

TD Cowens 8th Annual Future of the Consumer Conference

Company Participants

- Thilo Wrede, Chief Financial Officer

Other Participants

- Analyst
- Robert Moskow, TD Cowen

Presentation

Robert Moskow {BIO 6299775 <GO>}

So I guess it's time to get started. So I'm Robert Mosko. I'm the consumer staples analyst at TD Cowen. And I'm very happy to have Vital Farms with us today. Vital Farms is a fast growing market leader of the pasture-raised table eggs category that's \$600 million in sales and a market cap of almost \$2 billion. The shares are on fire up 100% over 100% year-to-date.

And here today with me is Thilo Wrede, who is the VP of Finance at Vital. He joined just in 2023 after a successful period at PepsiCo, rising in the ranks in the finance division. That included since the CFO of Sabra Hummus and also in Central and South America Foods. And for that, he's the sell side analyst at Credit Suisse with me, which is where we met and we endured plenty of emotional and financial scarring. So I can't tell you how happy I am that we're both here.

Thilo Wrede {BIO 16267188 <GO>}

(Multiple Speakers)

Questions And Answers

Q - Robert Moskow {BIO 6299775 <GO>}

(Question And Answer)

Yes. So thanks again. So maybe for investors in the room who are less familiar with the Vital Farms story, maybe give us a little bit of background on the company and the vision of the company's founder and how that started.

A - Thilo Wrede {BIO 16267188 <GO>}

Yeah. So as you said, we are primarily an egg company who is specialized in pasture-raised eggs. When you think about eggs, the least expensive commoditized eggs you can find on the shelf, they usually come from hens that live in cages. They can't stand up, they can't turn around, they can't spread their wings.

Our hens are the opposite end of the spectrum. They have 108 square feet to roam around. They go outside every day and actually get to pick their own food out in the pasture. They eat grubs and bugs and grass, whatever they feel like. And that was really the idea behind the company.

Our Founder, Matt O'Hayer, met John Mackey from Whole Foods way back then and learned that the laying hen was the most tortured farm animal in the U.S. and he wanted to do something better. And he figured out a way how we can do pasture-raised eggs at scale and make money in the process. And now we're here, 17 years later, with over \$500 million in revenue for us and very steady high growth.

Q - Robert Moskow {BIO 6299775 <GO>}

All right, great. So Vital Farms is a B Corp certified company. So maybe give us a little bit of an explanation, like how do you balance the stakeholders of your farmers with your owners and the broader mission and with shareholders? Does that pose any challenges?

A - Thilo Wrede {BIO 16267188 <GO>}

Yes, it does pose challenges. As a certified B Corp and with our own aspiration of wanting to pursue a stakeholder model, it means that in the decisions we make, we factor in all of our stakeholders. It starts with the environment and the animals. It goes to the farmers. It goes to our own employees and then goes to retailers and consumers and shareholders.

The stakeholder model does not mean that there is one stakeholder group that we prefer over others. There is not -- we don't always succeed in creating a win-win-win situation where every stakeholder wins, but at least we consider the impact of our decisions on all the stakeholders at any one time.

And for us, it means that we run the business much more with a long-term focus than I think what you see in some other companies. We do take pride in the fact that our animal welfare standards are very high, that the farmers that we work with get treated right, and those are manifestations of the stakeholder model.

Q - Robert Moskow {BIO 6299775 <GO>}

Great. Okay. So as a shopper, when you shop in the egg category, it's pretty confusing. There's pasture-raised, there's organic, there's cage-free. Free range? Does that exist?

A - Thilo Wrede {BIO 16267188 <GO>}

That exist, yeah.

Q - Robert Moskow {BIO 6299775 <GO>}

Okay. And then there's conventional. So you're a leader in pasture-raised. So have you found it difficult to educate the consumer on these differences in raising practices, or is it that the consumer, it doesn't really matter whether they know all the intricacies, or they kind of just have a vision of what pasture-raised means?

A - Thilo Wrede {BIO 16267188 <GO>}

Yeah, I think if you ask a consumer, any free range in the mind of many consumers that we talk to is actually what they think of when, sorry, pasture-raised where the chickens are outdoors, they pick their own grass and so on. That is what consumers think of when they buy free-range eggs.

Q - Robert Moskow {BIO 6299775 <GO>}

Okay.

A - Thilo Wrede {BIO 16267188 <GO>}

So to your point, Rob, it is very confusing. In addition to all the classifications you just mentioned, there's GMO-free and there are omega-3 eggs and you name it, right. The claims on the packaging, it's a lot. I think where we succeed with consumers, with shoppers, it's not so much about this has pasture-raised, it's about the brand, what the brand stands for, the trust that the brand has created, the transparency that the brand stands for.

If you ask many of our consumers what is different about Vital Forms, they probably couldn't put exactly their finger on it. They just know that what we say we do is what we actually do and what we do is the right thing of doing it and that trust is what drives this brand.

Q - Robert Moskow {BIO 6299775 <GO>}

Yeah. It has a very authentic kind of feel to it. Can you talk about some of the marketing tactics that your company has done to reinforce that positioning?

A - Thilo Wrede {BIO 16267188 <GO>}

Yeah, yeah, it really starts with transparency and traceability. I think we are the only brand or was really the biggest brand where you can find on the side of the carton the name of the farm where our eggs come from. And then you can go to our website and you can see a video of what this farm looks like. For the vast majority of our farms we put videos with hens roaming around and you can really see what pasture-raised means.

So this ability to go back to really trace back where does your food come from, I think that is the core of this brand. And then we do marketing, traditional consumer marketing on top of that. We were together with a big German car brand, we were one of two brands to advertise on HBO's Succession for the final season, right.

And now you might argue, well Succession is all about corporate greed, how does that connect to you? We have a tagline and our Chief Marketing Officer is always nervous using it in public is that we have a tagline that we are bullshit freaks. We actually, we do what we say we do and Succession was so much about the opposite of that. It was an interesting juxtaposition.

Q - Robert Moskow {BIO 6299775 <GO>}

Right.

A - Thilo Wrede {BIO 16267188 <GO>}

We have a very, we have a very strong consumer response team. There are instances where a consumer comes home, drops their shopping bag, all the extra data they posted on Instagram or TikTok, where people will monitor that and then ship them an order of our eggs through one of these online services and two hours after they post, oh my god, all my eggs are broken, they get two cartons of eggs and two packs of butter. And it's this kind of consumer interaction and consumer engagement that really resonates with consumers.

Q - Robert Moskow {BIO 6299775 <GO>}

Right. And what I've noticed when I use them is that the coloring obviously the yolk is much richer and it just, at least it gives you the sense that the hens are eating grass or eating something healthier than what you would want them to get.

A - Thilo Wrede {BIO 16267188 <GO>}

I mean, yeah, thank you for doing my job for me is selling, (Multiple Speakers) I mean the marketing obviously starts with having really high quality products. Our shelves are thicker, we don't have slightly cracked eggs in the carton, the yolks have this really rich color. When you crack the egg open, the yolk stands up really high, which is a sign of quality. And all of that obviously resonates with the consumer as well.

Q - Robert Moskow {BIO 6299775 <GO>}

Right. Okay, good. I think you said you're 80% of pasture-raised, but the barriers to entry aren't particularly high. And I always I see some private label versions of pasture-raised on the shelf. So what are the barriers, and what makes you comfortable that you can continue to be the leader in this segment?

A - Thilo Wrede {BIO 16267188 <GO>}

Yeah, there are private label versions of pasture-raised eggs, there are other brands out there that sell pasture-raised eggs. I think at the end of the day, there is no mode in the sense of we have certain IP around our product. I think our mode is that pasture-raised is what we do. It requires a certain mindset to do this day in and day out, do it consistently well, and do it successfully. So I think that is the first part of our mode, that we have this mindset.

And you asked in the beginning about the stakeholder model and how it influences our decision-making. We make our decisions with this mindset that an (inaudible) matters, the brand matters. The other part of the mode, I would argue, is the brand that we have built, the trust that consumers have in the brand. And protecting this brand and making sure that we don't violate the consumer's trust, is obviously a big part of the mode as well.

Q - Robert Moskow {BIO 6299775 <GO>}

Okay. So there's been enormous volatility in pricing in the egg category, but not your pricing. So maybe talk a little bit about what your price points are at retail, what's going on in crazy town in conventional egg pricing with avian flu and everything, and why your -- it hasn't really affected your core customer.

A - Thilo Wrede {BIO 16267188 <GO>}

Yeah. So our eggs sell, conventional eggs, usually around \$6.99, \$7.99 for a dozen. Organic eggs for \$8.99 or \$9.99. They tend to be consistently the most expensive, or at least one of the most expensive brands on the shelf. And as we said, the category tends to swing quite widely.

We are a branded food company, we are not a commodity company. We don't adjust our prices up or down depending on supply-demand imbalances. When you think back of just over a year ago, beginning of 2023, because of avian influenza, as we said, there was a shortage of eggs. You could go into a store, you couldn't find eggs on the shelf.

And many of the conventional producers raised prices as a result. There were times when we were among the cheapest eggs on the shelf. We could have raised our prices and reflected that, but that's not the company we are. As I said, we are building this brand for the long term. We are a branded food player. I don't think you see any of your other companies in your coverage universe take prices up or down depending on supply demand imbalances.

And so we are a branded player and we want consumers to think of us as that. And so at times our price gaps vary widely. So far what we have seen is it has no impact on our ability to grow market share because consumers don't buy us for price reasons. They buy us because of the brand and what the brand stands for.

Q - Robert Moskow {BIO 6299775 <GO>}

So who is the core consumer of the Vital Farms brand? Is it higher income and is that maybe one of the reasons why sales continue to grow even though consumer spending is pressured?

A - Thilo Wrede {BIO 16267188 <GO>}

Yeah. We define our core consumer, we call them Bridget & Ben. That's version two of our, how we think about our core consumer. They used to be called Abby & Abe.

We moved onto Bridget & Ben. We did? We did. So we are trying to build this psychographic around the consumer.

And there are demographic factors like education, like income, they tend to be higher. But there are also other factors that drive the purchase decision. The interest in the provenance of the food. The care about animal welfare and how farmers in this country get treated. And so yes we skew higher income and I think that gives us a bit more resilience for the consumer.

But there is a very large component in the consumer purchase decision that is, as I said, not driven by price but it's values alignment. Consumers buy us because they want to support what we stand for. And only 50% of our shoppers are actually in this Bridget & Ben category. The other 50% buy us even though they don't necessarily fit the income level or the education level that Bridget & Ben stand for. I think that also speaks to the power of the brand we are.

Q - Robert Moskow {BIO 6299775 <GO>}

The other 50%, do you think those are lighter users or?

A - Thilo Wrede {BIO 16267188 <GO>}

Yeah, they're certainly lighter users. They might buy us for a special occasion or for a special cake they're baking for a birthday. And since it's less everyday purchase.

Q - Robert Moskow {BIO 6299775 <GO>}

Okay. Last year, Vital Farms announced kind of its next tranche of growth and that targets for \$1 billion in sales by 2027, that implies a CAGR of about 20% a year. So, can you talk about what the steps are to get the distribution in the retailer shelves, accelerate that, accelerate household penetration, like how do you, you are growing at a fast pace, but how do you feel confident that the company will keep it going from a marketing and distribution standpoint?

A - Thilo Wrede {BIO 16267188 <GO>}

Yeah, we've set ourselves the targets to get into 30 million households by 2027. Right now, we're in about 10 million households, so that's a very ambitious target. We think we still have very meaningful distribution opportunities. There are, we're in about 24,000 stores across the country right now. There are about 8,000 more stores that carry specialty eggs, that is growing phase that we are not in right now, so there's one opportunity.

The other part is that we can get more SKUs on existing shelves. In the food channel, we have on average 2.8 SKUs on the shelf. In the natural channel, we have five SKUs on the shelf. In one natural retailer, we have eight or nine SKUs on the shelf. So, getting more SKUs on the shelf, where we already are selling that for us, we think is the biggest opportunity.

It allows us, it reduces the likelihood of stockouts on the shelf. Often, when you go to a store, at least where I live in Connecticut. Later part of the day, we're often out of stock because the stock gets restocked, sorry, the shelf gets restocked once a day. And if you show up six hours later, we're not there anymore. If we have more SKUs on the shelf, the likelihood of that happening goes down.

So, having three or four SKUs on the shelf, now we have this billboard effect, right. So, the consumer awareness goes up, which then will translate into household penetration. So, getting that distribution, having the conversations with retailers about having us on the shelf increases their profitability, increases the velocity on the shelf. All that is supporting that goal to get to a billion dollars.

Q - Robert Moskow {BIO 6299775 <GO>}

Is your sales force finding it relatively easy to persuade retailers to expand the billboard? Are the retailers excited for this because of the velocity impact and shelf productivity?

A - Thilo Wrede {BIO 16267188 <GO>}

So, in an internal meeting a few weeks ago, I used the word easy when I talked about sales, and I haven't heard the end of it yet, rightfully so. We have a very hard-working sales force, and they do, obviously, a phenomenal job. That being said. When we have conversations with retailers, I think we -- these days, we have very strong data to support that adding SKUs to the shelf, it increases the terms on the shelf, it increases the dollar profit that the retailer generates on eggs.

And so that is what makes it a relatively straightforward conversation with the retailer, right. You still need to have the conversation if you want to make space for us, what you take off the shelf, right. So it is not an easy job, obviously. But I think we have a lot of strong data on our side to support that.

Don't just put one SKU on the shelf, add the second one, add the third one. Every SKU you add is incremental to what you already have there. It's more productive than the other brands that you have on the shelf. And so having these arguments that really speak in our favor, that at the end of the day can make for very productive conversations with retailers.

Q - Robert Moskow {BIO 6299775 <GO>}

Right. Got it. What about in terms of capacity? I think you announced some plans to investigate a new site for a sorting center. Can you talk about Egg Central 1.0 that you have right now and what kind of expansion are you looking to do?

A - Thilo Wrede {BIO 16267188 <GO>}

Yeah, so we announced last month that we are in the process of buying land in southern Indiana to build a new facility. Our current facility, we call it Egg Central Station or ECS, is in southwest Missouri. And we have said that we have capacity to

process about \$700 million worth of eggs there per year. We have taken pricing a few times since then, so the number is probably a bit higher than that these days.

But we need the new facility to get to the billion dollar goal by 2027. We picked southern Indiana for two reasons really. We want to diversify a bit geographically, have a bit more options, where do we ship from, from what location. But also we produce our eggs in what we call the pasture belt. And pasture belt means it's not too hot in the summer, not too cold in the winter, there's enough rainfall for vegetation year-round so that the chickens actually can go outside year-round.

And the pasture belt is moving. It's moving further north and so we need to make sure that we stay within the pasture belt. And that is why we picked southern Indiana for this facility.

Q - Robert Moskow {BIO 6299775 <GO>}

Pretty long-term planning.

A - Thilo Wrede {BIO 16267188 <GO>}

Right. I told you, we are doing this for the long-term, yeah.

Q - Robert Moskow {BIO 6299775 <GO>}

Okay. Makes sense. And in terms of the cost of the facility, I think you said Egg Central was \$17 million. Is this another \$17 million or just like a significant increase because of how big you need it to be or how inflation has happened?

A - Thilo Wrede {BIO 16267188 <GO>}

Yeah, really, it's going to be more than \$17 million. I think what we have said so far is it will support roughly half the capacity that ECS has right now. And for every dollar that we invest, we get \$5 of revenue capacity out of the facility. So, in your Egg Central model, you can back into that.

It's more expensive for two reasons. One is the inflation that you just mentioned, especially since COVID, construction costs and materials have gone up quite a bit. From a construction cost perspective, I think we're in a more expensive part of the country to begin with.

But then there were also plenty of learnings from ECS that we now want to apply to this new facility. How we design the layout, how we do the process flow, the equipment that we're using, the automation that we're doing from day one and so on. And that will just bring additional costs as well.

Q - Robert Moskow {BIO 6299775 <GO>}

Can you talk about the farmer network that you have? I think 300 farmers currently. You're going to have to expand that pretty significantly. What do you do to qualify these farmers and train them to grow your very specific egg specs?

A - Thilo Wrede {BIO 16267188 <GO>}

Yeah. So, we -- to get a new farmer from the moment that we have the first interaction with the farmer and they apply to become a Vital Farms farmer to the moment that we actually get eggs from their farm, it takes about 12 to 18 months. So, it's a rather long lead time. And in those 12 to 18 months, the farmers need to build a barn, they need to prepare the land, they need to get the chickens there.

And once they start producing, or even before we start producing, we start training them. We educate them on our standards. We work with them to make sure that the barn is laid out the way we want it laid out and so on. And then we have a farm support team that visits farmers initially relatively frequently. Once they are more at steady state, farm support team visits on average once a month to be there to answer questions, to make sure that whatever best practices we have, they get shared.

And so, we make sure that we support the farmers as much as we can. Getting farmers signed up, that's really the first step. And there we do some marketing around Missouri and Arkansas, but where we get the most farmers from is word of mouth. We ask new farmers, how have you heard about us? And the vast majority of them, it's from friends or family.

And I think it's that word of mouth, again, it goes back to the brand and the stakeholder model. I think in general, we have a reputation that we treat farmers fairly. And that's not just about how much do we pay for it, but also how do we support them? How do we support them when they run into challenges? And having that reputation, that really helps us recruit new farmers.

In Indiana, where the new facility will be, we don't have as much reputation yet, we don't have any farms in Indiana, we have some in surrounding states, so we have to step up the efforts there to do farm recruiting. But I think this day, the benefit that we have now compared to when we opened ECS back in 2017 is this brand is much more well-known across the country, and so the farm recruiting, it's a flywheel at the end of the day.

Q - Robert Moskow {BIO 6299775 <GO>}

Are you typically converting existing egg farms that it might be, I don't know, free range, cage-free, or is that the typical target or?

A - Thilo Wrede {BIO 16267188 <GO>}

Yeah, we actually prefer not to recruit existing egg farmers, simply because we think it will take us longer for them to unlearn how to do one thing and then learn our thing, it's much faster if they just learn our thing in the first place. We do like to work with farmers that have livestock experience, it's important that they know how to keep animals alive.

It's not a condition that they have to have that, but we prefer that. But in general, we offer farmers often an opportunity to take some miles on the land that they have on their farm and generate a profit there, right. The chickens actually like it when there are walkout cropping, so when there are lots of trees.

So you couldn't necessarily raise livestock there, you couldn't grow row crops there, but as long as you have enough space, flat space to put a barn there, it's usually pretty good for chickens. And so for farmers, it's an opportunity to add to their income stream, and that obviously helps with the recruiting.

Q - Robert Moskow {BIO 6299775 <GO>}

I'll take any questions from the room if anyone has, and if not, then I'm going to keep going here. Oh, yes, please. There's a microphone over there.

Q - Analyst

Is there any difference in the food safety given how your farmers are dispersed compared to sort of more centralized operations?

A - Thilo Wrede {BIO 16267188 <GO>}

So, the food safety from a, what's the product that the consumer gets, I think the entire egg industry has to follow standards when it comes to salmonella and other potential pathogens. I do think where we have an advantage compared to some more concentrated operations is any one farm represents less than 0.5% of our total supply base. And so avian influenza has come up a few times.

When you read these really shocking headlines of 2 million or 3 million chickens on the farm having to get polled because of an avian influenza outbreak. If one of our farms gets impacted, that's 20,000 chickens, right. So, if one of our farms gets impacted, and they do get impacted from time to time, we're not wiping out millions of chickens, we're wiping out less than 0.5% of our total supply. And so having this distributed egg production base, if you want, it certainly is a way for us to mitigate risk in avian influenza environments.

Q - Robert Moskow {BIO 6299775 <GO>}

And avian influenza, like a year ago at this time, it seemed conventional egg shortages helped your business because I think retailers were looking for ways to keep the shelves full. A year later, we still have avian influenza. So, is there any impact on your business today in terms of incremental distribution that you're getting or is it not really a factor?

A - Thilo Wrede {BIO 16267188 <GO>}

Yeah, and we don't see a whole lot of benefit from it right now simply because shelves are not empty, right. What we described from first quarter last year where you just couldn't find eggs, that's not happening right now. So I don't think there's much impact on our order pattern.

Q - Robert Moskow {BIO 6299775 <GO>}

Right. Okay. I think the question that we've been asking for several years on Vital Farms is what are the opportunities to extend the brand into other subcategories? You're in butter very solidly. It was an attempt to get into handheld egg snacks that didn't work out as well as expected. So, where is the company now and to what extent is that factored into your billion-dollar sales target?

A - Thilo Wrede {BIO 16267188 <GO>}

Yeah, the billion-dollar sales target is entirely in existing categories, so eggs and butter. And we think there is plenty of runway of growth beyond the (inaudible) beyond the billion dollars. That being said, we are doing the work to determine what could the next category be. We want to make sure it's a category where we can disrupt the current business model similar to what we have done with eggs, with pasture-raised eggs, so where can we improve current business practices, sourcing practices, that kind of thing.

What is the category where our brand can play? How do we make money there? Part of our stakeholder model, right, making money is not unimportant. And so there are plenty of conversations that are happening internally. There's nothing concrete to talk about. I think this year we are really focused on making sure that we make solid progress on the path to the billion dollars, that we are not losing focus of that, that we maintain our double-digit adjusted EBITDA margin that we had last year for the first time, and that we just demonstrated that last year was not an outlier. And that is now what we are going after. Steady growth in the, you had mentioned, 20% range, 20-plus percent, and maintaining that double-digit EBITDA margin.

Q - Robert Moskow {BIO 6299775 <GO>}

Okay. Let me see if there's any more questions and if not, I think we're going to -- we're going to cut it off there. So, Thilo, thank you so much for joining me here. And best of luck to you.

A - Thilo Wrede {BIO 16267188 <GO>}

Thank you.

Q - Robert Moskow {BIO 6299775 <GO>}

Okay.

A - Thilo Wrede {BIO 16267188 <GO>}

Thank you, Robert.

Q - Robert Moskow {BIO 6299775 <GO>}

Yeah.

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