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Vital Farms Inc

Q4 2024 Earnings Call

Thu Feb 27 2025 Earnings Call Transcript

Q4 2024 Earnings Call *(Corrected version)*

Summary NEW

Key Takeaways

Vital Farms' Q4 2024 earnings call highlighted strong financial performance, strategic supply chain investments, and brand growth, tempered by near-term supply constraints due to avian influenza. The company is focused on expanding its farm network, enhancing production capacity, and strengthening its brand presence to achieve its long-term financial targets.

Key Financial Results

- Net revenue for 2024 increased by 28.5% to $606.3 million .
- Q4 revenue rose 22.2% on reported terms and 30% when accounting for the extra week in 2023 .
- Volume grew by 21.8% in 2024 , with additional benefits from price/mix, driven by the organic portfolio.
- Gross profit for the year increased to $229.9 million , representing 37.9% of net revenue, compared to $162.3 million or 34.4% of net revenue in the previous year.
- Adjusted EBITDA for 2024 grew by 79.2% to $86.7 million , or 14.3% of net revenue.
- The adjusted EBITDA margin increased by 405 basis points compared to the previous year.
- Net income for 2024 was $53.4 million , or $1.18 per diluted share , compared to $25.6 million , or $0.59 per diluted share in the prior year.
- Cash, cash equivalents, and investment securities stood at $160.3 million as of December 29, 2024 , an increase of $43.5 million from the end of 2023 .

Business Segment Results

- Butter sales were up 11% for the year, with sales nearly doubling in Q4 .
- Shell egg TDPs increased 7% .
- Butter TDPs increased 22% to 54 from 44 .

Capital Allocation

- CapEx is projected to be between $50 million and $60 million for 2025 .
- The company plans to fund new facility construction and other projects with existing cash and operating cash flow in 2025 .

Industry Trends and Dynamics

- The egg industry is facing a supply issue due to Avian influenza losses .
- The industry lost nearly 40 million egg layers in 2024 .
- Egg shortages have created hardship for American families.
- The national egg shortage is expected to continue through the end of 2025 .

Competitive Landscape

- Brand awareness is pulling away from closest competitors.
- In 2020 , Vital Farms was clustered with its most relevant competitors in the mid-teens, while those competitors remain in the mid-teens, Vital Farms has grown well into the mid-20s.

Macroeconomic Environment

- American families are impacted by food inflation.

Growth Opportunities and Strategies

- Expanding egg sourcing capacity by more than 40% with new family farms.
- Building groundwork for future growth by investing in brand support and supply chain.
- Expanding retail distribution for eggs and building higher sales velocity.
- Rebuilding the butter business with butter back in growth.
- Adding a new egg washing and packing facility to increase production capacity.
- Adding company-owned accelerator farms to the network.
- Adding a new egg grading line at Egg Central Station in Springfield, Missouri, expanding capacity there by 30% by the end of 2025 .
- Opening first company-owned accelerator farms later this year.
- The company is evolving to meet the demands of growth.
- Empowering Pete Pappas and Kathryn McKeon to focus on maximizing opportunities in the two core segments.
- Focused marketing investments to expand reach.

Financial Guidance and Outlook

- The company expects net revenue of at least $740 million for 2025 , representing at least 22% growth versus 2024 .
- Adjusted EBITDA is projected to be at least $100 million for 2025 , indicating at least 15% growth.
- CapEx is estimated to be between $50 million and $60 million .
- Q1 2025 is expected to be the slowest growth quarter due to supply constraints.

- Volumes are expected to accelerate after Q1 as supply improves.
- The company is targeting $1 billion of net revenue by 2027 , with a gross margin of at least 35% and an EBITDA margin of 12% to 14% .

Q & A Highlights

The earnings call Q&A session focused on several key themes: the **cadence of financial performance** throughout **2025** given **supply constraints** and **inventory levels**, factors influencing **price/mix** and **consumer behavior** amid high egg prices, the impact of **avian influenza** on the **supply chain** and **farm operations**, details on the **egg grading machinery** and **accelerator farms**, and the outlook for **marketing spend**, **maintenance costs**, and **gross margin**. The analysts sought clarity on the company's strategies to manage these challenges and achieve its financial targets.

Cadence of Financial Performance

- **Q: How many new farms are currently operational and contributing to egg sales out of those added last year?**
- A: Of the roughly **50 farms** signed up in the first half of the year, more than half are currently operating. There is volume growth year-over-year. However, the beginning of last year saw very high egg inventory. The volume last year came from both the farms and drawing down inventory. The year-over-year farm number comparison isn't a strong indicator of short-term growth potential.
- **Q: Given the expected modest step-down in growth in Q1 relative to the 22% growth for the year, how modest is it, considering the price/mix benefits?**
- A: It is moderate growth. The first quarter of **2023** saw **55% revenue growth**, and the first quarter of **2024** saw **24% revenue growth**. The first quarter this year will be meaningfully below last year's number due to the strong lapping. The key factor is the amount of inventory pulled last year versus the current lack of inventory.
- **Q: Will the actual volume number in Q1 year-over-year still be positive, and will there still be some price/mix benefits?**
- A: Volume is still expected to grow this quarter. Similar to prior quarters, there are some price/mix benefits. There is a continued mix shift towards organics. Given the limited egg supply, there will likely be less promotional activity than in the first quarter last year, improving net revenue per unit.

Pricing and Consumer Behavior

- **Q: Given the 14% price/mix increase in Q4 and the impact of high egg prices on consumers, is that a good proxy for how the year might play out for 2025, and have you made any internal decisions on pricing?**
- A: The reported price/mix year-over-year is only about half of the quoted **14%**. There is a discrepancy with scanner data because some retailers seem to be taking price on the products that doesn't flow through to Vital Farms. The price/mix for the fourth quarter was only about **7%**, influenced by promotional reduction and mix shift. The first quarter will be in a similar ballpark. Pricing is part of the marketing mix, and the company constantly evaluates the trade-offs between margin structure and growth rate. There are no current plans for price to be a meaningful contributor to overall growth this year.
- **Q: With eggs constantly in the news and Vital Farms products hard to find on shelves, how is this impacting the Vital Farms brand, positively or negatively?**
- A: There is continued brand loyalty. Availability is on people's minds. When consumers can find Vital Farms products, they are buying them and looking at multiple stores. Brand loyalty remains strong. If consumers can't find Vital Farms, they are switching to other breakfast products over other brands in many cases. The brand trust will help the company get out of this situation quickly and will endure.

Avian Influenza and Supply Chain

- **Q: Given that Vital Farms seems to be doing a better job of avoiding avian influenza (AI) compared to other operations, can you explain why Vital Farms is less affected?**
- A: Since the latest outbreak began in **2022**, there have been a total of four incidents, representing less than one-half of **1%** of all production, against the backdrop of well over **12%**, maybe approaching **15%-20%** of all the birds in America. Something different is happening on the farms. The industry is allocating **$500 million** to fund repairs and improvements in biosecurity on those farms, including fixing the actual physical structure of the farm to prevent pests from entering them. The physical infrastructure on the small family farms is intact and is doing its part in maintaining biosecurity.
- **Q: Are you seeing an avian influenza impact on the timeline or cost for farms coming online, such as disruption to pullet placement?**
- A: There is no impact to the hatcheries that produce the chicks for the farms. There is no impact to the pullet farms that the farmers use to source their birds. There is no material change to the ability to bring lots of new farms online to support growing demand.

Egg Grading Machinery and Accelerator Farms

- **Q: Regarding the introduction of the egg grading machinery in ECS, do you expect any construction and integration issues, or will there be any downtime or capacity coming offline?**
- A: The leadership team is proactively addressing the layout of the facility, the flow of goods, and the handling of outbound freight from the expanded capacity. While nothing is totally predictable, everything is being done to ensure a smooth transition to the added capacity and to avoid skipping a beat.
- **Q: Can you provide details on the expectations for the accelerator farms, such as the size of the farm, any differences from typical farms, and the build-out process over the next few quarters?**
- A: This is the first R&D lab, focused on trying out new equipment to improve animal welfare and hen productivity. It will not be a substantial amount of new eggs to the system, because we're building 10 to 15 new farms. It's about giving a place to try new ways to improve farm productivity without asking existing farmers to make big capital investments or take risks. A small team will be heading to Europe next month to visit with equipment manufacturers and innovators focused on outdoor access farming models and equipment.

Financial Outlook

- **Q: You're stepping up marketing both in dollars and the rate relative to sales. At this kind of mid-high level, do you see that as a good sustainable level or opportunity to continue to take that up over time?**
- A: In that **5%** to **6%** of net sales range, that's where we feel comfortable right now. The company wants to build brand awareness in a very measured way, because we need to take a very measured way to build our supply. Planning the marketing spend and building the brand awareness in a very deliberate fashion is part of not getting ahead of our skies. The spending is showing the results that we expect it to do.
- **Q: You incurred some maintenance costs throughout 2024 in order to continue to push capacity bounds on ECS. Do you anticipate a similar level of maintenance costs in 2025, lower or higher?**
- A: The company learned an important lesson last year that we need to do maintenance on a very continuous basis, that we need to focus on preventive maintenance rather than reactive maintenance. Given the supply constraints, that gave a bit of time to do a bit more in-depth maintenance than would have been done otherwise. From a maintenance perspective, the company is in a really good shape right now. Overall, over the course of the year, we'll be at the same level that we had last year, but just spread out across the entire year so that we don't have peaks and valleys.
- **Q: Can you help us on the factors that impact like your gross margin profile for 2025?**
- A: First half last year, we really had exceptional operations at ECS. That was combined with falling commodity prices and with pricing that we took on the organic portfolio at the beginning of the year and that led to really healthy gross margin in first half of the year, well above what our long-term targets are. That won't repeat this year. We are not anticipating that ECS will run as exceptionally as it did last year. Sequentially, corn prices have actually picked up quite a bit since the low in November or December. They are up **18%** from the bottom in Q4. That will start impacting what we have to pay farmers in Q2.
- **Q: Should we expect that the new production line coming online in Q4 to deliver kind of a step-function impact to revenues or will that be more gradual as you sort of methodically ramp production?**
- A: It will bring a step-function in our capacity, but it will not necessarily bring a step-function in our revenue. The reason for that is we need the eggs to put on the machine. Our eggs supply, that is a - it's a steady, relatively predictable growth rate. As the eggs are coming off the farm, that is really determining how much of a step-function we'll have.
- **Q: How should we think about that pace of family farm additions for 2025?**
- A: The farm recruiting will have to continue at a very healthy clip. If you do the math for us to get from the guidance that we have and the numbers that we have in **2024** to get to the long-term guidance of **$1 billion** by **2027**, we need to keep adding farms. Once the new facility comes online at the beginning of **2027**, we need to have more farms in that geographic area as well, simply because it makes for more efficient shipping.

Show The Company's Guidance And Outlook

Vital Farms provided financial guidance for the full year 2025, including net revenue, adjusted EBITDA, and capital expenditures. The company anticipates net revenue of at least **$740 million**, representing a growth of at least **22%** compared to 2024. Adjusted EBITDA is projected to be at least **$100 million**, indicating a growth of at least **15%**. Capital expenditures are expected to range from **$50 million** to **$60 million**. Additionally, Vital Farms shared its outlook, noting that Q1 2025 is expected to be the slowest growth quarter due to supply constraints, with performance anticipated to accelerate throughout the year as egg supply increases.

Quarterly Guidance

- No quarterly guidance was provided.

Annual Guidance

- Net Revenue: At least $740 million
- Adjusted EBITDA: At least $100 million
- Capital Expenditures (CapEx): $50 million to $60 million

Outlook

- Q1 2025 is expected to be the slowest growth quarter of the year for volume and net revenue growth due to supply constraints.

- After Q1, volumes are expected to accelerate as supply improves.
- As farms come online, capacity will increase, and volume growth trends are expected to accelerate with each passing quarter.

Event Details

Date: 2025-02-27
Company: Vital Farms, Inc.
Ticker: VITL-US

Company Participants

Anthony J. Bucalo - Vital Farms, Inc., Vice President-Investor Relations
Russell DiezCanseco - Vital Farms, Inc., President, Chief Executive Officer & Director
Kathryn McKeon - Vital Farms, Inc., Chief Marketing Officer
Thilo Wrede - Vital Farms, Inc., Chief Financial Officer

Other Participants

Robert F. Dickerson - Analyst
Robert Moskow - Analyst
Ben Klieve - Analyst
Jon Andersen - Analyst
Sarang Vora - Analyst
Matthew E. Smith - Analyst
Eric Anthony Des Lauriers - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Thank you for standing by. My name is Kate and I will be your conference operator today. At this time, I would like to welcome everyone to the Vital Farms Quarter Four 2024 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. We encourage participants to limit yourselves to one question and one follow-up. Thank you.

I would now like to turn the call over to Anthony Bucalo, Vice President of Investor Relations. Please go ahead.

Anthony J. Bucalo

Good morning and welcome to Vital Farms fourth quarter and full year 2024 earnings conference call and webcast. I am Tony Bucalo, VP of Investor Relations, and I am joined on the call today by Russell Diez-Canseco, President and Chief Executive Officer; Thilo Wrede, Chief Financial Officer; and Kathryn McKeon, Chief Marketing Officer and General Manager, Butter.

By now, everyone should have access to the company's fourth quarter and full year 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 Law. 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 annual report on form 10-K for the fiscal year ended December 29, 2024, filed with the SEC today, as well as other filings with the SEC for a detailed discussion of the risks that could cause actual results to differ materially from those expressed or implied in any forward-looking statements made today.

Please note that on today's call, management will refer to adjusted EBITDA and adjusted EBITDA margin, which are non-GAAP financial measures. While the company believes these non-GAAP financial measures provide useful information for investors, the presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Please refer to our earnings press release for a reconciliation of adjusted EBITDA and adjusted EBITDA margin to 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. **Vital Farms finished 2024 on another high note, posting a great set of results in the fourth quarter and surpassing our financial guidance for the year**. **We achieved this with the help of all of our stakeholders**, especially the crew members and family farmers who once again helped us deliver on our purpose of bringing ethical food to the table. I'm grateful for all of their efforts. **This is truly an exciting time for Vital Farms**.

2024 was a year of important milestones and great accomplishments for our company. First, **we exceeded $600 million in net revenue, well ahead of our initial expectations for the year and keeping us on track to meet our $1 billion sales target by 2027**. Second, we added more than 125 new family farms, reaching more than 425 by year end. When completed, **these new farms will expand our egg sourcing capacity by more than 40%**. **We see this growth in farm count** as a testament to the strength of our recruitment team and the appeal of the Vital Farms model for our family farmers.

Along with passing these milestones, we also successfully built more groundwork for future growth by investing in brand support and in our fast growing supply chain. On the marketing side, our efforts drove brand awareness to new heights against our closest competitors. **This record brand awareness** helped our sales team expand retail distribution for eggs, while simultaneously building higher sales velocity. And I'm very pleased with how we're rebuilding our butter business, with butter back in growth and with plenty more ahead.

We announced critical expansions of our supply chain in 2024, and expect to continue making such improvements. Last spring, we announced plans to open a new egg washing and packing facility. We expect **this new facility will significantly increase our production capacity**, fueling our next leg of growth. Additionally, we announced that we will be adding company-owned accelerator farms to our network ahead of our new facility opening in 2027. Importantly, we established dedicated supply chain leadership with the appointment of Joe Holland as our first Chief Supply Chain Officer, bringing his extensive experience to our team.

As we look ahead to 2025, this will again be another year of important supply chain investments. In January, we announced that we are adding a new best-in-class egg grading line at Egg Central Station in Springfield, Missouri. We anticipate **this new line will expand our capacity** there by 30% by the end of 2025. We believe adding this new line is a well-timed step in managing our current demand and building Egg Central Station revenue capacity to more than $1 billion, well past our last capacity estimate of $800 million. We also expect to open our first company-owned accelerator farms later this year, providing us with new sources of best practices that we can share with our existing farm network.

In recent quarters, we spent a great deal of time highlighting how we're strengthening and expanding our supply chain. And there's **good reason for that**. **Our growth** is tied directly to how many eggs we can collect, wash and ship. The timing of our supply chain investments in both 2024 and 2025 will be critical in understanding how our 2025 guidance of $740 million in sales and $100 million in adjusted EBITDA will be weighted across this year.

It's not news that the egg industry has a supply issue as Avian influenza losses continue to deplete shelves across the country. **The industry lost nearly 40 million egg layers in 2024,** and we're sure you've seen the tight supply of eggs at your local supermarket and on the news. Industry supply shortages have created extraordinary demand for our products, but have also created supply constraints.

Looking ahead to the first quarter, **the supply constraints** we experienced at the end of 2024 have continued into the beginning of this year. Additionally, **we are cycling two consecutive years of exceptional first quarter performances, with sales up 55%** in the first quarter of 2023 and 24% in the first quarter of 2024 from the respective prior year period.

In the first quarter of 2024, we sold through the eggs we produced and we sold through a significant amount of inventory, **which compounded our sales growth**. In the first quarter of 2025, we are shipping more eggs than we did a year ago. However, year-on-year, we have much less inventory and we're not selling through inventory like we did last year. As a result, **we expect a modest step-down in our growth rate versus recent periods throughout the first half of 2025**, particularly in the first quarter.

However, as our egg supply builds throughout the course of the year, we expect **our financial and commercial performance to accelerate** as the year goes on, especially in the second half of the year when comparisons ease. We've built this into our 2025 guidance, and please keep this in mind as you build your models for the year.

Just to be clear, new family farms take roughly nine months on average to start egg production. The farms **we signed in the early part of last year are now yielding a good supply of eggs**. By the fourth quarter of the year, more and more of the farms we signed throughout last year will begin providing supply, which we expect will accelerate into the second half of the year.

We anticipate the approximately 125 farms we signed last year should be fully up and running by the fourth quarter. Additionally, the new washing and packing line in Missouri will also become fully operational in the fourth quarter. Taking these two developments together, we project that **we will have needed capacity and should be well positioned to meet** our guidance expectations for the year and keep us on the path to $1 billion by 2027.

Protecting animal welfare is at the heart of our company mission, and **this recent outbreak of avian influenza is a sad and difficult time for us and our industry**. Less than two months into 2025, more than 27 million hens have died from avian influenza, along with nearly 40 million **that were lost in 2024**. **Egg shortages have created another hardship for American families** already impacted by the food inflation of recent years.

I'm proud to say that our family farm network and our company farm teams have been highly resilient through this recent outbreak. Going all the way back to 2022, **we've had just four positive cases across our 425 farms**, representing less than one half of 1% of our hens during this last outbreak. We've only had one outbreak in the trailing 12 months. As a reminder, no one farm represents more than one half of 1% of production capacity.

According to even the most favorable estimates, we'll be in this national egg shortage through the end of 2025. I can promise that Vital Farms will be working hard to get more eggs to the shelf with expanded supply. Our farm recruitment team continues to perform at an incredible level and I tip my cap to them. At the end of 2023, we had 5.4 million laying hens at our system. At the end of 2024, we had 7.7 million with even more to come this year.

I'd like to make a few comments about an important and exciting change we've made to our management structure. We announced in January that Pete Pappas, our Chief Sales Officer, expanded his role to Chief Sales Officer and President of Eggs. Kathryn McKeon, our Chief Marketing Officer, now serves as Chief Marketing Officer and General Manager of Butter.

Vital Farms is expanding quickly and we're evolving to meet the demands of that growth. **Our net revenue has more than doubled in the last three years** and nearly tripled over the last four years. The demand for our eggs is at record highs and our revamped butter business is accelerating. To better manage the demands of our growing organization, I'm empowering Pete and Kathryn to focus on maximizing opportunities in our two core segments.

Additionally, empowering Pete and Kathryn frees me from much of my day-to-day focus on eggs and butter, giving me the opportunity to think strategically about what we need to do next to help drive Vital Farms into new phases of growth. Pete and Kathryn are extraordinaire and dedicated executives who know this business back to front, and I look forward to seeing them in action.

I'd like to wrap up with a few comments before moving on to Kathryn and Thilo. In 2024, **we grew beyond our expectations** while serving our stakeholders and delivering on our financial promises. **We invested in our farm network and strengthened our supply chain**. **We grew our presence at retail** and in the mind of the consumer. And I can't say enough about how well our Egg Central Station crew members performed this year, over-delivering on high expectations by a wide mark.

Yes, **we passed some significant milestones and these were great accomplishments**. But the thing about milestones is that they can go from goals to ancient history very quickly. We're now focused on delivering the next set of milestones and believe our dynamic supply chain, top-notch people and great brand will take us there.

Industry supply, including ours, will be tight to start the year due to the continued impact of avian influenza. However, I'm confident that we're well-positioned to navigate these choppy waters. We have the right mix of ingredients to help drive us to our goal of becoming America's most trusted food company. I'm certainly looking forward to it, and I hope you are, too.

And with that, we'll go to our Chief Marketing Officer and now Butter General Manager, Kathryn McKeon for further discussion. Kathryn?

Kathryn McKeon

Thank you, Russell. I'd also like to start today by saying a giant thank you to all of the Vital Farms crew members who have done such an outstanding job building our business, especially the hardworking crew at ECS to keeps getting us eggs and butter every single day during a period of extraordinary demand. We believe we have the right products, the right brand, and most importantly, **the right people to win in the market**.

I'm also excited and honored to take on the additional role of Butter General Manager. **Butter had a great performance in 2024, with sales up 11%** for the year, with the brand nearly doubling its quarterly sales in Q4 as it picked up steam in the second half of the year. As we build up the butter team, we couldn't be more fired up about the future. **We have seen extraordinary demand** about just over the past few months, and we believe that demand is sustainable. We expect butter to be an important piece of our growth strategy to meet our long-term financial goals. Butter will also be a crucial cornerstone in our portfolio of ethically produced food, as we strive to become America's most trusted food company.

As Russell said in his comments, **we had another excellent year** connecting with our consumers in both our categories and further building the Vital Farms brand. **Our brand awareness is up**. **Our household penetration grew strongly and our buy rate was up** double-digits. We retain leadership in premium eggs with unmatched retention and loyalty rates during a period of supply disruption and increasing competition in our segment.

Our marketing efforts continue to resonate with consumers. And Vital Farms gained more consumer mind space last year. In 2024, **aided brand awareness increased to 26%, up from 23%** at the end of 2023. This is 9 percentage points higher than our aided awareness from 2020. What is most exciting for us is that our brand awareness is pulling away from our closest competitors. In 2020, we were clustered with our most relevant competitors in the mid-teens. While these same competitors remain in the mid-teens, **we have grown well into the mid-20s**, a significant leap in recognition in the minds of our consumers. We're converting that awareness into more households who buy Vital Farms.

In 2024, **we grew our household penetration to just over 14 million homes**. **We added 2.3 million households to our consumer base, a 20% increase** year-over-year. **This brings household penetration to 10.7%, a 1.9 percentage point increase from 2023**. We're seeing an acceleration in the consumer brand preference for Vital Farms. This is showing up in key metrics from measuring consumer buying behavior. Our buy rate, **the purchase frequency multiplied by the spend per trip, reached $36.06, a 12% increase year-over-year**. **Our purchase frequency, the average number of trips per household, reached 3.7 (00:30:16), up 6% versus 2023**. **Our spend per trip reached $9.84, up 5% from 2023**. Finally, our percentage of heavy buyers, consumers **who buy us at least eight times a year, reached 13%, up 2 percentage points versus a year ago**. We see significant runway ahead as we make focused marketing investments to expand our reach.

Finally, I'd like to finish today with a quick word on our newly launched brand campaign titled Good Eggs. No Shortcuts. Our new campaign celebrates the Vital Farms commitment to raising the standards and always choosing the right way over the easy way. It leverages documentary style interviews with four real life Vital Farms family farmers. The interviews capture their humorous and authentic responses, always highlighting their commitment to animal welfare. We think that Good Eggs. No Shortcuts. is another illustration of Vital Farms commitment to being Bullsh*t-Free and doing right by our stakeholders, even if that means taking a longer, harder road. We live those values every day.

We have rolled out Good Eggs. No Shortcuts. across linear and streaming television and online and social platforms, including Netflix, Hulu, Disney+, Reddit, Meta, Snapchat, Spotify and YouTube. We're incredibly proud of this campaign and I strongly encourage you to check it out.

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

Thilo Wrede

Thank you, Kathryn. Hello, everyone, and thank you for joining us today. I will now review our financial results for the year ended December 29, 2024, and then provide details on our new guidance for fiscal year 2025.

2024 was another great year for Vital Farms. **Our net revenue rose 28.5% to $606.3 million**. **Our fourth quarter revenue rose 22.2% on reported terms** and rose 30% when accounting for the extra week in the fourth quarter of 2023. In full year 2024, we grew volume 21.8% with additional price/mix benefits driven mostly by our fast growing organic portfolio.

Gross profit for the year rose to $229.9 million, or 37.9% of net revenue, compared to $162.3 million, or 34.4% of net revenue last year. **Our 2024 adjusted EBITDA grew 79.2% to $86.7 million or 14.3% of net revenue**. **Our adjusted EBITDA margin rose 405 basis points versus last year**.

Our gross profit growth was driven by volume and revenue expansion, boosted by the positive impacts of scale and operational efficiencies. **Lower conventional commodity and diesel costs contributed to higher margins in the fourth quarter** and the full year. **This was partially offset by an increase in promotions**, labor, maintenance-related expenses and overhead costs, all intended to keep pace with our growth.

SG&A expenses for 2024 were $133.9 million, or 22.1% of net revenue compared to $101.7 million, or 21.6% of net revenue in 2023. **The increase in SG&A as a percentage of net sales was primarily due to marketing-related expenses, stock-based compensation, higher employee head** count, legal and professional service expenses, and technology and software-related expenses.

Marketing expenses as a percentage of sales were 5.3% for 2024. This compares to 5.0% for 2023 and 3.7% for 2022. These costs were in line with our expectations and are consistent with our communication to invest in the business in the second half of the year.

In 2024, **shipping and distribution costs rose in absolute terms**, but were less as a percentage of net sales. **Shipping and distribution expenses rose to $32.4 million in the year,** or 5.3% of net revenue, compared to $27.3 million or 5.8% of net revenue in 2023. The increase in shipping and distribution expense was driven by higher sales volumes, partially offset by favorable linehaul and fuel rates. Net income for 2024 was $53.4 million or $1.18 per diluted share, compared to $25.6 million or $0.59 per diluted share last year.

Finally, **we had a strong balance sheet performance for the year**. **Our cash, cash equivalents and investment securities on December 29, 2024, stood at $160.3 million, an increase of $43.5 million from the end of 2023**. We had no debt outstanding.

While a great deal of the market's focus has been on our production capacity, I want to quickly highlight how effective our sales and marketing efforts have been in building our brand with consumers. We believe our ability to consistently build shell egg distribution while increasing velocity speaks to the power of our brand

and our connection with our consumers. We believe it is important for the market to be able to judge our performance on these key metrics.

We understand that syndicated scanner data is highly valuable in helping analyze our business from the outside looking in. We are also aware that some datasets in market are weighted in a manner that at times doesn't fully capture the trends of our business. Additionally, we see instances when retailer scanner data captures retailer price increases **that do not benefit us, creating a mismatch between retail sales and our shipment results**.

Going forward, we will be providing additional data in our earnings presentation about our commercial performance. To create a consistent dataset for ourselves and for the markets, we will be using Circana, MULO+ data both internally and when we speak externally about certain metrics within our business, especially retail distribution and consumer buying pattern.

We believe MULO+ gives us actionable insights, a deep dataset, a comprehensive view of private label trends, and a long data history to draw upon. In Circana Multi-Outlet data, **which includes food, drug and mass channels, our total distribution points in 2024 decreased 3% to 189 from 195**. However, this decline in TDPs was driven by our discontinuation of tub butter, which was phased out during our supply change over to our Irish sourcing late in 2023. **Our shell egg TDPs increased 7% from 119 to 127**. Additionally, butter distribution quickly rebounded from the tub butter discontinuation. After a rebasing in the first quarter of 2024, **butter TDPs increased 22% to 54 from 44**.

While **TDPs for eggs grew** strongly and butter rebounded throughout the year, we saw great improvement in our sales velocity, meaning our sales per store per week throughout 2024. **Our velocity climbed nearly 40% from $124 in 2023 to $171 at the end of 2024**. This is an historic high for the business, but **some was driven by retailer initiated price increases**.

Now, looking ahead to fiscal year 2025, **we are expecting net revenue of at least $740 million or at least 22% growth versus 2024**, adjusted EBITDA of at least $100 million or at least 15% growth, and CapEx of $50 million to $60 million. I want to provide a few additional points on the guidance. For the 2025 sales cadence, we expect **Q1 to be our slowest growth quarter of the year for volume and net revenue growth due to supply constraints**. After Q1, we expect volumes to accelerate as **supply improves**. As farms come online, **our capacity will increase and we expect volume growth trends to accelerate with each passing quarter.**

Our 2025 adjusted EBITDA guidance implies a decline in margin for the year. As you model the year, please remember that in the first half of 2024, **we have high margins** driven by exceptional operations at ECS. As we highlighted at the time, we do not expect **this performance to repeat, resulting in a challenging comparison for the first half of 2025**. Compared to the run rate in the second half of 2024, **we anticipate the adjusted EBITDA margin to improve in 2025**.

Our CapEx guidance is materially higher than our 2024 CapEx of $28.4 million. This new level of spending reflects investments in our new production line at ECS Springfield, the groundbreaking and start of construction for our new facility, the construction of accelerator farms, and our internal digital transformation project. With a new facility, we expect elevated CapEx spending over the next few years with the bulk of this in 2025 and especially 2026.

In 2025, we plan to fund new facility construction and all other projects with existing cash and operating cash flow. Our projection is that each CapEx dollar dedicated to our new facility 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. Our long-term guidance remains unchanged. We are targeting $1 billion of net revenue by 2027, with a gross margin of at least 35% and an EBITDA margin of 12% to 14%.

This is an exciting time at Vital Farms. We have committed consumers who continue to choose us. We continue to add family farms and 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're now happy to take your questions.

QUESTION AND ANSWER SECTION

Operator

Please limit yourselves to one question and one follow-up. We will pause for just a moment to compile the Q&A roster. Your first question comes from the line of Rob Dickerson with Jefferies. Please go ahead.

Analyst: Robert F. Dickerson

Question – Robert F. Dickerson: Great. Thanks so much. Good quarter, good guide. So, I guess just a couple of questions about the cadence for the year, because clearly that's topical. I think you said in the prepared remarks that some of the farms that you had added in 2024, I assume kind of back in kind of Q2 2024 were or are now producing some eggs for sale for you, well, at the same time, right, hearing and realized that **you have capacity constraints and the Q1 volumes would be a little bit lighter, I think you said modest step-down in growth** relative to kind of what you normally do.

So, kind of two parts to your question. One is just like how many new farms, let's just say, are now up and running already, right, out of the ones you added last year selling eggs? And then when **you speak to that kind of modest step-down in growth in Q1**, I guess, relative to like the 22% for the year, is that like really modest or is that just a little bit modest, because also it seems like there's some price/mix coming through? So, a lot in there, but want to be comprehensive. Thank you.

Answer – Thilo Wrede: Yeah, Rob. Good question and very pertinent question I think. Of the farms that we signed up in the first half of the year, which were roughly at 50 farms or so, more than half of them are operating at this point. So, **we do have volume growth year-over-year**. But keep in mind that last year, beginning of the year, we were still sitting on very high egg inventory, right? So the volume that we had last year, we were getting ex the farm (00:43:36), plus **we were drawing down inventory**. So, **the year-over-year farm number comparison is not a particularly strong indicator** of what our growth potential is in the short term, in the quarter.

And so I think your question about the – is it moderate relative to our own performance, moderate relative to the year, **it is moderate growth**. Keep in mind, we have over the last two years, in fact, first quarter 2023, **we grew 55% revenue; first quarter 2024, we grew revenue** 24%. It will be – because **we have this strong lapping, first quarter this year will be meaningfully below last year's first quarter number**.

And that's why I'm saying don't look at the year-over-year farm growth. It really is about how much that we pulled out of inventory last year versus what we can pull out of inventory right now, which is really nothing.

Question – Robert F. Dickerson: Okay. Great. And then – that's extremely helpful. And then it does sound like **the actual volume number in Q1 year-over-year would still be positive**. And second piece was it sounds like there's still be some price/mix benefits that come through (00:44:57)?

Answer – Thilo Wrede: Yeah. **We are still expecting to grow volume** this quarter. And similar to prior quarters, **we do get some price/mix benefits**. We continue to have that mix shift towards organics. Plus then compared to first quarter last year, given that we don't have enough eggs to sell, we'll probably be less promotional than first quarter last year and **that will also give a net revenue per unit improvement**.

Operator

Your next question comes from the line of Robert Moskow with TD Cowen. Please go ahead.

Analyst: Robert Moskow

Question – Robert Moskow: Hi, Thilo and Russell. Thanks. **Your price/mix is up like 14% in fourth quarter**. Is that a good proxy for how you think the year might play out for 2025? And **the consumer is really getting hammered by these high egg prices**. And I'm sure **that creates some difficult decision** making for you all. Have you made any decisions internally on what to do with your pricing and – just from a list standpoint? And then a quick follow-up.

Answer – Thilo Wrede: Yeah. **Rob, just to clarify, in our own reported data, price/mix year-over-year is actually up only** half of the number you just quoted, the 14%. There **we do have a discrepancy to scanner data** right now, simply because some retailers seem to be taking price on our products that doesn't flow through to us. But our price/mix this year – sorry, fourth quarter was only about 7% or so. And promotional reduction played into that, mix shift played into that. First quarter will be somewhere in the similar ballpark based on what we're seeing right now. I'll let Russell talk about the longer term pricing ideas.

Answer – Russell DiezCanseco: Yeah. Rob, as you'll recall, when we first started seeing commodity prices go up in 2021, 2022, we don't act on a cost plus price basis, the way that I think a lot of the industry does. Pricing to us is very much a part of that marketing mix and we're constantly evaluating the trade-offs between the appropriate kind of margin structure that we're looking for at any given time and the growth rate that we continue to want to see. So, I can't commit to a certain cadence of price changes, if any. But I can say that we're not currently planning on price being a meaningful contributor to our overall growth this year.

Question – Robert Moskow: Okay. That's helpful. And I'll follow up on the math later. I think we must be treating the 53rd week differently, and that's how we got our number for price/mix. My follow-up is, eggs are in the headlines of news like every day. You go to the shelves, you can't find anything, you can't even find Vital Farms. In your like connections with consumers that you get, like how is that impacting the Vital Farms brand at all, positively or negatively?

Answer – Kathryn McKeon: Yeah. Rob, thank you for asking about that. It's certainly on the minds of consumers and they're thinking about, can I get my eggs? What **we're seeing is continued brand loyalty**. We know that availability is on people's minds. When they can find us, they're buying us and they are looking at multiple stores for us. We're still seeing **our brand loyalty stay really strong**. And in fact, if they can't find us, they're switching right now to other breakfast products even over other brands in many cases. So, look, we want to be on shelf. We want to be available to everyone. I believe that the brand trust that we go into a situation like this with will also help us get out very quickly and will endure.

Operator

Your next question comes from the line of Ben Klieve with Lake Street Capital Markets. Please go ahead.

Analyst: Ben Klieve

Question – Ben Klieve: All right. Thanks for taking my questions and congratulations on a good end of the year here. A couple of questions on the 2025 outlook. First of all, regarding the introduction of the egg grading machinery that you talked about in ECS, do you expect that, that will be a pretty construction and integration or do you think there's going to be any time or capacity comes offline for a matter of days or weeks as you are introducing that?

Answer – Russell DiezCanseco: Hey, Ben, that's a terrific question. I actually was up at ECS this week, actually viewing the work already underway to enable that expansion. And I'm so impressed with the leadership team there, many of whom have joined us in the last year, and the way that they're proactively addressing the layout of that facility, the flow of goods in that facility, and the way that we will handle outbound freight from that expanded capacity. I anticipate while nothing is totally predictable, I would say that we're doing everything I could imagine doing to make sure that there's a smooth transition to this added capacity and that we don't skip a beat.

Question – Ben Klieve: Okay. That's great. And then the current outbreak of avian influenza here this winter. Russell, you noted in your prepared remarks that on a TTM basis, you've only had one outbreak on your several hundred farm network. The – it doesn't look like any of the recent outbreaks in last few months could have possibly been from one of your farms. Did that outbreak happen in the prior – prior to the kind of startup of this winter, or is that an event from the last several months?

Answer – Russell DiezCanseco: Yeah. Ben, great question. We've had zero outbreaks in 2025 against the backdrop of nearly 30 million birds, as far as I know, being depopulated just since the beginning of the year. **It's absolutely devastating and** certainly a big driver of the costs we're seeing in the marketplace. But none of it's happening on our watch or those of our wonderful network of small family farmers.

Operator

Your next question comes from the line of Jon Andersen with William Blair. Please go ahead.

Analyst: Jon Andersen

Question – Jon Andersen: Hey. Good morning, everybody. Thanks for the questions and congrats on a strong year. One for Russell and one for Thilo. Russell, just sticking with the AI line of questioning. I understand that you work with this close network of many family farms that mitigates risk in your supply chain in and of itself. But it seems like the metrics suggest that you just – your farmers – farms are doing a better job of kind of staying away from this. Is there anything that you can use to help kind of explain that?

That's a question I get a lot, like why isn't Vital Farms perhaps as affected or at least even on a like-for-like basis relative to what we're seeing in other operations? Thanks.

Answer – Russell DiezCanseco: Yeah. I appreciate the question. And it is true on a like-for-like basis over the last – since this latest outbreak began in 2022, I think we've had a total of four, maybe five incidents, which represents less than half – it's four, Thilo just confirmed for me – less than one half of 1% of all of our production against the backdrop of well over 12%, maybe approaching 15%, 20% of all the birds in America. So, something different is happening on our farms.

I honestly don't go to anybody else's farms, so I can't tell you what's happening there. But I did find it very interesting to read our new Secretary of Agriculture's op-ed in The Wall Street Journal, where she outlined the Trump administration's approach to fighting AIDS (00:53:49) influenza. And I'm so thankful that this is a focus, because obviously we're all about animal welfare and to see so many, frankly hundreds of millions of birds being killed because of this outbreak is it's hard for us to take and I know it's hard on all those farmers whose birds are being depopulated.

One thing I found very interesting in that op-ed was that the industry is allocating $500 million to fund repairs and improvements in biosecurity on those farms, including fixing the actual physical structure of the farm to prevent pests from entering them. And I can tell you, we spend an awful lot of time on our own farms, and I've never seen a farm in our network **that had a problem with holes in the walls** allowing pests to enter. And so it does make me wonder if we may be a little more vigilant in making sure that the physical infrastructure on our small family farms is intact and is doing its part in maintaining biosecurity, it's a shame, I think, that the government has to intercede to fix farms. But if that's what it takes to protect this nation's birds, then that's what it takes. I like to think that American farmers are better than this.

Question – Jon Andersen: That's helpful. Thank you. And for Thilo, just to follow up on the 2025 outlook. You're stepping up marketing both in dollars and the rate relative to sales. At this kind of mid-high level, do you see that as a good sustainable level or opportunity to continue to take that up over time? And then second part to that, I know you incurred some maintenance costs throughout 2024 in order to continue to push capacity bounds on ECS. Do you anticipate a similar level of maintenance costs in 2025, lower or higher? Just kind of a general trend around that. Thanks.

Answer – Thilo Wrede: Yeah. Good questions, Jon. I think on marketing, in that 5% to 6% of net sales range, I think that's where we feel comfortable right now. I'm sure if I gave Kathryn twice the amount of money, she would find very, very smart things to do with it. But we are also – we want to build brand awareness in a very measured way, because we need to take a very measured way to build our supply, right? We say it repeatedly, we don't want to get ahead of our skies and so, therefore, planning our marketing spend and building the brand awareness in a very deliberate fashion that is part of not getting ahead of our skies.

So, the level of where we are right now, I think that's a level where we are very comfortable. And **Kathryn in her prepared remarks talked about the gains in brand awareness** that we got from it (00:56:55). I think the spending that we're doing is showing the results that we expect it to do.

On the maintenance, I think we learned an important lesson last year that we need to do maintenance on a very continuous basis, that we need to focus on preventive maintenance rather than reactive maintenance. And given **the supply constraints** that we have right now, that gave us a bit of time to do a bit more maintenance than we – or do a bit more in-depth maintenance than we would have done otherwise.

And so from a maintenance perspective, I think **we're in a really good shape** right now. We – Russell had just mentioned a new leadership that we have in our operations, and I think they're bringing a very disciplined view to doing maintenance on time, on schedule, on budget, so that we don't run into a situation that we ran into last year where for the first half of the year, we ran full throttle 24/7 for six months, and then we paid the price for it in the third quarter. So, this is something that we'll avoid this year. And with that maintenance, I think overall, over the course of the year, we'll be at the same level that we had last year, but just spread out across the entire year so that we don't have peaks and valleys.

Question – Jon Andersen: Thanks, Thilo. Thanks, Russell.

Operator

Your next question comes from the line of Sarang Vora with Telsey Advisory Group. Please go ahead.

Analyst: Sarang Vora

Question – Sarang Vora: Great. Thank you, guys. And congrats on a great quarter and guidance. I have two questions. First is on the guidance. Can you help us on the factors that impact like your gross margin profile for 2025? Any callouts that you had last year? It seems like commodity is staying relatively stable, pricing maybe favorable with less promotion. So, just any puts and takes on the gross margin outlook for 2025 would be helpful. Thank you.

Answer – Thilo Wrede: Yeah, Sarang. First of all, welcome to the Vital Farms call. Good to have you here. On gross margin cadence, I think first half last year, and I just mentioned that, right, **we really had exceptional operations at ECS**. That was combined with falling commodity prices and with pricing that we took on the organic portfolio at the beginning of the year and **that led to really healthy gross margin in first half of the year**, well above what our long-term targets are. That won't repeat this year, right? We are not anticipating that **ECS will run as exceptionally as it did last year**.

For example, we have already had a few days of interruptions at ECS because of weather. **Missouri got actually several inches of snow and so** trucks just couldn't pull up to ECS. Our crew couldn't come to ECS safely. And so that impacted operations. It's also when you're running supply constrained, scheduling production just becomes less efficient. And so **that is impacting gross margin** as well at the moment.

And then lastly, commodity costs. Sequentially, **corn prices have actually picked up** quite a bit since the low in November or December. I think they are up 18% from the bottom in Q4. **That will start impacting what** we have to pay farmers in Q2. We are adjusting our pay to farmers one quarter in arrears. And so **that will also then impact gross margin in the second quarter**.

So, I think those are some of the most relevant puts and takes as we think about the year. It's really a – on a comparison basis, year-over-year, the first half this year will probably look a bit different from what we had last year, the second half much more in line with what we had last year.

Question – Sarang Vora: That's very helpful. Thank you so much. And I have a question on accelerator farms. It seems like the first farm is going to be up and running this year. Can you help us a little bit on what is the expectation there? How big the farm? Anything different you are doing with the farm than your typical farm, any lab testing facility? Any color you can give on the upcoming opening of the first farm. And then you almost have over 1,000 acres of farmland over there. So, just curious on the thought process on how the build-out happens over the next couple of quarters, so that would be helpful? Thank you.

Answer – Russell DiezCanseco: Thanks so much for the question about our accelerator farms. This is a real point of pride for us. **I'm so excited about our ability** to invest in the future of our farming and invest in the success of our small family farmers. This really is, in a sense, our first R&D lab. And the R&D that we want to do is trying out new equipment that's available from the best minds around animal welfare, around the productivity of hens, in service of helping our farmers be more successful, and in helping improve the lives of our birds and frankly, the quality of our eggs for our consumers.

So, you're absolutely right. This is a big deal for us. It will not be a substantial amount of new eggs to the system, because we're building 10 to 15 new farms. We've said no more than low-single-digit percent of total production. So, it's not about adding substantial volume. It's about giving us a place where we can try new ways to improve the productivity of our farms without asking our existing farmers to make big capital investments or take risks on experiments that may or may not immediately provide them with better outcomes.

I'm so thrilled. In fact, a small team of us will be heading to Europe next month to visit with equipment manufacturers and innovators who are really focused on the very best of outdoor access farming models and equipment so that we can bring back the very best of their thinking to our farms and farmers. And stay tuned, it's going to be terrific.

Question – Sarang Vora: Thank you and good luck. Pass it on.

Answer – Russell DiezCanseco: Thank you.

Operator

Your next question comes from the line of Matt Smith with Stifel. Please go ahead.

Analyst: Matthew E. Smith

Question – Matthew E. Smith: Hi. Good morning. Thank you for taking my question. Russell, just a question, a follow-up question around the pricing environment. You talked about some retailers taking pricing across the category, including on your products. Where that's occurring? Are you seeing retailers take prices higher kind of across the category for brands including Vital that have been less sensitive to more regular price increases? And how do you think that plays out from here? It would seem like on one hand you could argue Vital's leaving some pricing on the table if the retailers capturing. But on the other hand, **it may be more near term related to the supply/demand imbalance and retailers trying to balance how much eggs are being sold through**.

Answer – Russell DiezCanseco: Yeah. I appreciate the question. And I got to say, I'm not – we're certainly not trying to – try to explain the macro environment for egg prices with the comments. All we're saying is that in the scan data, **we are seeing a disconnect between the contribution pricing** is making to our sales growth and what we're seeing in our own sales data to our retail partners. I have no insight or commentary on their pricing approach. That's totally part of their strategy or in terms of whether they're doing it across lots of products or just not ours. So, we're just trying to bring clarity to the data you're using to understand our growth, not commenting on why we think egg prices are where they are.

Question – Matthew E. Smith: Understood. And a second question, a follow-up to the – we've talked a lot about avian influenza on supply/demand. But I wanted to ask if you're seeing an avian influenza impact on the timeline or cost for farms coming online? If there's been any disruption to pull placement or anything along those lines? It seems like that's not the case given you're still seeing a kind of a nine-month timeline for those new farms coming onboard.

Answer – Russell DiezCanseco: Yeah. It's interesting. And again, I can't point you to exactly where the differences occur. But we're not seeing an impact to the hatcheries that produce the chicks for our farms. We're not seeing an impact to the pullet farms that our farmers use to source their birds. I'm sure a lot of it is luck. We have been very lucky, knock on wood. But no, we're not seeing any material change to our ability to bring lots of new farms online to support our growing demand.

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

Operator

Your next question comes from the line of Eric Des Lauriers with Craig-Hallum Capital Group. Please go ahead.

Analyst: Eric Anthony Des Lauriers

Question – Eric Anthony Des Lauriers: Great. Thanks for taking my question and congrats on **the strong results**. My question relates to the new production line coming online in Q4. Should we expect that to deliver kind of a step-function impact to revenues or will that be more gradual as you sort of methodically ramp production? Of course, that coincides with many of these family farms coming online. So, understood, in Q4, **we'll see growth acceleration** either way. Just kind of wondering about plans for utilization on day one, so to speak.

Answer – Thilo Wrede: Yeah. Eric, to you as well, welcome to the Vital Farms call. I think the – your question – there's like a two-part answer to it, right? It will bring a step-function in our capacity, but it will not necessarily bring a step-function in our revenue. And the reason for that is we need the eggs to put on the machine. And our eggs supply, that is a – it's a steady, relatively predictable growth rate. And so, as the eggs are coming off the farm, that is really determining how much of a step-function we'll have. I think if you look at our historic data, you won't see many step-functions, maybe the first few months of COVID, where – one of the rare exceptions. But there was for extraordinary circumstances. Really, the objective that we have is to grow the business at a very healthy, high growth rate, but very steady without many step-functions in it.

Question – Eric Anthony Des Lauriers: That makes sense. Very helpful. **My follow-up is on the pace of family farm additions for 2025 and nice growth with 125 family farms** last year. How should we think about that pace for 2025? And then just in terms of the accelerator farms, understanding that will remain a very small percentage of overall production. But how might that impact to gross margins or OpEx this year?

Answer – Thilo Wrede: Yeah. The farm recruiting will have to continue at a very healthy clip. I'm not going to sit here and say it's going to be X number of farms this year or an X number of farms the year after. But if you do the math for us to get from the guidance that we have and the numbers that we have in 2024 to get to the long-term guidance of $1 billion by 2027, we need to keep adding farms. And once the new facility comes online at the beginning of 2027, we need to have more farms in that geographic area as well, simply because it makes for more efficient shipping, right? So, farm recruiting will continue. It will continue at a relatively similar clip to what we've had so far. But I'm not going to yet talk about how many numbers – how many farmers we'll have this year.

Accelerator farms, what we have said in the past is that we are looking at – I think we've called it a handful of accelerator farms, call it 15, 20 farms or so. That number is not really supposed to increase, right? We want to have, I think Russell just called it, our R&D lab for farm operations. We want to have a meaningful number of farms to try a few things in parallel, maybe do some A/B testing, but not to really supplement our volume coming off our own farms, right?

So, when you think about even at the high end, 20 farms out of 425 family-owned farms right now, it's a very small number. And as we keep growing the family farm network, as a percentage of our total supply, **that will continue to decline**. And with that, even if we are trying a few things there that might cost us a few dollars, **the impact on gross margin from that is really negligible**. And if anything, in the long term, it might actually lead to margin improvement, because what we are trying to do is, for example, get more production out of the hens that we have and that ultimately will lead to lower costs in the long term.

Question – Eric Anthony Des Lauriers: It's very helpful. Thanks for taking my questions.

Answer – Thilo Wrede: Good to have you, Eric (01:11:05).

Operator

I will turn the call back to Anthony Bucalo for closing remarks.

Thank you, everyone, for your support of Vital Farms. Have a good day.

Operator

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