past few years, the proportion across those buckets hasn't really changed. And I understand that as new buyers come in with household growth, that naturally keeps that light buyer portion on the heavier end. But I'm curious how you think about your ability to actively migrate a larger share of buyers up that frequency curve from one unit a year to more regular purchases. Are there noneconomic factors or levers that you can address to accelerate conversion? Are there certain geographies or demos that are underpenetrated that could be naturally heavier buyers right out of the gate? Or is it more so just sort of waiting for the market to develop on its own?

Answer – Russell DiezCanseco: Yeah. It's interesting. I actually view that statistic, the fact that the proportion of light, medium, heavy, extra heavy, over time has remained consistent, remarkably consistent even as **we have grown the number of households as a real positive**. I think that there's a very natural and in essence, predictable migration over time. So **the number of extra heavy and heavy using households has grown in proportion to total households**, year after year after year. And what we found is that our primary objective is actually to continue to drive the top of the funnel awareness and new households, because there's, again, a very natural progression from trail all the way to heavy user.

You know, when I first started in – at Vital Farms, I kept asking that same question, you know, surely our existing customers, our best customer, and why aren't we doing more to drive that migration to heavy use? And I've learned over time that actually adding households over time is the highest and best use of our commercial dollars. And, we haven't come close to hitting the point at which we need to focus – to shift focus from new households to simply improving the profitability or buy rate of the existing ones.

Question – John Baumgartner: Thank you.

Answer – Russell DiezCanseco: Thank you.

Operator

Your next question comes from the line of Sarang Vora with Telsey Group. Your line is open.

Analyst: Sarang Vora

Question – Sarang Vora: Great. Congrats on a great quarter and guidance. My question is on Seymour, Indiana. You know, you are accelerating the production line set up two lines, $900 million revenue. You know, back of the envelope math, so just you need another 500 farms roughly to support this lineup of $900 million. So curious to know, like, you know, how is the curve of the family farm ramp you expect over the next two years? Is this like, you know, 2026 and 2027 could be a massive ramp up of like, you know, roughly 500 farms or it could be a little longer curve, you know, over the farms and then the production line. Just curious to know how you are thinking of see more Seymour, Indiana curve? Thank you.

Answer – Russell DiezCanseco: Yeah. Appreciate that. Good morning. So, I do think that previewing the curve of new farm ramp ups is in some – in some sense is a preview of longer term guide. And so we're not quite prepared to do that. What I would say is that our current plans are to continue our current pace of adding new family farms. And as we continue through this year and perhaps into next year, we may be in a better position to update further out goals for the brand and for the company.

Question – Sarang Vora: Great. Thank you.

Operator

I will turn the call back over to John Mills for closing remarks.

Great. Thank you. Thank you for participating on Vital Farms second quarter call today. We have a number of investor events that we will be attending in the next few months and look forward to seeing hopefully each of you there. Also, we look forward to updating you on our business progress during third quarter call, which will take place in November. Thanks, everyone. And have a great day.

Operator

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