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Vital Farms Inc

Q3 2024 Earnings Call

Thu Nov 07 2024 Earnings Call Transcript

Q3 2024 Earnings Call *(Corrected version)*

Summary NEW

Key Takeaways

Vital Farms' Q3 2024 earnings call highlighted strong financial performance, driven by growing demand for ethically produced products and strategic initiatives, including expansion of farm network and supply chain investments. The company raised its full-year guidance, emphasizing continued growth and brand building.

Key Financial Results

- Net revenue increased by 31.3% to $145 million in Q3 2024.
- Sales grew by 31% in the first nine months of the year.
- Volume increased by 25% year-to-date, accelerating from 15% in the same period last year.
- Gross margin improved by 368 basis points to 36.9% in the quarter.
- Adjusted EBITDA was $15.2 million in Q3, a 64.5% increase year-over-year.
- Year-to-date adjusted EBITDA reached $67.6 million , nearly doubling last year's results.
- Adjusted EBITDA margin improved to 10.5% in Q3, up 212 basis points from last year.
- Year-to-date adjusted EBITDA margin improved 509 basis points to 15.3% .
- Net income for the third quarter 2024 was $7.4 million , or $0.16 per diluted share, compared to $4.5 million , or $0.10 per diluted share last year.
- Cash, cash equivalents, and investment securities stood at $163 million on September 29, 2024, an increase of $46.2 million from the end of 2023.
- The company had no debt outstanding.

Business Segment Results

- Butter net revenue increased by 5% in Q3, with velocities trending well.
- In the last 12 weeks, as of October 6, the butter brand has grown 15.7% in scanner data.
- The foodservice business had another solid quarter.

Capital Allocation

- Planned CapEx for accelerator farms is built into the CapEx guidance.
- The company is planning to fund the Seymour facility and all other projects with existing cash and operating cash flow.
- Every CapEx dollar dedicated to Seymour will generate more than $5 of annual revenue capacity.
- CapEx guidance is reduced to $30 million to $40 million from previously $35 million to $45 million due to updated timing of certain investments.

Industry Trends and Dynamics

- The egg category grew strongly in dollar terms, up 56% in the latest 12 weeks ending October 6.
- Private label pricing was up nearly 75% during that period, lapping low prices from the prior year.
- Vital Farms units were up 33% during that period, while egg category units were up only 2% versus last year.

Competitive Landscape

- Vital Farms' trusted strategic partnerships are expanding and continuously growing stronger.
- The company believes the strength of the Vital Farms' brand gives them a strategic advantage in the foodservice sector.
- The core 12-count remains the number one branded SKU in the egg category based on dollar sales, and the 18-count conventional is right on its heels.

Growth Opportunities and Strategies

- Expanding shelf presence in existing stores.
- Total distribution points have increased by 17.3% to 461 in the natural channel and by 20.2% to 226 in the food channel year-on-year.
- Adding new items at retailers where the company is already strong.
- Expanding the farm network, with more farms scheduled to be added in the fourth quarter.
- Prep work to break ground at the new facility in Indiana is taking shape, with a late 2026 opening planned.
- Building a small number of accelerator farms in Indiana to gain practical knowledge of farm operations.
- Relaunched butter line after finding a pasture-raised source from Ireland.
- Expanding distribution with the right operators in critical strategic parts of the country.
- Launched core 18-count large item into Stop & Shop.
- Added 16-ounce salted butter as new items in Kroger.
- Launched core 18-count mediums at Food Lion in August.
- Expanded distribution of organic 12-count mediums in Walmart.
- Continuing to expand the full portfolio at H-E-B in Texas.

Financial Guidance and Outlook

- The company is updating its guidance for fiscal year 2024 to net revenue of at least $600 million , or at least 27% growth.
- Adjusted EBITDA of at least $80 million or at least 65% growth.
- Long-term guidance remains unchanged, targeting $1 billion in net revenue by 2027, with a gross margin of at least 35% and an EBITDA margin of 12% to 14% .
- The company expects elevated CapEx spending over the next few years with the bulk of this in 2025 and especially 2026 for the Seymour facility.
- In the fourth quarter, the company is facing an approximately 8-point growth headwind from lapping last year's 53rd week that is not repeating this year.

Q & A Highlights

The earnings call Q&A session focused on several key themes: **supply and demand dynamics** given maintenance activities, **category dynamics** considering promotional activities and pricing, **long-term growth strategies** including household penetration and marketing spend, and **gross margin sustainability** amidst cost factors. Analysts probed into the company's capacity flexibility, marketing spend effectiveness, and the sustainability of gross margins, seeking insights into future performance and strategic directions. Management addressed these concerns by providing details on operational adjustments, brand-building efforts, and financial targets.

Supply and Demand Dynamics

- **Q: How did supply match demand in Q3, and what was the overall impact of facility dynamics?**
- A: Vital Farms has exceeded guidance throughout the year, indicating strong demand for the brand. The company conducted maintenance to ensure continued operations, which temporarily slowed production. Demand is strong due to shelf placements and marketing campaigns. The challenge is increasing egg production in the short term. The company is focused on maximizing the utilization of Egg Central Station (ECS) in Springfield, Missouri. This maintenance is not expected to limit the ability to deliver on increased guidance for the year.
- **Q: What are the expectations for maintenance levels in the current quarter relative to Q3?**
- A: The approach to maintenance will be consistent. The company has some flexibility and manages production plans against necessary maintenance. There will not be a material increase or decrease in maintenance. The company is taking a planful and purposeful approach to ensure future operations run well.
- **Q: How much flexibility is there in your capacity in a given year, considering the growth rate?**
- A: Vital Farms has built flexibility into its operating model, unlike other egg producers that rely on the wholesale market. The company aims for an aggressive supply chain expansion pace to allow for upside. There are limits to how much upside can be achieved.

Category Dynamics

- **Q: How do you see category dynamics evolving, considering tight supply, rising prices, and elevated promotion at the commoditized level, and what impact will this have on your consumption when price gaps narrow?**
- A: Demand remains high, and promotional activity has been judicious due to preventive maintenance in Springfield. Prices have been stable despite elevated promotional activity. The company anticipates this trend to continue through Q4. Retailer partners appreciate the role Vital Farms plays in offsetting promotional activity on the lower end of the category. This behavior is expected to continue through the balance of the year and possibly into the beginning of Q1. Price gaps have limited impact on demand and growth opportunity, as consumers who buy Vital Farms typically do not cross-shop with commoditized products.

Long-Term Growth Strategies

- **Q: Given the outsized demand this year, how are you seeing household penetration vs. buy rate trending, and what plans do you have in terms of updating those measures on a go-forward basis?**
- A: Household penetration is on track, and additional households have been added in Q3. The company still sees the potential of 30 million households, as discussed at the Investor Day. Growth has recently come more from buy rate increases than initially planned. Consumer loyalty has shown meaningful advances.
- **Q: For a household that's a user of Vital Farms eggs, are they typically using other brands as well, or is this increasing buy rate more indicative of just more use cases for the brand in general?**
- A: The mix of new consumers is shifting toward a higher buy rate over time. Many egg consumers buy multiple brands and even private label at different points throughout the year. This could be due to different purposes or promotional sales. Everything points to continued healthy growth, with maturing and expanding demand by existing households, and new ones being added.
- **Q: How do you expect advertising and promotion spending to evolve through 2024 and beyond, and is the current level adequate?**
- A: The company continues to make strong investments in its brand to build an enduring, trust-based brand for the long haul, not to drive short-term consumption. Increases have been long-planned and signaled. In Q3, spending on marketing as a percentage of net sales was the highest level since the IPO. The fourth quarter is expected to be above run rate for the year due to continued reinvestments. Increased marketing spending is still on the agenda for this year and probably for future years.
- **Q: How do you view the returns on the step-up in marketing spend so far, and what learnings are you getting out of that investment relative to where your national distribution is and the velocities?**
- A: The company is building the brand for the long haul and investing in insights. The brand is only as strong as the ability to fill an unmet consumer need. The company does quarterly survey work with consumers and tests brand awareness for its own brand and other brands. As the marketing budget increases over time, brand awareness is increasing. The company performed better than other brands in the market. Marketing spend is used to drive brand awareness, not necessarily to drive retail sales in that quarter.

Gross Margin Sustainability

- **Q: What are the offsets outside of feed cost that would lower the gross margin from here, and how sustainable is the gross margin?**
- A: The company has been above its long-term target year-to-date and expects to be above it for the full year. The company is sticking with the 35% target for 2027, which allows flexibility to try new things with the brand and invest in ECS. Increased transportation distance for farms near the new Seymour facility will impact margin a bit. Maintenance will also weigh on the fourth quarter. The company feels comfortable that it can be at or above that range between now and 2025.

Family Farms

- **Q: Can you talk about the health and the backlog for new family farms, especially as you make progress towards building recognition with the community around the new plant in Indiana?**
- A: The company started getting the story of Vital Farms out in new areas, including Indiana, last year. The company does not necessarily want a lot of farms in Indiana until it is closer to opening the new facility. The company continues to add farms closer to Springfield, Missouri, to maximize capacity there.

Show The Company's Guidance And Outlook

Vital Farms' Q3 2024 earnings call provided updated financial guidance for the full fiscal year 2024. The company raised its net revenue and adjusted EBITDA guidance, while reducing its capital expenditure (CapEx) guidance due to updated timing of certain investments. Additionally, Vital Farms management shared their outlook on long-term growth, household penetration, and marketing spend.

Annual Guidance

- Net revenue of at least $600 million , representing at least 27% growth .
- Adjusted EBITDA of at least $80 million , representing at least 65% growth .
- CapEx between $30 million and $40 million .

Long-Term Guidance

- Targeting $1 billion in net revenue by 2027 .
- Gross margin of at least 35% .
- EBITDA margin of 12% to 14% .

Outlook

- Facing an approximately 8-point growth headwind in the fourth quarter due to lapping last year's 53rd week .
- Long-term growth will be volume-driven.
- Household penetration is on track, with potential to reach 30 million households .
- Expects to be above run rate and historic levels for marketing spend in the fourth quarter.
- Comfortable that gross margin can be at or above 35% between now and 2025 .

⌵ Event Details

Date: 2024-11-07
Company: Vital Farms, Inc.
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⌵ Company Participants

Anthony J. Bucalo - Vital Farms, Inc., Vice President, Investor Relations
Russell DiezCanseco - Vital Farms, Inc., President, Chief Executive Officer & Director
Peter Pappas - Vital Farms, Inc., Chief Sales Officer
Thilo Wrede - Vital Farms, Inc., Chief Financial Officer

⌵ Other Participants

Ben Klieve - Analyst
Brian Holland - Analyst
Robert Moskow - Analyst
Jon Andersen - Analyst
Rob Dickerson - Analyst
Matthew E. Smith - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and thank you for standing by. Welcome to the Vital Farms Third Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Anthony Bucalo, VP of Investor Relations. Please go ahead.

Anthony J. Bucalo

Good morning, and welcome to Vital Farms' third quarter 2024 earnings conference call and webcast. I am Tony Bucalo, VP of Investor Relations. I'm joined in the call today by Russell Diez-Canseco, President and Chief Executive Officer; and Thilo Wrede, Chief Financial Officer; and Pete Pappas, Chief Sales Officer.

By now, everyone should have access to the company's third quarter 2024 earnings press release issued this morning. This is available on the Investor Relations section of Vital Farms website at investors.vitalfarms.com.

Throughout this call, management may make forward-looking statements within the meaning of 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 September 29, 2024 filed with the SEC today, as well as our other filings with the SEC for a detailed discussion of the risks that could cause actual results to differ materially from those expressed or implied in any forward-looking statements made today.

Please note that on today's call, management will refer to adjusted EBITDA and adjusted EBITDA margin, which are non-GAAP financial measures. While the company believes these non-GAAP financial measures provide useful information for investors, the presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Please refer to our earnings release for a reconciliation of adjusted EBITDA and adjusted EBITDA margin to their most comparable measures prepared in accordance with GAAP.

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

Russell DiezCanseco

Good morning, and thank you for your time today. We're excited to be here in New York to ring the Nasdaq bell tomorrow afternoon. We've had great momentum in our business throughout the year, and I'm pleased to announce that **we delivered another strong performance in the third quarter of 2024**. **Our results were driven by the growing demand for Vital Farms' ethically produced products and the terrific contributions from our crew members and stakeholders across the organization**. These are exciting times at our company, and I'd like to thank everyone at Vital Farms for a job well done.

Today, I'll kick off our key financial headlines and then provide some color on our progress in the quarter. I'll then hand it off to Chief Sales Officer, Pete Pappas, for an update on industry dynamics, as well as Vital Farms' selling efforts so far this year. To close out, Thilo will provide more detail on our third quarter financials and updated guidance for fiscal year 2024.

With **our strong third quarter performance, we are raising our guidance for the balance of the year**. Thilo will tackle this in detail. With that, let's get right to the key financial headlines.

We had another great top line performance with our third quarter net revenue up 31.3% to $145 million. In the first nine months of the year, **our sales grew 31%**. Year-to-date, **our volume has increased 25%**, a very healthy acceleration from the 15% growth during the same period last year. Gross margins expanded again this quarter compared to last year. **Gross margin improved 368 basis points to 36.9% in the quarter** and improved 376 basis points to 38.6% for the first nine months of the year. Our expanding gross margin performance helped to drive another strong adjusted EBITDA result. **We delivered $15.2 million of adjusted EBITDA in the third quarter, up 64.5% versus last year**. Year-to-date, we have delivered $67.6 million in adjusted EBITDA, nearly doubling last year's results.

Third quarter adjusted EBITDA margin improved to 10.5%, up 212 basis points from last year. Additionally, **our year-to-date adjusted EBITDA margin improved 509 basis points to 15.3%**. The virtuous cycle of growing consumer demand, driving expanded distribution, driving further demand continued in the third quarter. We again expanded our shelf presence in existing stores. Year-on-year, **our total distribution points have increased by 17.3% to 461 in the natural channel** and by 20.2% to 226 in the food channel. Even with this rapid growth, we see ample opportunity to add many more items to existing shelves at locations where we already have a strong presence and further increase sales velocity of our items.

Our total distribution point growth in the natural channel is nearly as strong as in the food channel, despite carrying almost a 70% higher average number of items. We believe this demonstrates the runway we still have on expanding distribution. We believe adding new items at the retailers where **we are already strong** will be a major driver of our long-term growth.

On the supply side, **we continued to expand our farm network**, with more scheduled to be added in the fourth quarter. We now have more than 375 family farms in our network. We remain on target to add the farms necessary to deliver our plans in the short and long term. Furthermore, our prep work to break ground at our new facility in Indiana is taking shape, and we're on schedule for a late 2026 opening.

2024 has been a great year through the end of the third quarter for Vital Farms. And **our performance has exceeded our original expectations**. I'm pleased with how we performed on our financial goals. **We continue to build a great brand with more demand than even our own ambitious projections**. To meet **growing demand this year, our production outstretched our original forecasts**. To keep **us on our growth track into next year** and beyond, we will continue building capacity across our system at ECS especially.

Thilo and I spoke in detail last quarter about our supply chain investments in company-owned accelerator farms and our forthcoming facility in Seymour, Indiana. These are important projects which will help us in our drive to reach our net revenue target of $1 billion by 2027. However, ECS remains the crucial piece at the center of our entire supply chain, and will need to reach its $800 million capacity potential for us to achieve our longer-term goals.

In the third quarter, we conducted much-needed maintenance work at ECS to keep pace with demand. This effort immediately improved our efficiency, but **we also saw slowed production during those maintenance periods**. In the fourth quarter, **we will be doing some additional operational improvements** to enable continued capacity growth. We believe these investments will pay off and reduce downtime going forward and keep us on track to scale ECS to the $800 million capacity we have previously shared.

As a result, we expect there will be times in the fourth quarter, where **our ability to grow production slows from its typical rate**. **We have incorporated the impact of fourth quarter maintenance into both our sales and adjusted EBITDA guidance for the remainder of the year, delivering the full-year far ahead of our original expectations from the beginning of the year**.

As we highlighted last quarter, we are now in the beginning stages of building a small number of what we call accelerator farms in Indiana. As a reminder, our accelerator farms are a crucial step to gain practical knowledge of our farm operations without the need to vertically integrate. We see this plan as similar to that of a franchise company running a handful of company-owned businesses to gain deeper insight into their own operations.

We intend that accelerator farms will provide immediate supply for the coming Seymour facility in Indiana. We expect to test and learn new ideas and these learnings can be applied across our existing farm network. These farms may also serve as powerful recruiting tools for new farmers who can see best practices in action.

Over time, we plan to make fully operational farms available for sale as turnkey solutions for buyers who want to fast-forward through the construction process. We do not expect that accelerator farms will at any point represent more than a mid-single-digit percent of our overall farms. Furthermore, planned CapEx for these farms is entirely built into our CapEx guidance. We're committed to our partnership with our family farmers.

Before I hand it over to Pete, **I have another update on our exciting progress with butter**. We relaunched our butter line this April after an extensive search for a supply source that we believe was consistent with Vital Farms' philosophy and mission. We chose a pasture-raised source from Ireland, and I'm happy to report that **we're seeing significant progress since the relaunch**.

Our butter business was down in the first half of the year, weighed down by supply constraints and the discontinuation of our tub butter SKUs late last year. However, **we're back to growth, with butter net revenue up 5%** in the third quarter and velocities trending well again this quarter. The rebirth of our butter brand is a terrific accomplishment and I'm happy with what we've done with this great product in such a short period. As you'll hear from Pete, we are still in the early innings with this exciting product.

Now I'd like to wrap up with a few comments. We're very proud of our performance so far this year, and our business is in great shape as we look forward to 2025. **We've grown rapidly** while serving our stakeholders and delivering on our financial promises. **Demand remains extraordinarily high,** and we have the necessary supply. To **further strengthen our competitive advantage**, I'm really excited about the two latest additions to our world-class leadership team. As I've said many times before, the quality of our people is one of our biggest drivers of long-term value and growth.

To further build out this point of strength for us, I'm thrilled to have Reena Van Hoven join us as Chief People Officer, coming from Danone, North America. Reena is a highly accomplished HR leader with nearly 20 years of experience aligning people strategies with business results, especially with purpose-driven brands like ours.

Furthermore, to ensure that our supply chain capabilities are expanding in lockstep with the amazing work that our commercial organization is doing, I'm ecstatic that Joe Holland has joined us as Chief Supply Chain Officer. Joe has a lot of work to do with ECS Springfield and the new facility in Seymour and he's up to the task. Joe has a proven track record of driving operational excellence and will help us further raise the standards across the food industry. Thank you both. We're excited to have you on board.

And with that, we'll go to our Chief Sales Officer, Pete Pappas, for further discussion. Pete?

Peter Pappas

Thank you, Russell. I'd like to start today by saying thank you to the sales team and the crew at Egg Central Station, **who have done an outstanding job navigating a volatile egg category** while winning in the market. Our retailers know the value Vital Farms adds by driving growth and bringing good news to the egg category each and every day. Our trusted strategic partnerships are expanding and continuously growing stronger. The work **we've done carried into the third quarter, resulting in strong demand and positive mix**. We've had record demand in 2024 as **our revenues grew 31% in the first nine months of the year**.

Last May, in our Q1 earnings call, I gave details on how **we expanded distribution, increased the number of SKUs at existing stores, and improved our mix with higher price point SKUs**. **This combination of factors helped us grow** sales and unit volume well above the category in the first half of the year. The dynamics of the third quarter changed somewhat from the first half of the year, against the backdrop of tightening supply for the egg category.

The latest avian flu cycle is now being felt at retail by the consumer. However, **our business continues to experience strong volume demand** and sequentially improving price and mix. **The egg category grew strongly in dollar terms**, plus 56% in the latest 12 weeks ending October 6. But **this was due largely to**

private label pricing, up nearly 75% during that period and the lapping of low prices in the prior year. As a result of holding our price in **this turbulent landscape**, we did not outpace category revenues in the third quarter, but did have outstanding unit and velocity growth. **Vital Farms units were up 33% during that period, while egg category units were up only 2% versus last year**.

Our workhorse SKUs remain our 12 and 18-count conventional packages, and two of our fastest growing SKUs are 12 and 18-count organic packages. Our core 12-count remains the number one branded SKU in the egg category based on dollar sales, and our 18-count conventional is right on its heels. 18-count organic is now our fastest growing new item, and we believe **we will see strong growth** ahead.

One quick comment on butter. I'm excited to say that after our relaunch earlier in the year, butter is back on a growth trajectory after several quarters of supply challenges. In the last 12 weeks, as of October 6, **the brand has grown 15.7% in scanner data**. We are very excited for a strong fourth quarter as we enter peak baking season with a robust promotional calendar. The brand is on stable footing as we look forward to a very strong 2025.

Our foodservice business had another solid quarter. We believe the strength of the Vital Farms' brand gives us a strategic advantage in the foodservice sector, allowing us to forge unique partnerships with restaurants and other operators that are uniquely aligned with our values and high-quality farm-to-table ingredients. We continue to expand distribution with the right operators in critical strategic parts of the country. I continue to be extremely excited about our growth opportunities as we have plenty of runway to expand the Vital Farms brand to more shelves and tables across the country.

For example, in July, we launched our core 18-count large item into Stop & Shop. In the Kroger, we added 16-ounce salted butter as new items. And in August, we launched our core 18-count mediums at Food Lion. **We expanded distribution of our organic 12-count mediums in Walmart, and we're excited that we continue to expand our full portfolio at H-E**-B in Texas. We appreciate the continued confidence our retailers placed in us as we grow together.

I want to finish by once again thanking the team at Egg Central Station, who are working around the clock to package Vital Farms eggs and the tireless efforts of our farmers without whom we wouldn't have these beautiful, delicious eggs to provide to our customers and consumers.

With that, I'll pass it over to Thilo.

Thilo Wrede

Thank you, Pete. Hello, everyone, and thank you for joining us today. I will now review our financial results for the third quarter ended September 29, 2024, and then, provide details on our updated guidance for fiscal year 2024. We followed up our record first half of the year with another strong financial performance in the third quarter. **Our net revenue rose to $145 million, up 31.3% versus last year**. We posted 21.8% volume growth and our positive price/mix performance was boosted by the growth of our organic portfolio and other positive mix effect.

It was the water main break in Springfield in July, which cost us two days of production, but we were able to recapture some of that later in summer. **Gross profit for the third quarter of 2024 rose to $53.5 million,** or 36.9% of net revenue, compared to $36.7 million, or 33.2% of net revenue last year. **Gross profit was boosted by strong volume and revenue growth and the benefits of scale and operational efficiencies**.

Positive price/mix benefits and lower conventional commodity and diesel costs contributed to higher margins. **This was partially offset by an increase in promotions**, labor, maintenance-related expenses and overhead costs to keep pace with growth.

SG&A expenses for the third quarter of 2024 were $36.1 million, or 24.9% of net revenue, compared to $25.1 million, or 22.7% of net revenue last year. **The increase in SG&A this quarter was driven primarily by marketing-related and broker-related expenses, stock-based compensation, higher employee head count**, professional service expenses, and technology and software-related expenses. **These costs all reflected the expansion of the business** and were in line with our expectations based on the previously discussed reinvestment plans for the second half of the year.

Shipping and distribution costs rose in absolute terms, but were stable as a percentage of sales. **Shipping and distribution expenses in the third quarter rose to $8.1 million,** or 5.6% of net revenue, compared to $6.4 million, or 5.8% of net revenue last year. The increase in shipping and distribution expense was driven by higher sales volumes, partially offset by favorable line haul and fuel rates.

Net income for the third quarter 2024 was $7.4 million, or $0.16 per diluted share, compared to $4.5 million, or $0.10 per diluted share last year. **Adjusted EBITDA for the third quarter of 2024 rose 65% to $15.2 million,** or 10.5% of net revenue, compared to $9.3 million or 8.4% of net revenue last year.

I have a quick update on our capital structure as well. **Our cash, cash equivalents and investment securities on September 29, 2024 stood at $163 million, an increase of $46.2 million from the end of 2023**. We had no debt outstanding.

Now looking ahead. For the full fiscal year 2024, **we're updating our guidance to net revenue of at least $600 million, or at least 27% growth, compared to our previous expectation of at least $590 million, or at least 25% growth**. **And adjusted EBITDA of at least $80 million or at least 65% growth** compared to our previous expectation of at least $75 million or at least 55% growth.

We are reducing our CapEx guidance to $30 million to $40 million from previously $35 million to $45 million due to updated timing of certain investments. Our long-term guidance remains unchanged. We are targeting $1 billion in net revenue by 2027, with a gross margin of at least 35% and an EBITDA margin of 12% to 14%. For this guidance, please keep in mind that in the fourth quarter, **we are facing an approximately 8-point growth headwind from lapping last year's 53rd week** that is not repeating this year.

Our updated 2024 guidance reflects our strong revenue and EBITDA performance through the first nine months of the year and our visibility of anticipated demand and commodity costs. Additionally, our annual adjusted EBITDA guidance accounts for incremental spending on marketing and maintenance in the fourth quarter.

The updated CapEx guidance continues to include our new facility in Seymour, Indiana, the accelerator farm project Russell discussed and our ongoing digital transformation efforts. With the Seymour facility, we expect elevated CapEx spending over the next few years with the bulk of this in 2025 and especially 2026. We continue with our planning to fund Seymour and all other projects with existing cash and operating cash flow.

Our projection remains that every CapEx dollar dedicated to Seymour will generate more than $5 of annual revenue capacity, which **we consider a strong return**. As always, we will continue to evaluate and monitor our capital allocation priorities, and we will provide updates as necessary.

This is an exciting time at Vital Farms. We have committed consumers to continue to choose us. **We are adding family farms ahead of our Seymour groundbreaking plant** next year. We remain focused on driving greater retail penetration and raising brand awareness to deliver our eggs and butter to more and more households with each passing year.

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

Thank you. At this time, we will conduct the question-and-answer session. Our first question comes from the line of Ben Klieve of Lake Street Capital Markets. Your line is now open.

Analyst: Ben Klieve

Question – Ben Klieve: All right. Thanks for taking my questions, and congratulations on a really nice quarter here. First, I have a question on a high level about conditions throughout the quarter. **Nielsen data seemed to indicate there's a sequential increase in demand from second to third quarter**. But you guys also noted that you had some – that a water main break and some kind of intentional maintenance occurred in the period. I'm wondering if you can comment on a high level about your ability for supply to match demand in the period and then quantify the overall impact of the facility dynamics here within the third quarter.

Answer – Russell DiezCanseco: Yeah. Thanks, Ben. Thanks for being with us this morning. Yeah, **it's a great problem** to have, really, which is that for the entire year-to-date, we've exceeded the guidance we gave. And frankly, in many periods exceeded our own internal more aggressive expectations. And the reality is, when you run hard, sometimes you got to make sure you're also doing the maintenance to make sure you can continue to run hard. So I don't know that we left an awful lot on the table in any given week or month relative to our operating plans and relative to the plans we built with our customers in the year prior. But the reality is that, **demand is strong**. And I think **demand is strong for our brand**.

And based on **the strong shelf placements** that Pete and his team have driven over the last several years and the great marketing campaigns we've done. And so **our challenge** right now is always that I can't get the chickens to lay more eggs in the short run. And as **we continue to ramp up the utilization and our really well-constructed and well-designed Egg Central Station in Springfield, Missouri**, we continue to push to do that as fast as we possibly can.

So I don't see this as a limiting factor on our ability to deliver on our increased guidance for the year. And I'm excited to look ahead to next year. But in the moment, as has always been true, there are limits to how much upside there is in the short run.

Question – Ben Klieve: No, that makes plenty of sense. Thanks, Russell. And then, one more from me on this dynamic, and then I'll get back in queue around these planned maintenances. Can you talk about expectations in the current quarter for overall levels of maintenance in an order of magnitude relative to the third quarters? That can be picking up sequentially, relatively flat, or did you do more maintenance in the third than you expect in the fourth?

Answer – Russell DiezCanseco: I think it's going to be a pretty consistent approach. We have some flexibility here. And so it's all about managing production to our plans against the maintenance that we need to continue to build into our schedule. So I don't know that we'll have a material increase or decrease. I think it's continues to be a very planful and purposeful approach to making sure that we're setting ourselves up to continue to run well in the future.

Question – Ben Klieve: Very good. All right. Well, I appreciate you guys taking the questions. Congratulations again on another nice quarter. I'll get back in queue.

Answer – Russell DiezCanseco: Thanks, Ben.

Operator

Thank you. Our next question comes from the line of Brian Holland of D.A. Davidson. Your line is now open.

Analyst: Brian Holland

Question – Brian Holland: Yeah, thanks. Good morning. I wanted to go back to Pete's comments about category dynamics through the quarter. So maybe just a high level question. We saw obviously the spike in retail egg prices, but we also saw an increase in promotions against those prices in September. I think **the spot egg price came down**. Maybe retailers were using this as a lot – using the category, the commoditized section of the category as a loss leader.

And **you guys decelerated concurrent with that through September**. We saw that start to stabilize. I guess, Pete, just asking about category dynamics going forward, mindful, you said and I think we see industry data points that suggest supply is tight, prices are going up. But promotion has been elevated, I guess, of late at the commoditized level. How do you see that evolving going forward? Just mindful the impact on your consumption when these price gaps narrow.

Answer – Peter Pappas: Yeah, fortunately for us. Thanks for the question, Brian. I think **our demand remains high**, as you said, our promotional activity, as well as our capacity, as Russell said, as we've engaged in this maintenance, our preventive maintenance in Springfield, we've been very judicious about the promotional activity that we've engaged in the quarter. So we've been very careful about the level of promotion.

And **our demand is extremely, extremely high**. As a result of that, our prices have been very, very stable in light of the elevated promotional activity. So you've probably seen gaps widen. It has not affected our demand, and I would continue – anticipate that we'll continue to see that through Q4. We don't anticipate we've worked very closely with our retailers that our role in the category will be to be a margin offset to the promotional activity on the lower end of the category. Retailer partners are appreciative of the role that we play. So I would anticipate more of that type of behavior through the balance of the year and possibly even into the beginning of Q1.

Answer – Thilo Wrede: Brian, this is Thilo. Let me just add one thing to that. I would say, what we've said in the past continues to be the case in the sense that price gaps have very limited impact on our demand and our growth opportunity, right? Consumers who buy us, they don't usually cross-shop with a commoditized part of the category. And so while in the past, we have benefited when there were shortages of eggs on the shelf and we were available – other parts of the category might not have been price gaps, per se, have very limited impact on our ability to grow.

Question – Brian Holland: Got it. Appreciate the color. And then, second question, just mindful that fiscal 2024 is playing out to be a well-above algorithm year. Anything that you can share at this point with respect – and I appreciate it's early, but just looking at the fiscal 2025 again relative to the algorithm that you sort of laid out back in September 2023, anything worth calling out to help us think about the shape of 2025, just again given the well-above expectation performance that we've seen year-to-date in 2024?

Answer – Russell DiezCanseco: Yeah. Brian, I appreciate the nudge. What I would certainly say is that, as I imagine **you would observe, our strong performance** this year builds even more confidence in our ability to achieve the long-term guidance we gave in 2023, which is $1 billion in net revenue from existing businesses in 2027. I think we'd be loathed to update that guidance at this point, but we're certainly doing our best to maximize the potential of this brand and to unleash the potential of our terrific crew and network of farmers.

(00:32:06)

Question – Brian Holland: I'll leave it there.

Operator

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

Analyst: Robert Moskow

Question – Robert Moskow: Hi. Thanks for the question. I guess, I have two. One is, just in general, like how much flex is there in your capacity in a given year, because you started the year, if I have this right thinking that you'd have 17% organic growth, probably going to finish the year, closer to 30% and almost all of its volume. So that's my first question. Is that like as we head into 2025 and you give us guidance, if demand is better than you thought, is that how much the system can flex in a given year? It seems atypical.

Answer – Russell DiezCanseco: Yeah. Hey, Rob, good morning. It's Russell. Very fair question. We've spent a lot of time as we've grown over the years, building as much flexibility into our operating model as we can, despite the fact that unlike many other producers of eggs, in particular, we don't go to the wholesale market to fill a production gap, unlike, I think, the way the traditional industry operates. Because **our standards are so high even within the commodity** that we produce pasteurized eggs that – and we can't just substitute anyone's pasteurized egg for ours.

And so we certainly do our best to have an aggressive supply chain expansion pace, which allows some upside. Certainly, **you've seen the benefits of that over the course of this year**-to-date. But even – there are even limits to our ability to do that. So yeah, I want to have upside, but there are limits to how much upside there can be.

Question – Robert Moskow: Okay.

Answer – Thilo Wrede: And Rob, I'm just going to add that, right (00:34:17). When you look back to first quarter last year, you saw one quarter where we could push capacity really hard for a very limited amount of time. But that is really hard to sustain for us, right. Because at some point, we have to slow down, we have to do the work on machines again and so on. We have to make sure we have the egg supply. And so this year **we have been running ahead of our own plan** all year. And fourth quarter, I think we're catching up to that a little bit or it is catching up to us a little bit. And so the premise that we want to grow (00:34:53) very intentionally over time, that still holds very much true.

Question – Robert Moskow: Okay. And then, anecdotally, I had heard about stock-outs at retailers who don't carry enough of your SKUs. And I think that's probably the main issue. So any thoughts on whether that's had a quantitative impact on your sales in the quarter? And does it give you good ammunition into 2025 to, say, give us more phasings (00:35:26) and you won't have this issue?

Answer – Russell DiezCanseco: Yeah. Thanks, Rob. It's funny. This is sort of the perpetual question, which is how do we help ensure that our product is available to anybody that would like to try it for the first time, or come back and rebuy as a loyal consumer. I think that there are certainly times, even today when an empty shelf earlier in the day would indicate maybe that store didn't order enough or maybe **they haven't had a chance** to restock yet.

I think given the fact that **we are seeing substantial demand for our brand beyond our short-term ability** to fill it in full suggests that we're now contributing to that situation. It's not so much that **it's hurting our sales**, it's that we're kind of running as hard as we can and growing strongly as a result. But there's **even more demand** than we projected.

Again, I think it's a good problem to have. There's no sense of missing numbers, or underachieving plan. We continue to raise our guidance and overachieve our guidance. It's simply that there are limits to even our ability to grow infinitely in the short run. So again, good problem to have and I'm excited to see what's possible next year given how many consumers are demonstrating their real interest in buying our products.

Question – Robert Moskow: Okay. Thank you very much.

Answer – Russell DiezCanseco: Thanks, Rob.

Operator

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

Analyst: Jon Andersen

Question – Jon Andersen: Hey, good morning. Thanks for the questions, and congrats on **the strong quarter**. Maybe just wondered if you could talk a little bit about the dynamic that you laid out in your long-term plan. And what I'm referring to is some of the household penetration goals versus spending per household, or buy rate objectives. Given that **outsized demand** this year, how are you seeing household penetration versus buy rate trending? Is it in line with your expectation? Are you kind of getting the trial to bring those new households into the franchise that you're expecting? And then, what kind of plans do you have in terms of updating those measures on a go-forward basis? Thanks.

Answer – Thilo Wrede: Hi, Jon. Good morning. Thanks for the question. So household penetration, we're pretty much on track, where we want to be for this year. What we've seen in Q3 is that we've added additional households. We're managing the natural churn that any brand sees and households that enter a brand and leave again. So all of that is on track.

I think for the longer-term growth algorithm, we definitely still see the potential of the 30 million households that we've talked about last year at our Investor Day. I think, lately, **the growth has come a bit more from buy rate increases** than what we initially had planned for. And so that is something that we are definitely tapping into right now. But that is not to say that we're not going after these 30 million households.

We might not get to the 30 million by 2027. Maybe that's a year later, but **we'll make up for it with buy rates improvements**, where we have really seen quite meaningful advances is just consumer loyalty. And the number of times consumers buy us in the year of where they are already in the brand. And I think that speaks to the quality of the brand, quality of the product, and really the connection that we have with the consumer once we get them into the brand.

Question – Jon Andersen: That's helpful. And I don't know if you have this perspective or data, but for a household that's buying or a user of Vital Farms eggs, are they often or typically using other brands as well as, is there brands switching going on, or is this kind of increasing buy rate more indicative of just more use cases, maybe around more dayparts for the brand in general?

Answer – Russell DiezCanseco: Yeah, very fair question. And certainly, one that we talk about a lot internally. One of the things to keep in mind when we talk about household penetration is that it's got a lot of new consumers that may have just joined the brand and a lot of very mature consumers who have been with us for years. We definitely see a trend of the mix of a given cohort of new consumers shifting toward a higher buy rate over time, and that dynamic continues unabated.

Newer consumers, as **you can imagine, won** by (00:40:31) simply the sheer law of numbers. If you just bought us last week, you just bought us the one time. And so there's always a mix of that. Those two kinds of consumers.

I would say that it's not so much that we're seeing different usage occasions necessarily, but **we're seeing continued strength in our brand** and continued growth of our pool of heavy users as it were. The reality is that many egg consumers buy multiple brands and even private label at different points throughout the year. And it's true that in some cases it's different purposes. Hey, I'm cooking a special breakfast and I want a premium egg. But maybe for my baking, I want something different, or even vice versa. Some people have told us that our eggs make the best soufflés, for example, and the best baked goods.

On the flipside, there are times when one or more brands might be on a terrific sale that's hard to ignore. Or maybe, as was mentioned earlier in the call, you confront a shelf where their first choice, Vital Farms isn't available, but you really need eggs, which is often a great chance for us to highlight what they will miss about us when they have to try someone else's eggs. So I think, again, **everything points to continued healthy**

growth, maturing and expanding demand by existing households, and we're continuing to add new ones to the fold.

Question – Jon Andersen: That's helpful. If I could squeeze one more in. I think advertising and promotion, your rate relative to sales last year was somewhere in the mid-single-digits, about 5%. How do you expect that to evolve through 2024 and beyond? You've talked about incremental marketing promotion spending, but obviously, **they've also been very strong sales**. Is that a level from a rate perspective that you feel is adequate and you want to maintain? Or do you lever that up or down over time? Thanks.

Answer – Russell DiezCanseco: Yeah, thanks, Jon. Thilo will give you more of the specifics. But at a higher level, philosophically, what I'd say is, **we continue to make strong investments in our brand**, not to drive short-term consumption. We haven't found that direct correlation. And, in fact, that's not really our purpose here. The purpose in brand building is to build an enduring, trust-based brand for the long haul. And so **our increases** have been long planned and long sort of signaled. And Thilo can talk about where that growth ends, if it ends, and what we think the right number might look like.

Answer – Thilo Wrede: Hi, Jon. And just to put a few numbers out there. In Q3, **our spending on marketing as a percent of net sales was the highest level** that we've had since the IPO. And part of that was the plan - all along, since the beginning of the year, part of it was these reinvestments that we have from the first half of the year that we talked about. Fourth quarter, I would still expect us to be **above** run rate for the year, above historic levels, simply because we are continuing these reinvestments. **We're seeing the benefits in brand awareness** and driving trial over time, and advertising spending, increase of marketing spending is something that we still have on the agenda for this year and probably for future years.

Question – Jon Andersen: Thanks so much.

Operator

Thank you. Our next question comes from the line of Robert Dickerson of Jefferies. Your line is now open.

Analyst: Rob Dickerson

Question – Rob Dickerson: Great. Thanks so much. Apologies if I touch on something that's been discussed. Just hoped in a little late. Russell, I just wanted to ask you about the step-up in the marketing spend. I mean, clearly, you talked about that last quarter. You have been active, I think, a decent amount of it. Just curious as to how you view those returns on that investment so far.

And then, the learnings that you're getting out of that investment relative to where your national distribution is and the velocities, is there anything that comes out of that as you think forward, such that – or maybe on a seasonal basis, we don't need to do it as much, maybe in Q1 versus Q2 next year or maybe we think, we actually have the exactly the right amount of investment, given where we are in the business cycle? That's the first question.

Answer – Russell DiezCanseco: Thanks, Rob. I'm going to let Thilo talk about returns on those investments, which is the perpetual question. And I don't think I'm qualified to answer it. But what I would say is that, yes, we're definitely building this brand for the long haul. And part of that is, as you suggested, investing in insights. And we've built a really terrific team of consumer insights, folks who are helping us better understand what you might want to know about how people interact with our brand, what leads them to buy us, what leads them to buy us a second time, when they might use us and when they might not use us, et cetera.

Because ultimately, **the brand is only as strong as our ability to fill an unmet need in the marketplace, an unmet consumer need, which we believe we've been really successful** in doing over the years, and want to make sure we continue to do.

In terms of the learnings, I think I'd be loathed to maybe share some of those, which frankly are some of the secret sauce, or a little bit of the moat that we've built in our brand building, which is all rooted in our deep understanding and relationship with the consumer.

I'll let Thilo talk a little bit now about how we think about returns on those investments.

Answer – Thilo Wrede: Yeah, Rob. Russell said he is not the expert to talk about returns. I don't know if I'm either. I don't have a dollar number that I can share with you that – every dollar of marketing spend drives X dollars of our retail sales. What I can tell you is, we do quarterly survey data or survey work with consumers. And we test brand awareness for our own brand, for other brands. And A), we see that as **we continue to increase our marketing budget over time, brand awareness is increasing**. And we see at times, and this quarter is a good example. We had, **I think, a meaningful increase in our marketing spend versus Q2 versus last year,** and our brand awareness behave differently from other brands that are out in the market. We performed better.

And so if that's an indication for what we're getting for our marketing spend, I think, that's a good starting point, right? We've always said that we use marketing spend to drive brand awareness, not necessarily to drive retail sales in that quarter, but it is something that we're building over time, and eventually, the brand awareness will turn into a first trial purchase, and hopefully, that over time then will lead to repeat purchases. And so that's how we're tracking return on our spend right now.

Question – Rob Dickerson: Okay, fair enough. And then, I guess, maybe another question for you, Thilo. It's just on the gross margin, I mean, clearly, **gross margin continues to impress**. Overall – if we're thinking, let's say, about Q4, or I don't want to say 2025, that's going to just scary you away. But in general, it seems like the momentum is there to at least be still hitting that mid-30s range for – in Q4, or just thinking about going forward?

If – let's say, if feed costs stay where they are, right, I'm just trying to – I get a lot of questions about how is the gross margin, is that sustainable? No, I don't think they really want you to think that. But at the same time, you continue to do really well on the gross margin. And I'm also trying to think about what are the offsets outside of feed cost that would lower the gross margin from here?

Answer – Thilo Wrede: Yeah. Though it's a good question, Rob. We've certainly been above our long-term target year-to-date. We expect to be above our long-term target for the full year. I'm not going to talk about 2025 yet. But for now, we're sticking with the 35% target for 2027. It allows us a bit of flexibility to maybe try a few things with the brand to keep investing in ECS as we're expanding our farm network and we're building up farms closer to the new Seymour facility. While the facility is not open yet, we have to transport all these eggs back to Springfield. So we have increased transportation distance for our farms – for our (00:49:49) farm. So **that will impact margin** a bit. And the maintenance that we have mentioned a few times **that will probably weigh** on fourth quarter as well.

So there are a few puts and takes. I think right now, we're comfortable with where the gross margin is. I wouldn't – again I'm not going to talk about 2025 yet, but that 35% number that we have put out for 2027, I think, we feel comfortable that we can be at or above that range between now and 2025.

Question – Rob Dickerson: Okay. Super. So great job, guys. Thank you.

Answer – Thilo Wrede: Thanks.

Answer – Russell DiezCanseco: Thank you.

Operator

Thank you. Our next question comes from the line of Matt Smith of Stifel. Your line is now open.

Analyst: Matthew E. Smith

Question – Matthew E. Smith: Hi. Good morning. Thilo, question for you on the price/mix performance in the quarter in the egg business that reaccelerated in the third quarter. Can you talk about the drivers of that reacceleration as we think about price/mix contribution into the fourth quarter?

Answer – Thilo Wrede: Yeah. Good morning, Matt. I think it was really – the driver here was mix, not price, right. We took pricing on the organic portfolio at the beginning of the year. We've talked about it multiple times over the course of the year. And I think this quarter, in particular, **we have had mix benefits from having more organic sales** rather than conventional egg sales. **Retail sales grew faster than foodservice sales**. Peter talked about foodservice doing well for us. And compared to the first half of the year, **foodservice is quite a bit better than first half of the year**. Part of that was lapping from last year. But **third quarter retail sales grew faster than conventional sales**. We didn't have a whole lot of wholesale sales in the quarter.

And so with that, the mix benefit that was really the driver for this quarter revenue growth being a bit more price/mix-driven versus volume-driven. The intention for the longer term is still that **we're driving the growth with volume growth**. I think there is a reason why we added another few dozen farms to our network. We need to keep the eggs supply growing. We need to keep work on the ECS to expand our capacity there. So the long-term algorithm is still very much volume-driven. Quarter-by-quarter, you might see some variations there depending on organic versus non-organic sales and so on. And maybe Pete can add a bit more color there.

Answer – Peter Pappas: Yeah. Matt, the one thing that I would add is, **our average number of items on shelf continues to grow**. So we're starting to see that – those incremental items typically be our 18-count organic or higher priced items. So we're seeing the benefit of that. We're also seeing the benefit of, as Thilo talked about mix, **our base units are up incrementally** relative to our promoted items. So we're seeing the benefit of base velocities much, much stronger than that around and promoted items. So I would anticipate that to continue, considering what the demand curve looks like. So we're bullish on this being a sustainable proposition moving forward.

Question – Matthew E. Smith: Thank you. And as a follow-up, Russell, can you talk about the health and the backlog for new family farms, especially, as you make progress towards building recognition with the community around the new plant in Indiana? When would you ideally want to be building that backlog and starting to see farmers sign on and start their farm build process around that new facility?

Answer – Russell DiezCanseco: Yeah, it's a great question. As you know, our farmers really are at the heart of certainly our egg business and attracting the right ones and retaining the right ones is so important to how we operate and how we think about the world. So you're right, we started last year kind of getting the story of Vital Farms out in some new areas, including Indiana, where we aren't as well known as we are in some of the states where we have many farms today. But the reality is, I don't necessarily want a lot of farms in Indiana until we're a lot closer to opening that new facility.

So the fact that we're working on it now is just a great example of the long-term focus and the intentionality with which we do everything around here. By the time we're ready to add farms in Indiana, I want that line to be there of really great farmers. If we meet someone today opportunistically who we just don't want to take advantage of a different opportunity, we might jump in ahead of schedule to scoop them up, make sure they're in Can Vital. But the reality is that for now we continue to add farms more close to Springfield, Missouri, because we still are adding farms to maximize the capacity there.

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

Answer – Russell DiezCanseco: Thank you.

Operator

Thank you. I am showing no further questions at this time. So I would like to turn it back to Anthony for closing remarks.

Thank you again, everyone, for your support to Vital Farms. Have a great day.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.