



pets. people. planet.

Q2 2020 Earnings Report

August 3, 2020



# Forward Looking Statements & Non-GAAP Measures

## Forward-Looking Statements

Certain statements in this presentation constitute “forward-looking” statements, which include any statements related to the novel coronavirus (“COVID-19”), the Freshpet Kitchens Expansion, and the Company's general operating and economic environment. These statements are based on management's current opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results. These forward-looking statements are only predictions, not historical fact, and involve certain risks and uncertainties, as well as assumptions. Actual results, levels of activity, performance, achievements and events could differ materially from those stated, anticipated or implied by such forward-looking statements. While Freshpet believes that its assumptions are reasonable, it is very difficult to predict the impact of known factors, and, of course, it is impossible to anticipate all factors that could affect actual results. There are many risks and uncertainties that could cause actual results to differ materially from forward-looking statements made herein including, most prominently, the risks discussed under the heading “Risk Factors” in the Company's latest annual report on Form 10-K and quarterly reports on Form 10-Q filed with the Securities and Exchange Commission. Such forward-looking statements are made only as of the date of this presentation. Freshpet undertakes no obligation to publicly update or revise any forward-looking statement because of new information, future events or otherwise, except as otherwise required by law. If we do update one or more forward-looking statements, no inference should be made that we will make additional updates with respect to those or other forward-looking statements.

## Non-GAAP Measures

Freshpet uses certain non-GAAP financial measures, including EBITDA, Adjusted EBITDA, Adjusted EBITDA as a % of net sales, Adjusted Gross Profit, Adjusted Gross Profit as a % of net sales (Adjusted Gross Margin), Adjusted SG&A and Adjusted SG&A as a % of net sales. These non-GAAP financial measures should be considered as supplements to GAAP reported measures, should not be considered replacements for, or superior to, GAAP measures and may not be comparable to similarly named measures used by other companies.

Freshpet defines EBITDA as net income (loss) plus interest expense, income tax expense and depreciation and amortization expense, and Adjusted EBITDA as EBITDA plus gain (loss) on disposal of equipment, plant start-up expenses, non-cash share-based compensation, launch expense, fees related to equity offerings, COVID-19 expenses, and fees associated with due diligence of new enterprise resource planning (“ERP”) software.

# Forward Looking Statements & Non-GAAP Measures (cont.)

Freshpet defines Adjusted Gross Profit as gross profit before depreciation expense, plant start-up costs, COVID-19 expenses and non-cash share-based compensation, and Adjusted SG&A as SG&A expenses before depreciation and amortization expense, non-cash share-based compensation, launch expense, gain (loss) on disposal of equipment, fees related to equity offerings, and fees associated with due diligence of new ERP software..

Management believes that the non-GAAP financial measures are meaningful to investors because they provide a view of the Company with respect to ongoing operating results. Non-GAAP financial measures are shown as supplemental disclosures in this presentation because they are widely used by the investment community for analysis and comparative evaluation. They also provide additional metrics to evaluate the Company's operations and, when considered with both the Company's GAAP results and the reconciliation to the most comparable GAAP measures, provide a more complete understanding of the Company's business than could be obtained absent this disclosure. Adjusted EBITDA is also an important component of internal budgeting and setting management compensation. The non-GAAP measures are not and should not be considered an alternative to the most comparable GAAP measures or any other figure calculated in accordance with GAAP, or as an indicator of operating performance. The Company's calculation of the non-GAAP financial measures may differ from methods used by other companies. Management believes that the non-GAAP measures are important to an understanding of the Company's overall operating results in the periods presented. The non-GAAP financial measures are not recognized in accordance with GAAP and should not be viewed as an alternative to GAAP measures of performance.

Certain of these measures present the company's guidance for fiscal year 2020, for which the Company has not yet completed its internal or external audit procedures. The Company does not provide guidance for the most directly comparable GAAP measure and similarly cannot provide a reconciliation to such measure without unreasonable effort due to the unavailability of reliable estimates for certain items. These items are not within the Company's control and may vary greatly between periods and could significantly impact future financial results.

# Driving growth through the crisis by focusing on our strengths

## Pre-Crisis

January - February

- Drive growth under Feed the Growth Plan
- Add capacity

- Nielsen Mega-Channel cons. (Jan-Feb) +29%
- Jan-Feb. shipments +25%
- Capacity constrained
- Began year with low trade inventory
- Endcap Fridge placements in Walmart completed
- New products shipped to some customers
- Start-up Kitchens South and 4<sup>th</sup> line 24 hour operation

## Outbreak

March - April

- Keep our employees safe
- Reliably supply our customers and pet parents

- Nielsen Mega-Channel (Mar-Apr)
  - 4 wks thru 3/28 +42%
  - 4 wks thru 4/25 +10%
- March sales +34%
- April sales +34%
- Capacity constrained
- Fridge and new product placements delayed; April advertising pushed back
- Significant investments in safety and supply chain

## Breakout

May - December

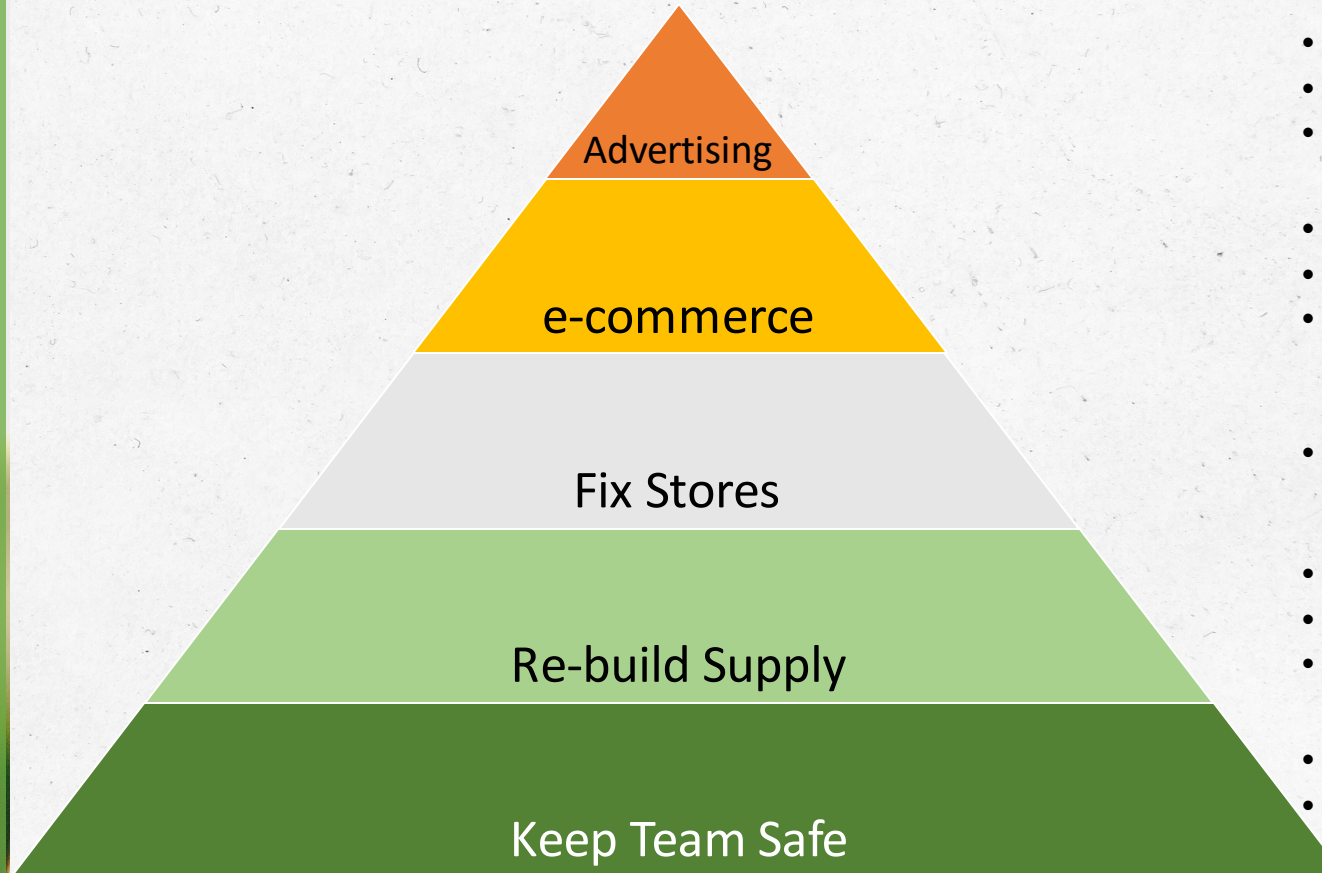
- Adapt to the new realities
- Leverage our strengths to continue driving growth

- Incremental advertising investment
- New e-commerce programs launched
- Incremental retail coverage
- Capacity catch up; Kitchens South 2<sup>nd</sup> shift and start-up Kitchens 2.0
- Complete fridge and new product placements
- Significant investments in safety and supply chain

Uniquely positioned to grow in this chaotic environment

# Freshpet pivoted to leverage our strengths and the changing COVID environment to drive growth

Post-trough growth rate exceeds pre-COVID growth rate

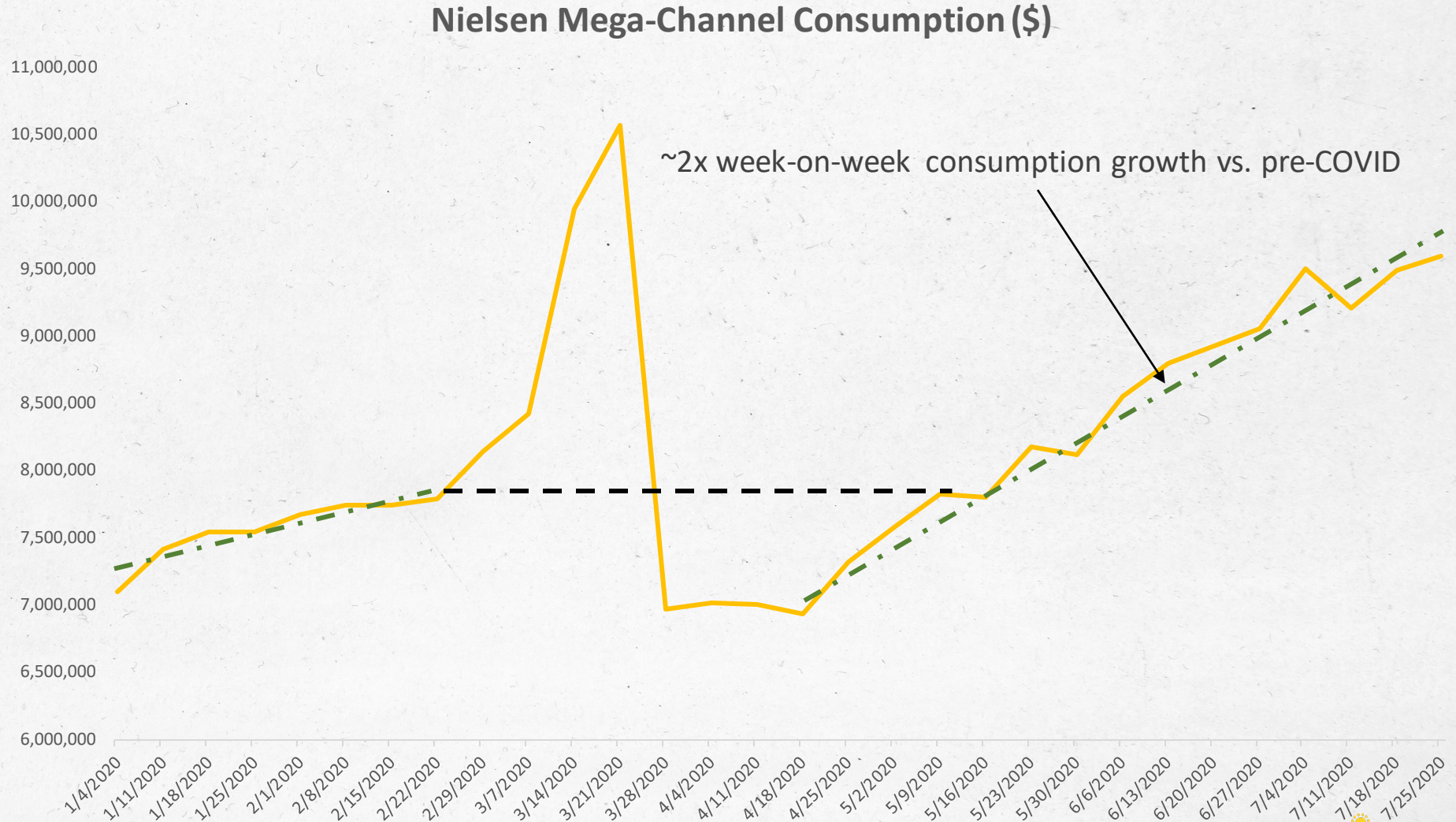


- Moved April advertising
- Increased advertising \$2 million
- Continuous media May-October
- Delivery options on website
- Launched “Delivered” ad
- Introduced DTC option
- Incremental retail coverage
- Ran production lines continuously
- Improved fill rates to 90+%
- Added 2<sup>nd</sup> shift at Kitchens South
- 3 layers of protection
- Transparent communication

# Post-surge pivot is driving accelerated consumption growth

Nielsen Mega-Channel consumption vs. YA thru 7/25/20:

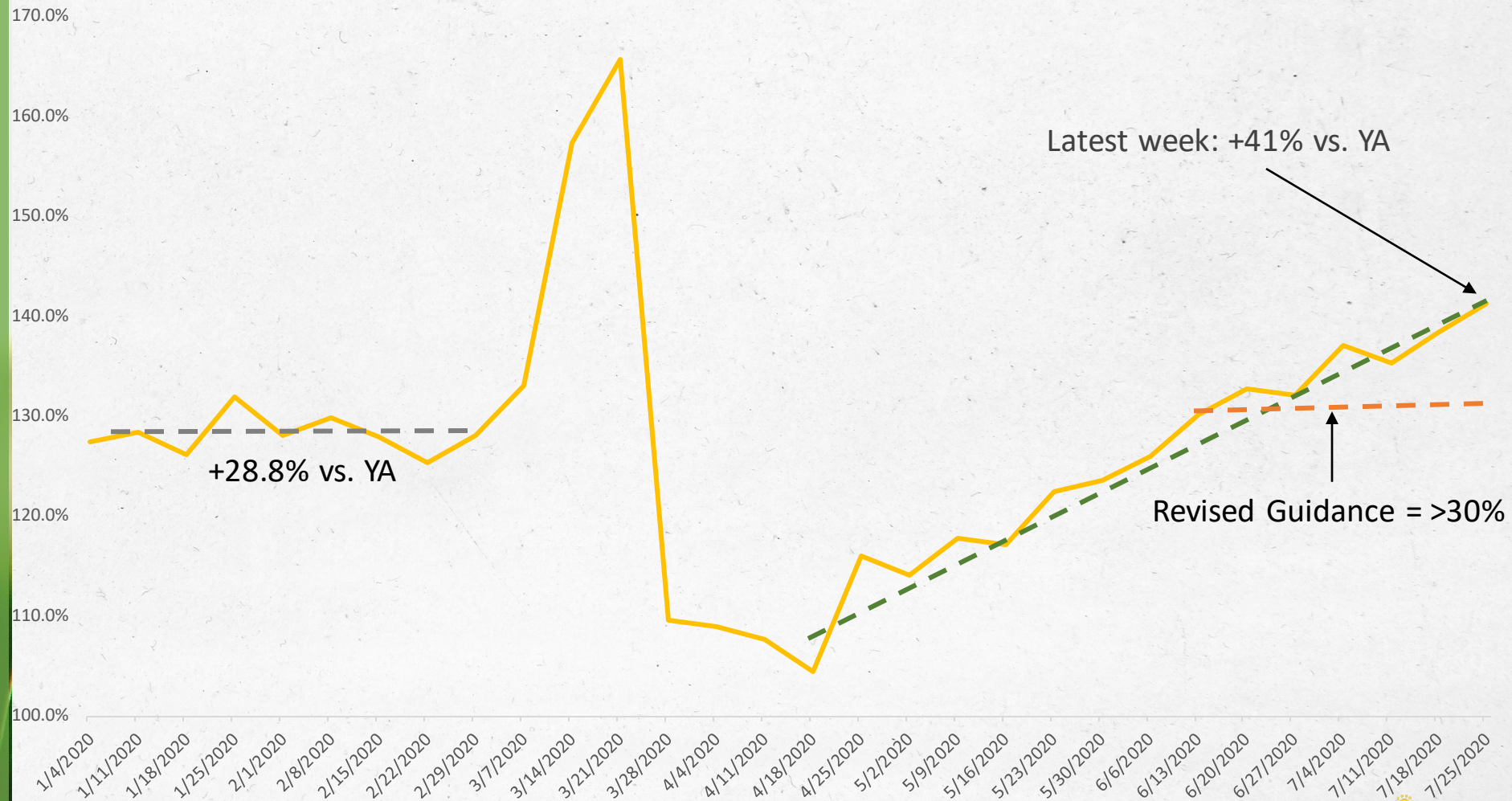
- Q2: +21%
- Latest week: +41%
- YTD: +27%



Source: Nielsen Mega-Channel Data thru 7/25/20

# Accelerating growth rate behind post-surge pivot

## Nielsen Mega-Channel Index vs. YA



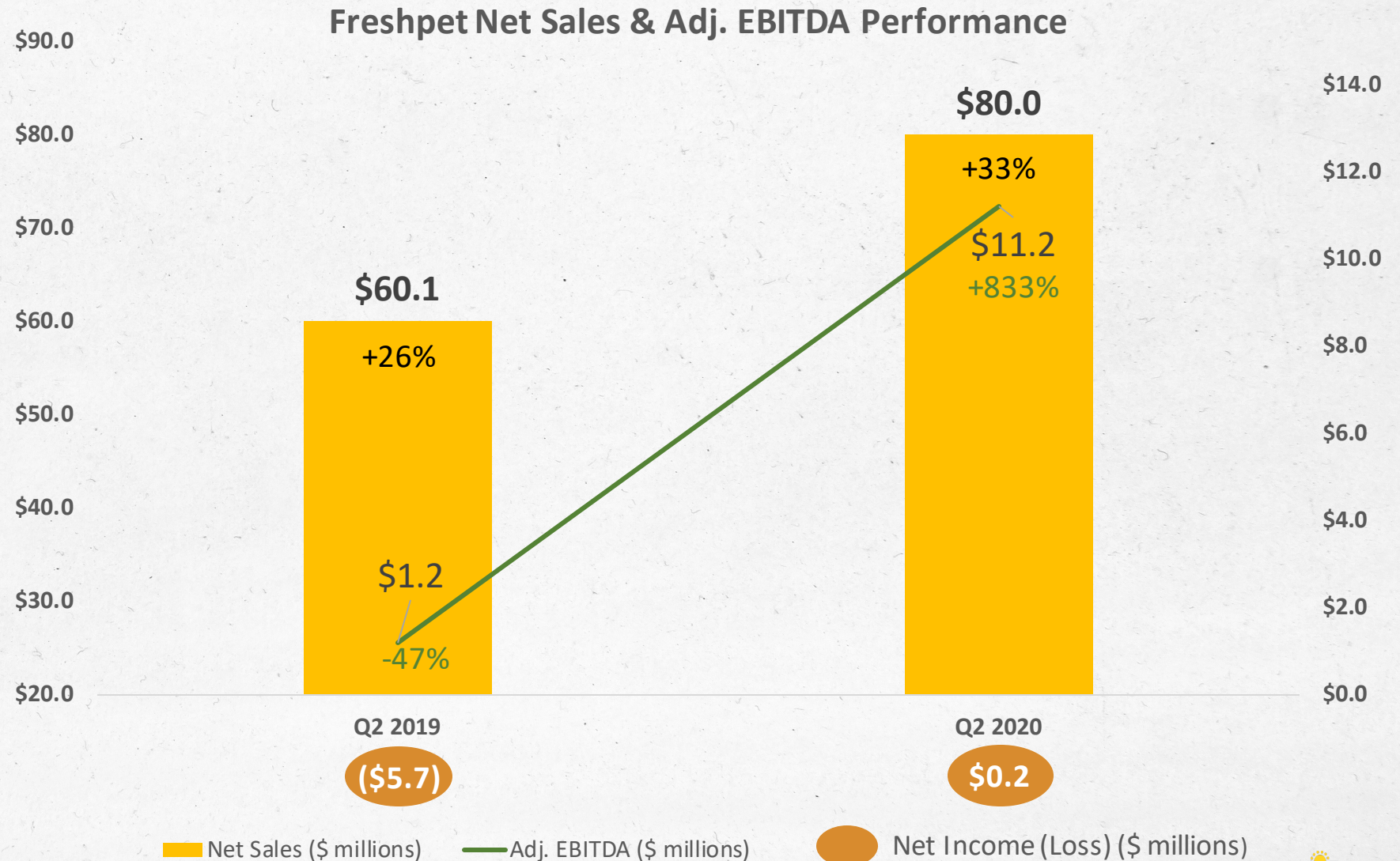
Source: Nielsen Mega-Channel Data thru 7/25/20



Continuous media on air May-October capitalizes on lower media rates and higher viewership

# Q2 2020: Accelerating growth and leverage from scale

9 of last 10 quarters  
>25% net sales  
growth

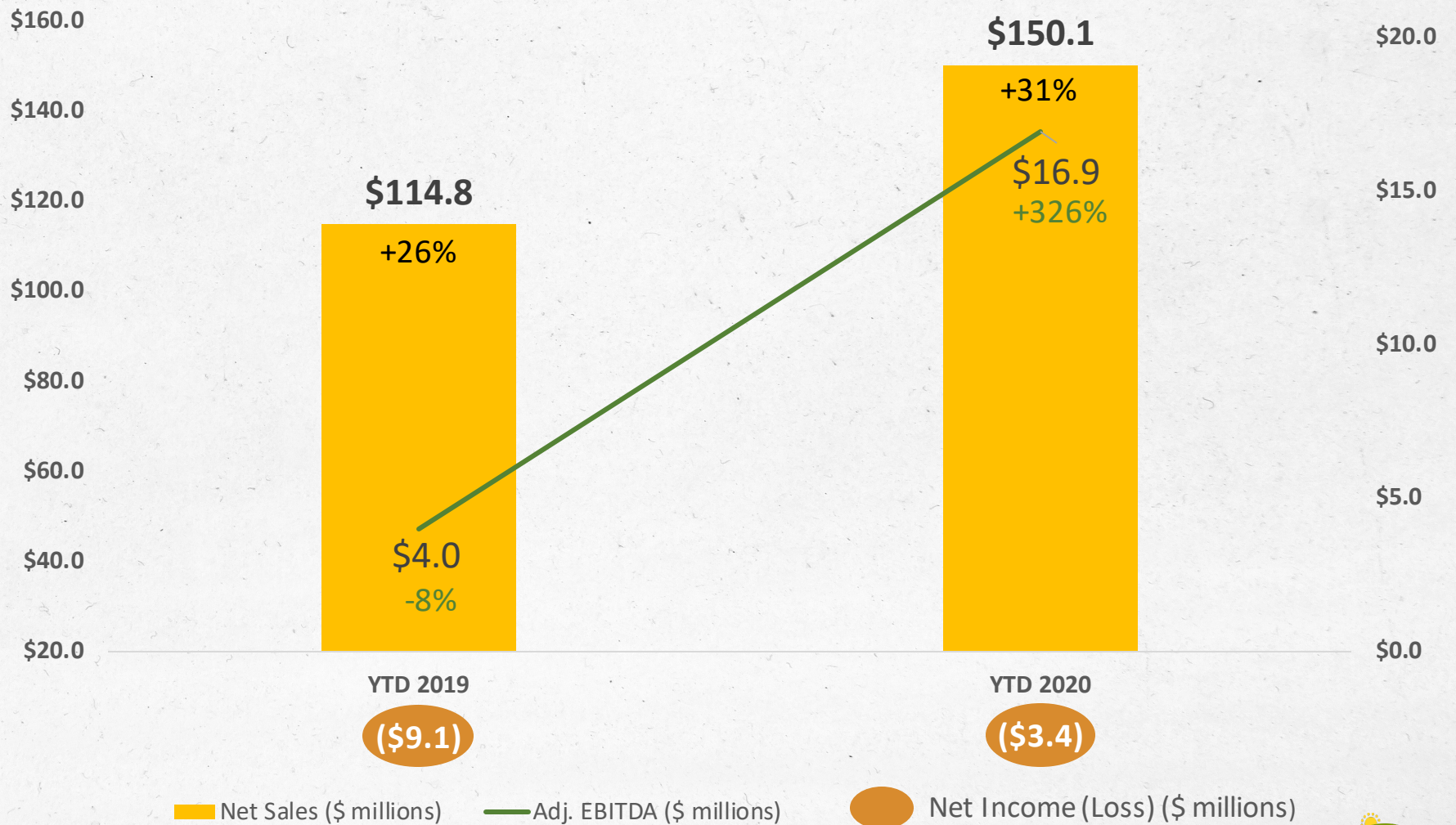




# YTD 2020: Consistent performance despite the COVID crisis

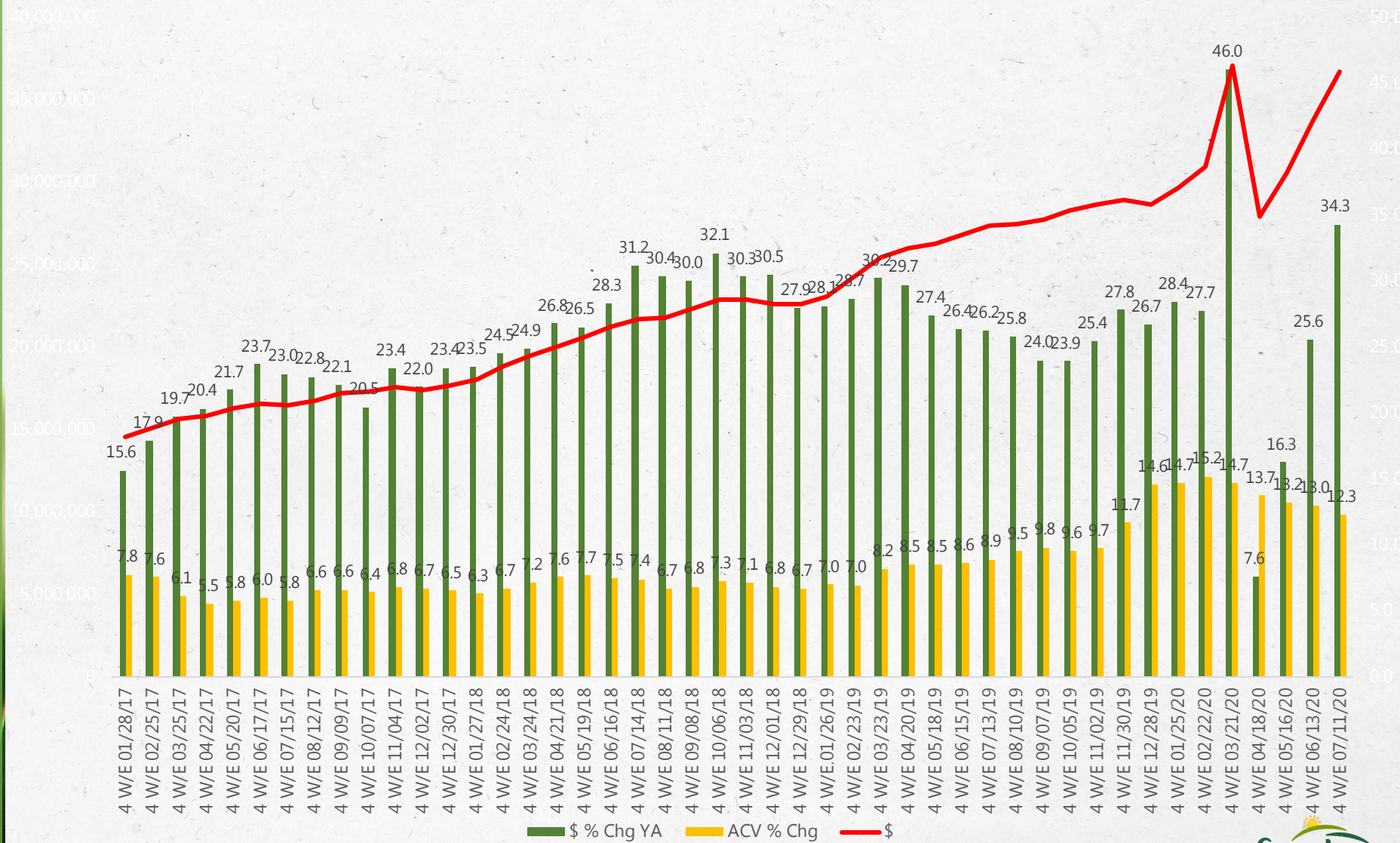
Both Q1 and Q2 delivered strong top line growth consistent with long-term performance

### Freshpet Net Sales & Adj. EBITDA Performance



# Accelerating growth after the COVID-trough

YTD consumption growth of 27% and accelerating to >30% in June



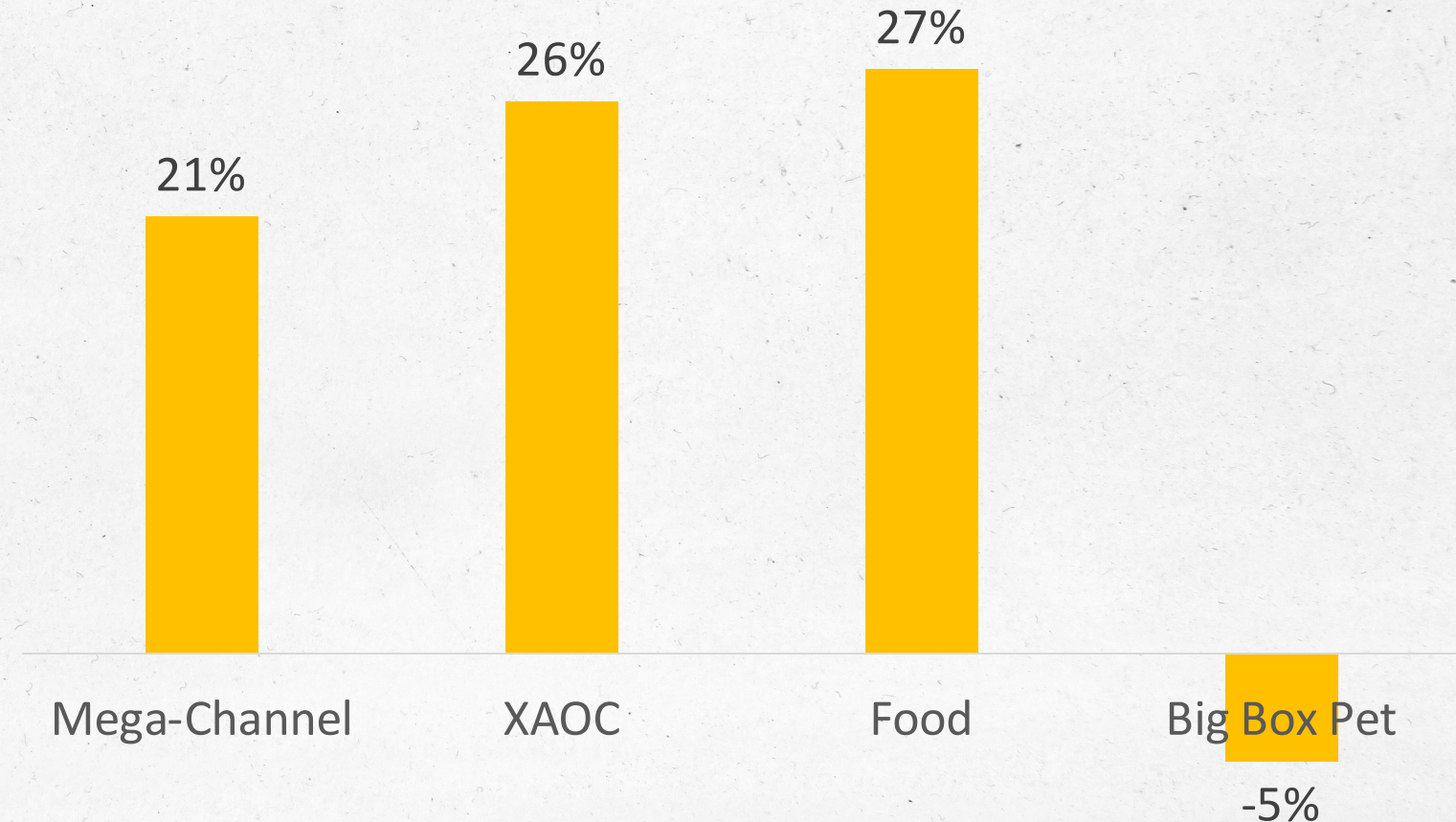
Source: Nielsen Mega-Channel Data thru 7/11/20



# Q2 2020: Continued strong consumption growth despite post-COVID trough in April

Shelter-in-place orders disproportionately helped Food and hurt Big Box Pet

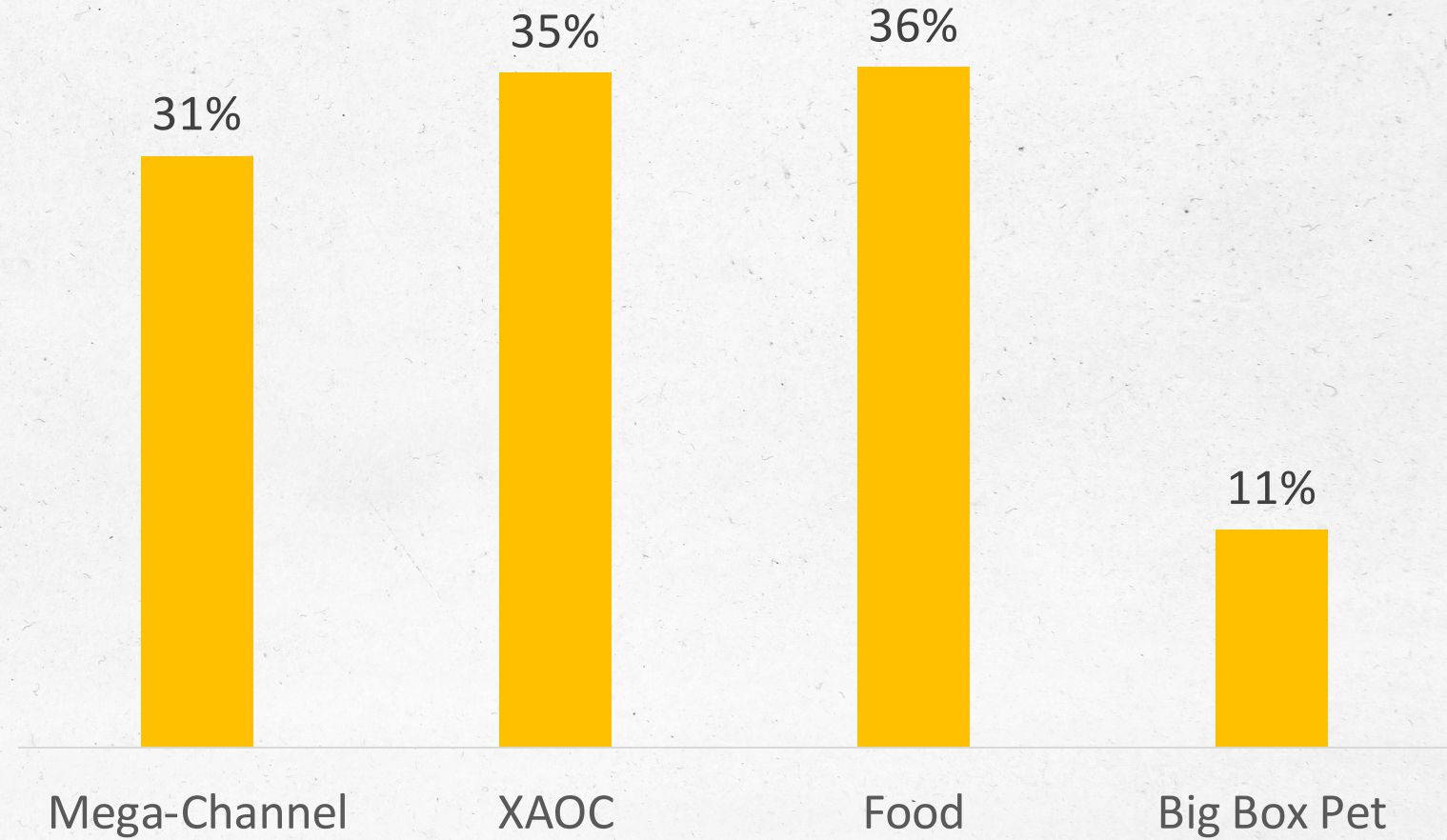
Q2 2020 Nielsen Consumption Growth



# June: Strengthening trends the last 4 weeks of Q2

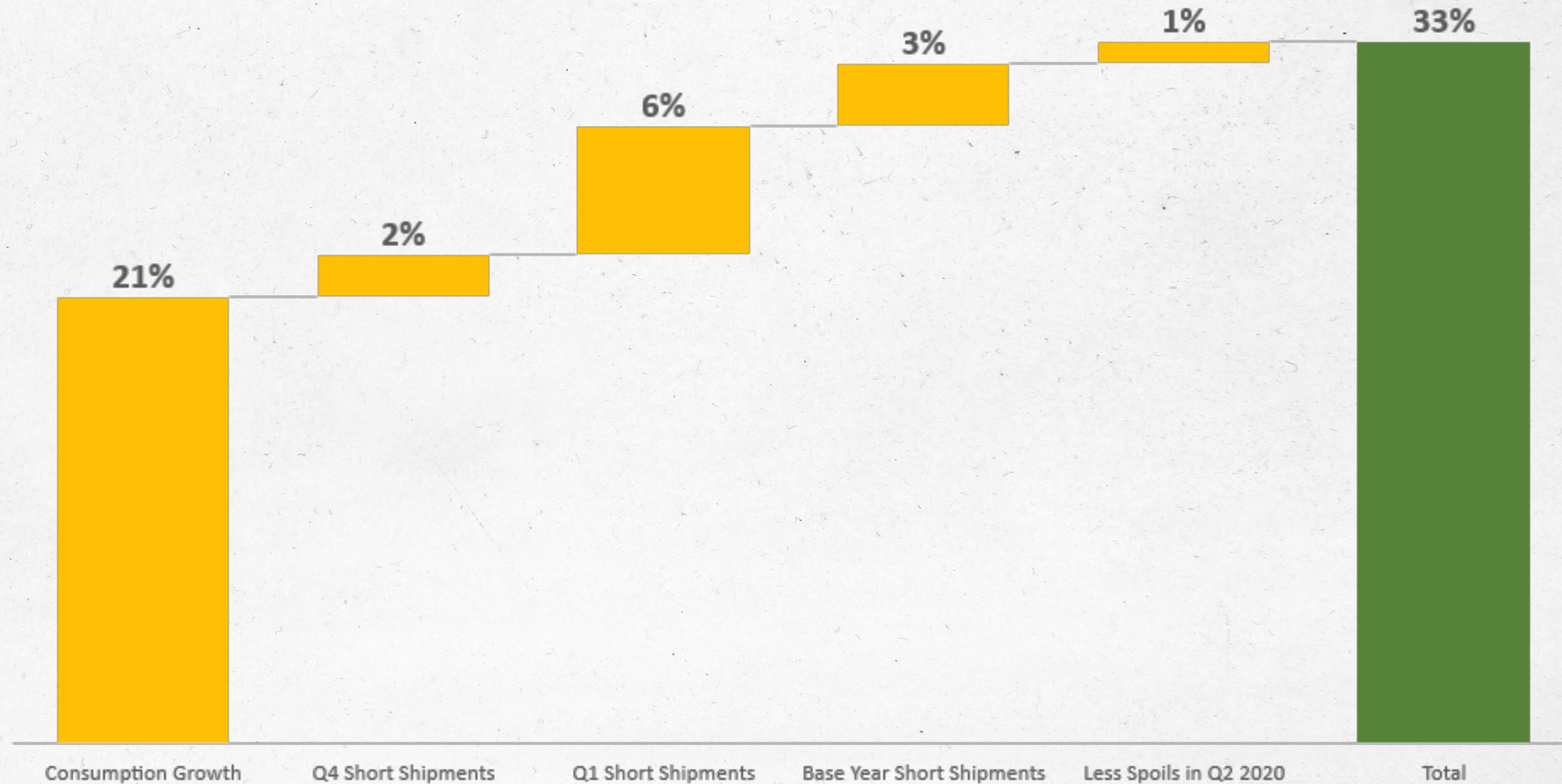
Last week of June  
Nielsen Mega-  
Channel: +33%  
growth

June 2020 Nielsen Consumption Growth



## Q2: Net sales grew faster than consumption as we re-filled trade inventory void created in Q4 '19 and Q1 '20

Q2 2020 Consumption to Net Sales Reconciliation

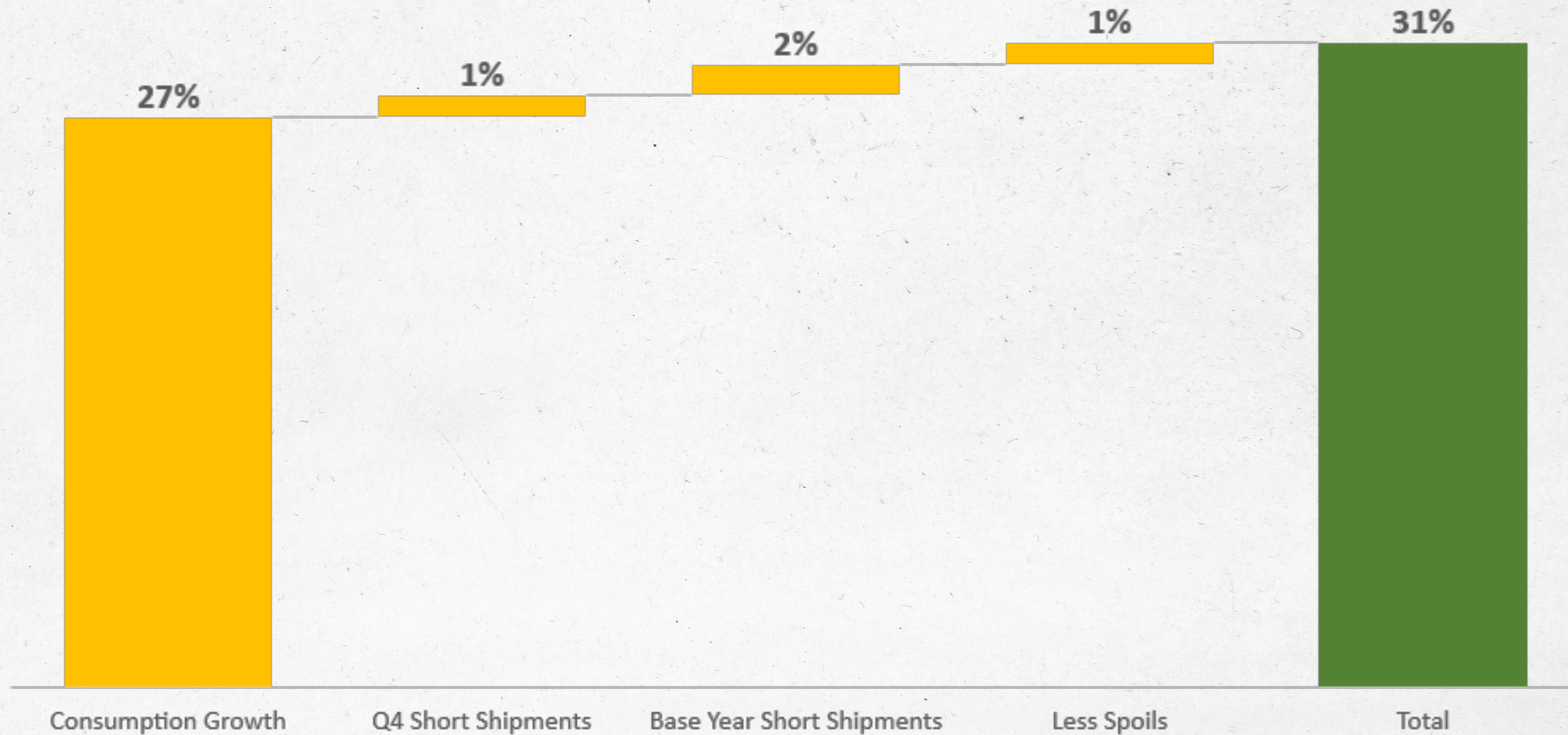


By the end of Q2, fill rates were ~90% with only a few sku's experiencing occasional shortages

# YTD: Strong, balanced performance despite COVID surge and trough

June consumption growth >30% and accelerating

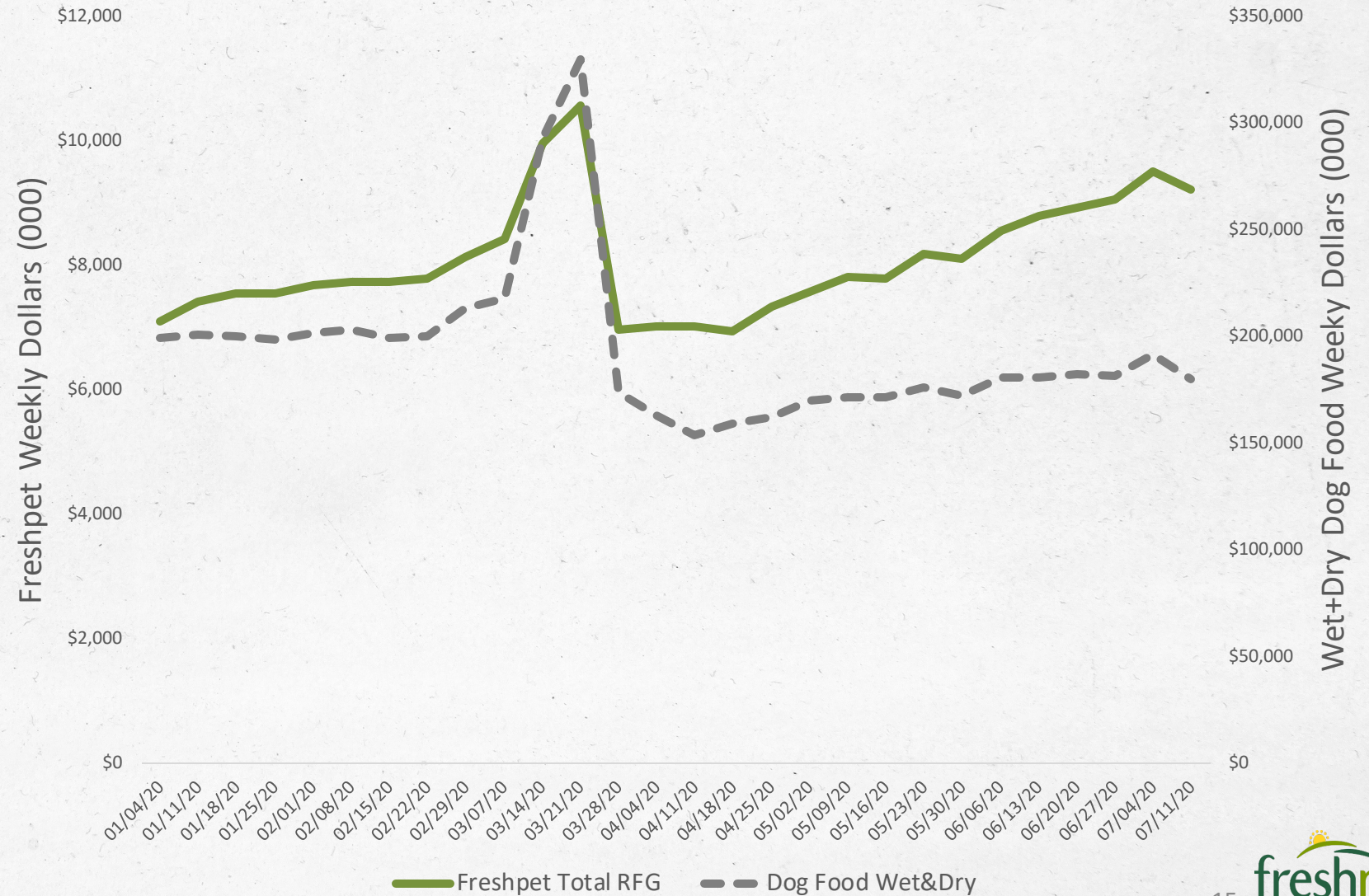
YTD Consumption to Net Sales Reconciliation



Source: Nielsen YTD consumption data thru 6/27/20 and company estimates

# Freshpet bouncing back from post-surge trough faster than the category

Freshpet is now ahead of where it would have been if there had been no COVID crisis

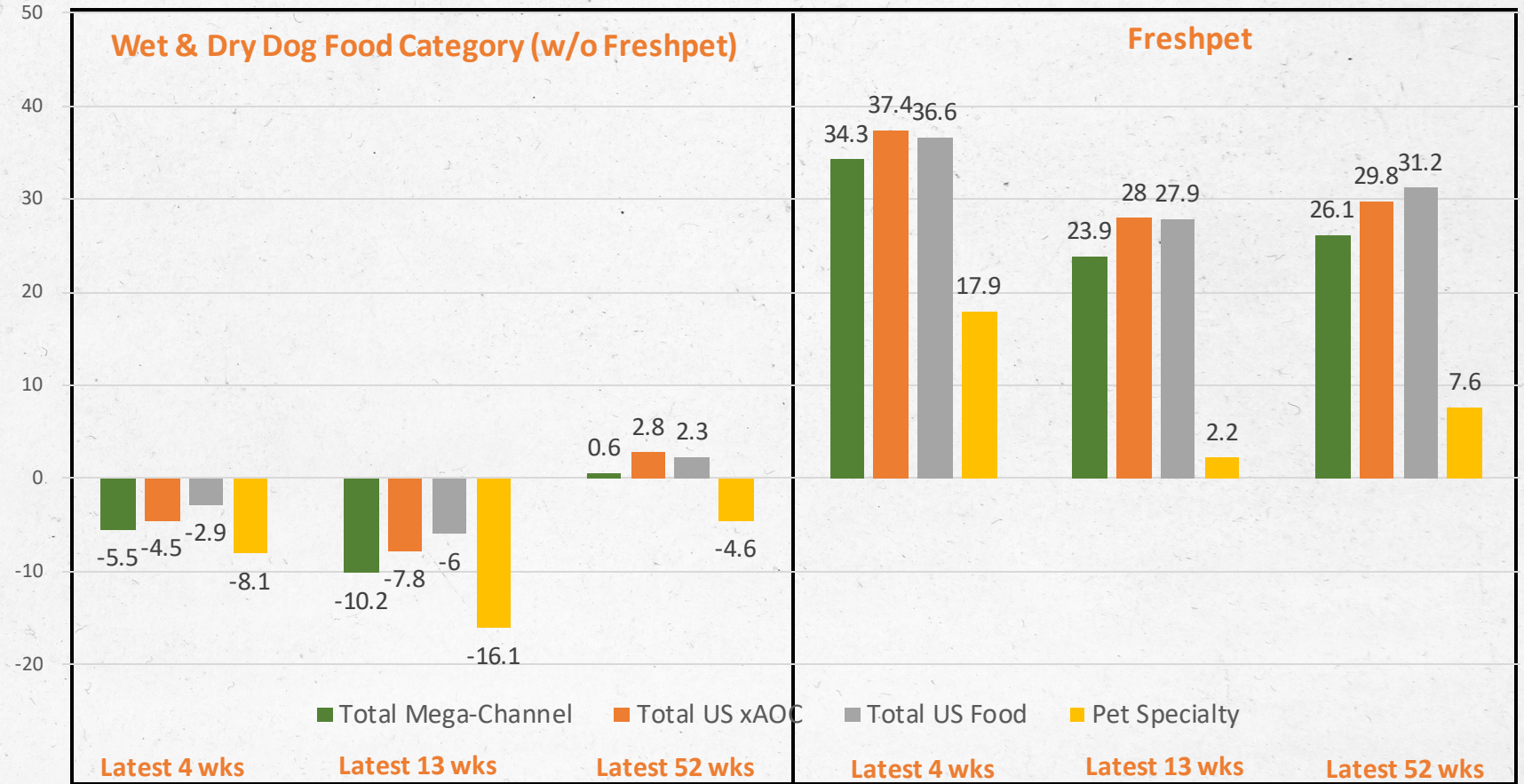


Source: Nielsen Mega-Channel Data thru 7/11/20

# Freshpet's growth significantly outperformed the category

Freshpet growth typically 25-30 points better than the category

## Nielsen Consumption Growth vs. YA

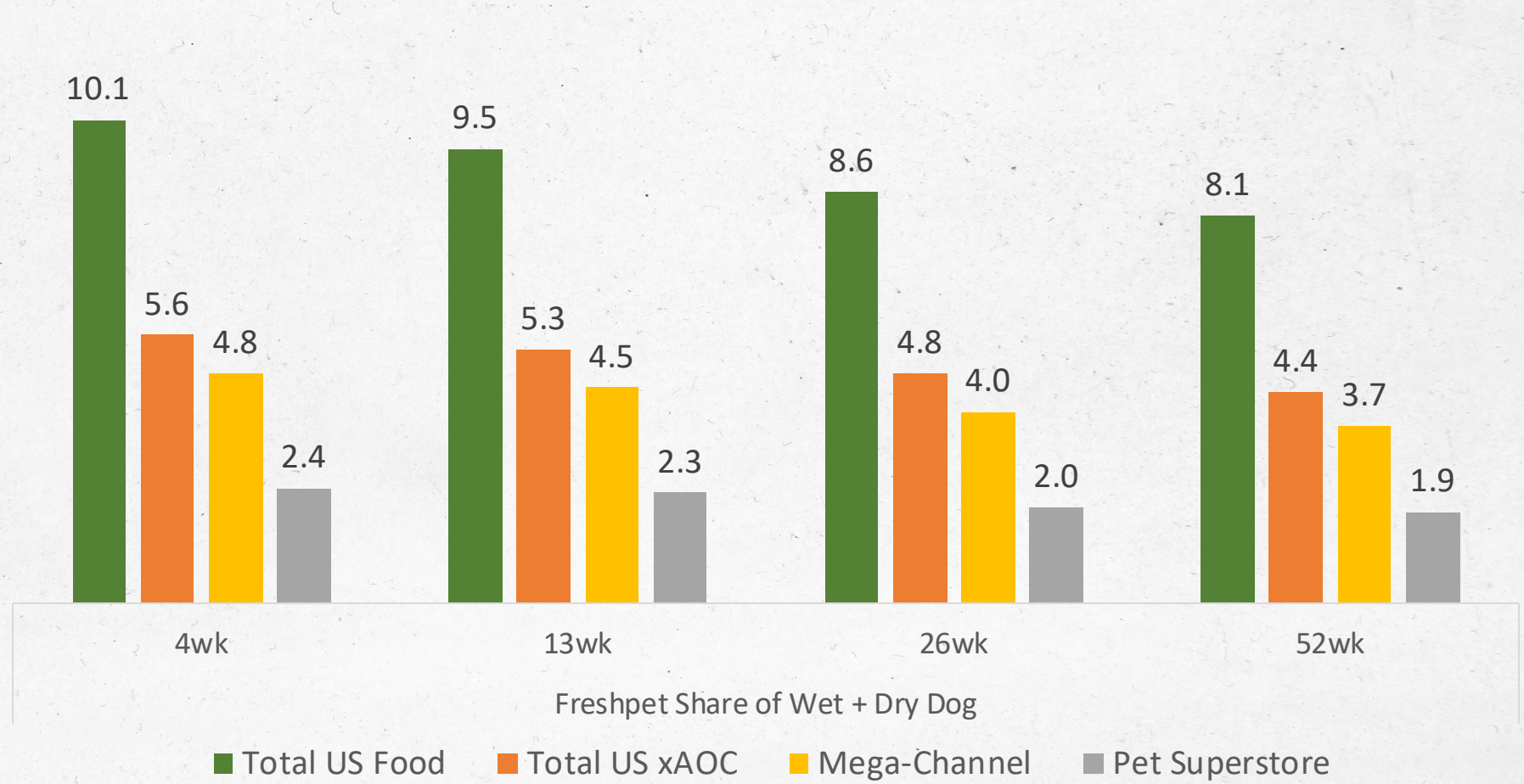




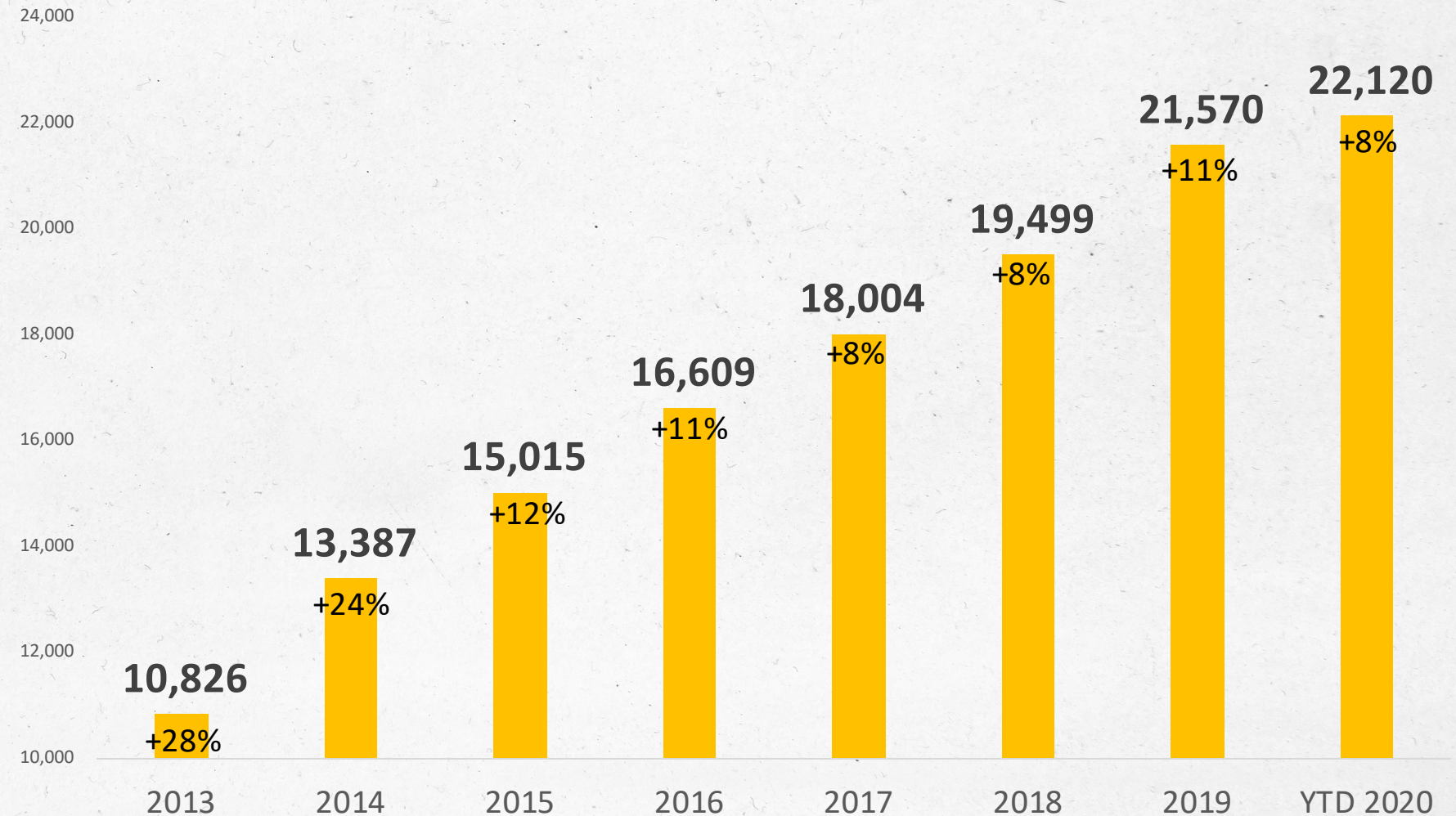
# Consistently building market share across all classes of trade

Freshpet's total \$ growth leads the category in Nielsen Mega-Channel

## Freshpet \$ Share of Wet & Dry Dog



# Store count growth limited by COVID-19 related retail disruption

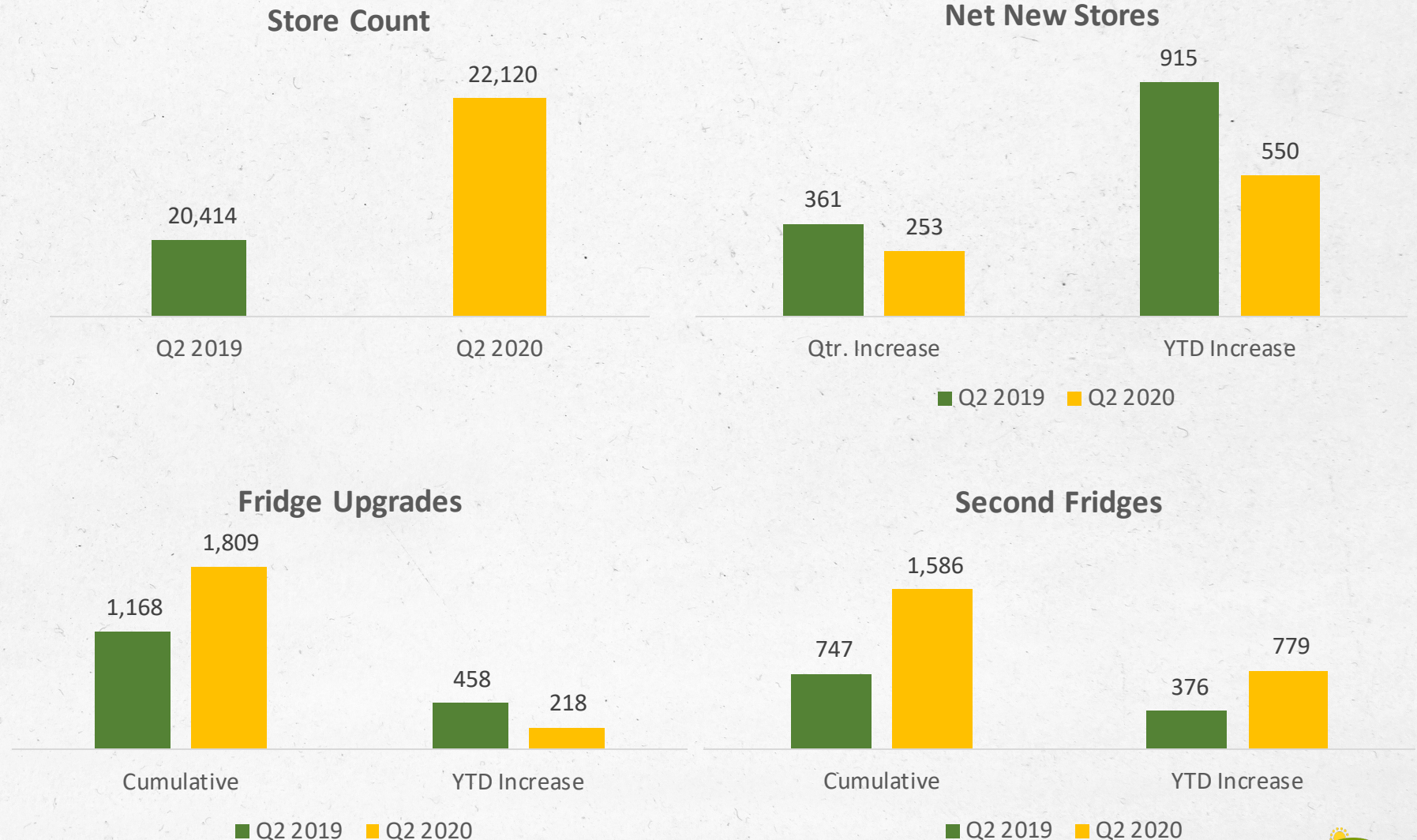


Q2: 253 net new stores

Source: Internal company data; all periods are ending 12/31 except 2020 which is quarter end 6/30/20 compared to YA

# Retail disruptions reduced new Fridge placements, but second Fridge placements were completed

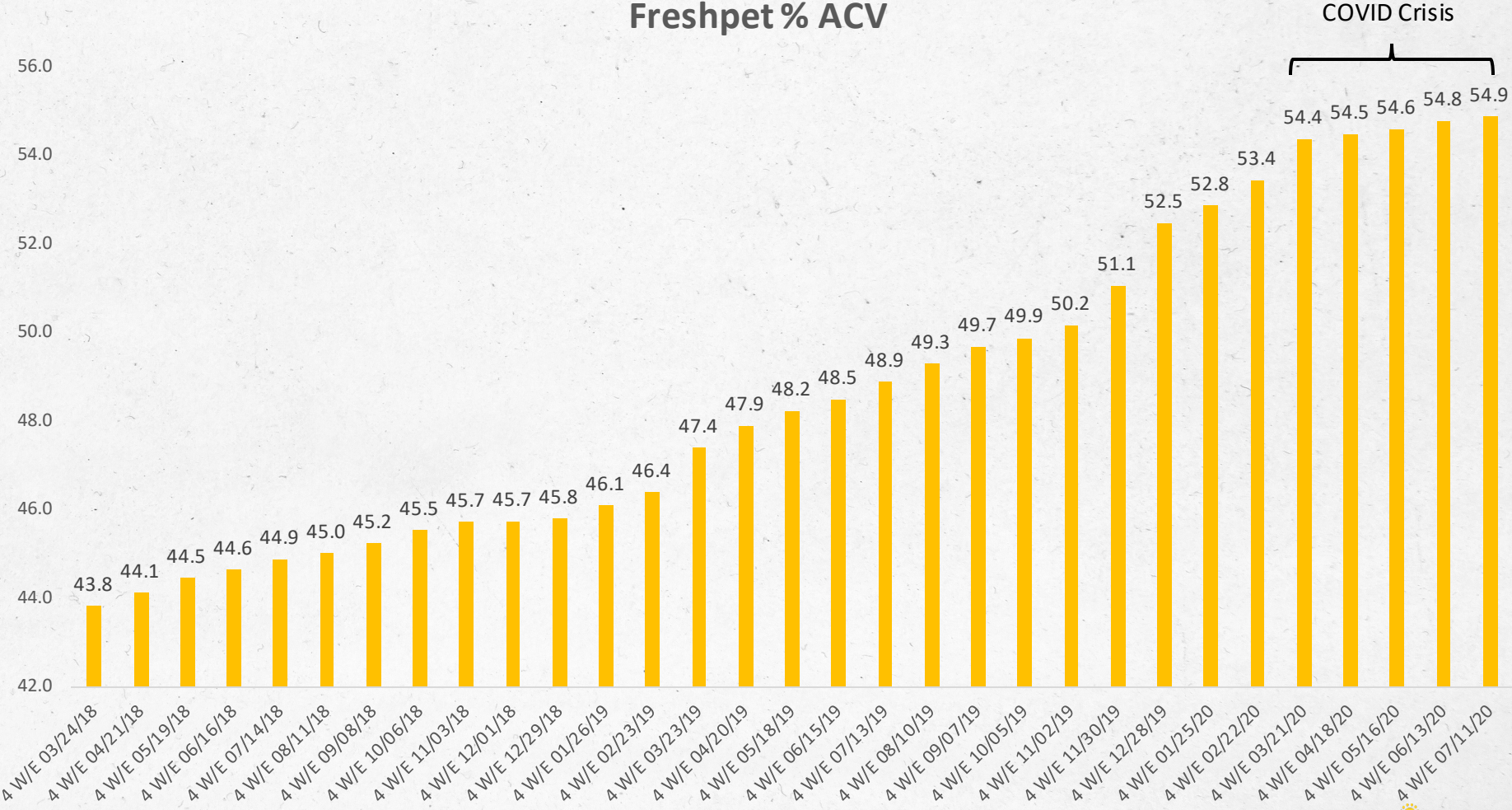
Retailers have resumed Fridge placements consistent with our expectations



Source: Internal company data

# Distribution gains slowed during COVID-19 crisis; expected to resume in Q3 and beyond

Added 253 net new stores in Q2 – now totaling 22,120

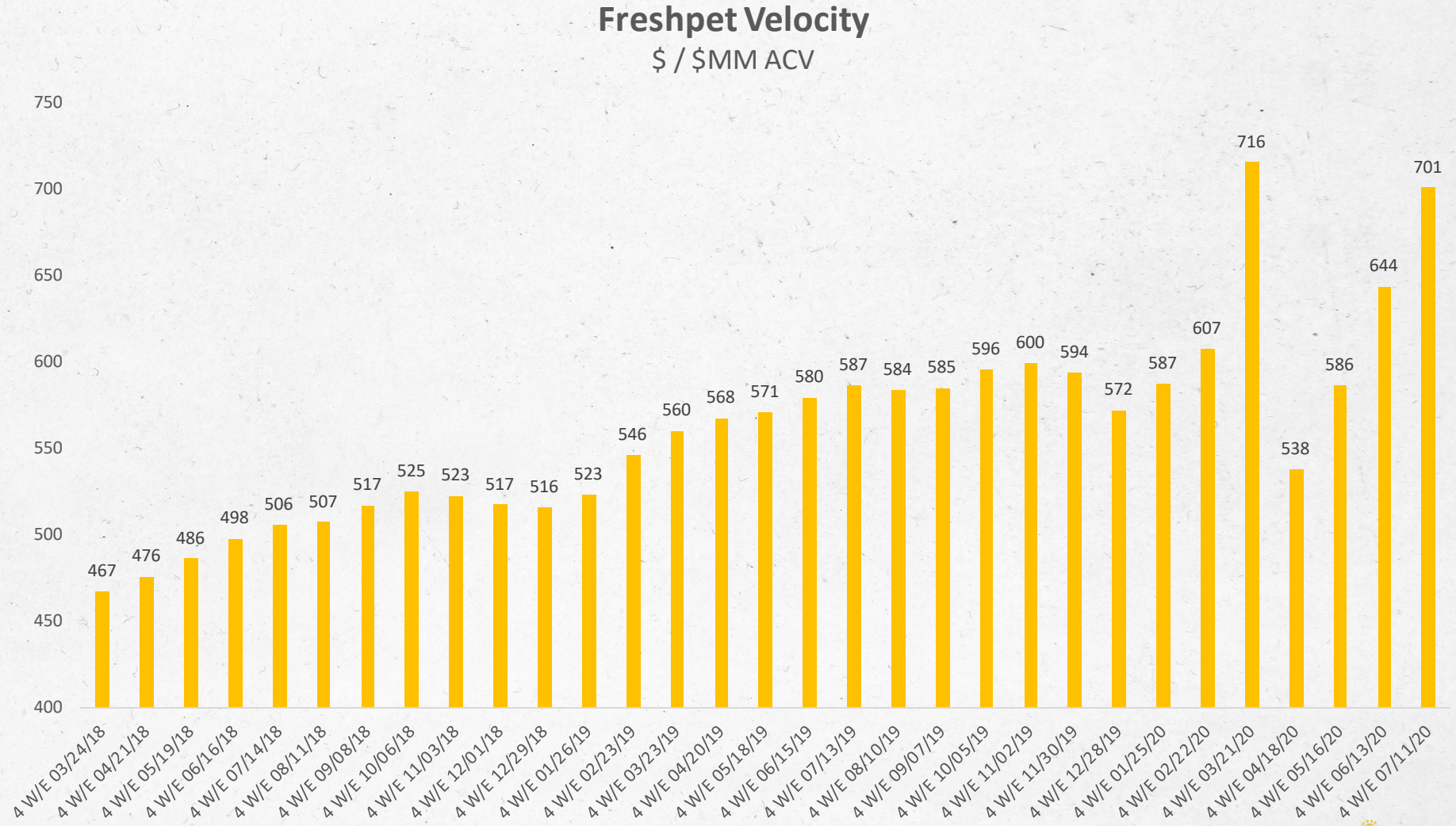


Source: Nielsen Mega-Channel Data thru 7/11/20



# Rapid velocity growth behind post-surge pivot

Latest 4 weeks  
 \$/\$ million ACV:  
 +19% vs. YA



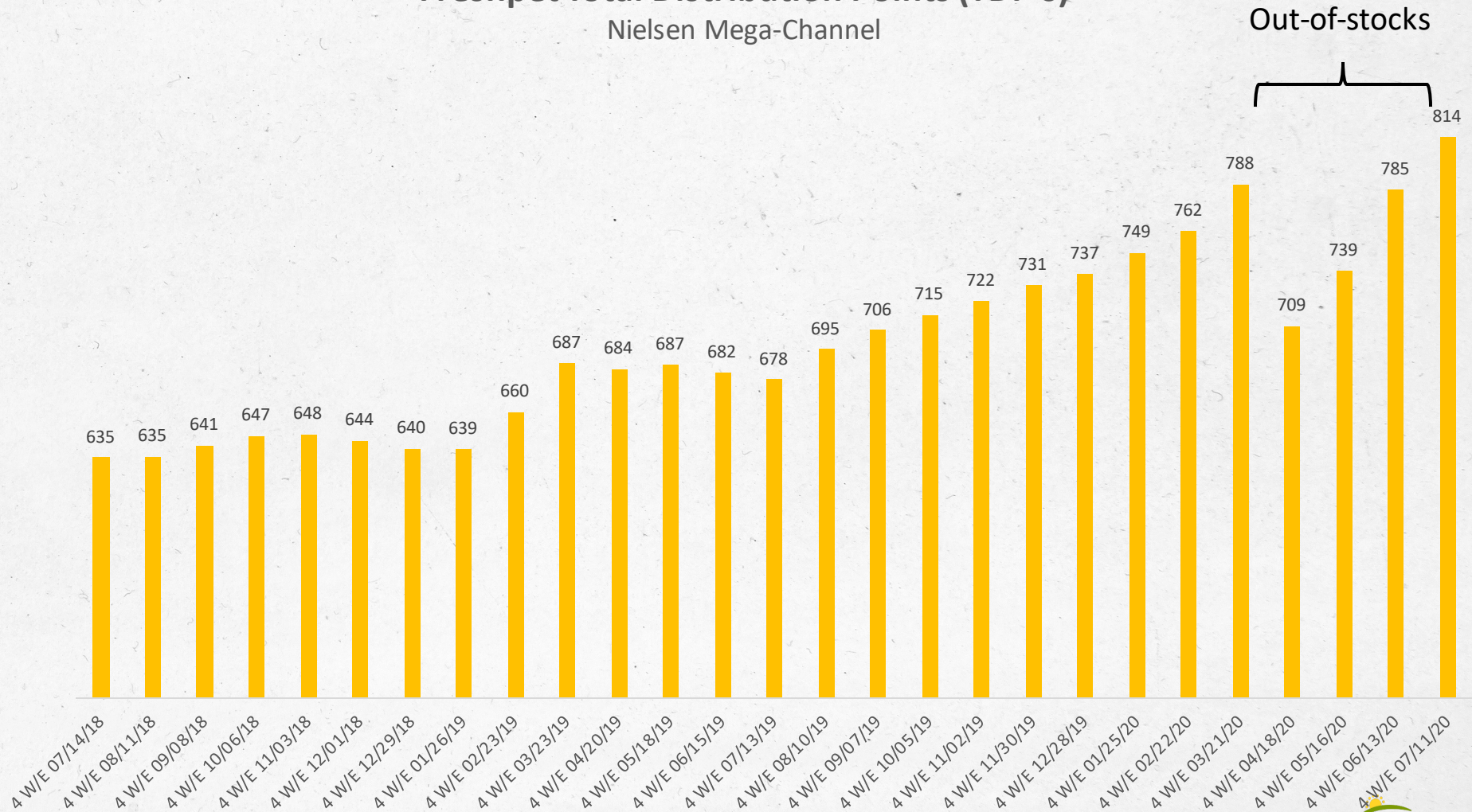
Source: Nielsen Mega-Channel Data thru 7/11/20



# Retail availability has improved significantly

Retail conditions returned to normal by the end of June/early July

Freshpet Total Distribution Points (TDP's)  
Nielsen Mega-Channel

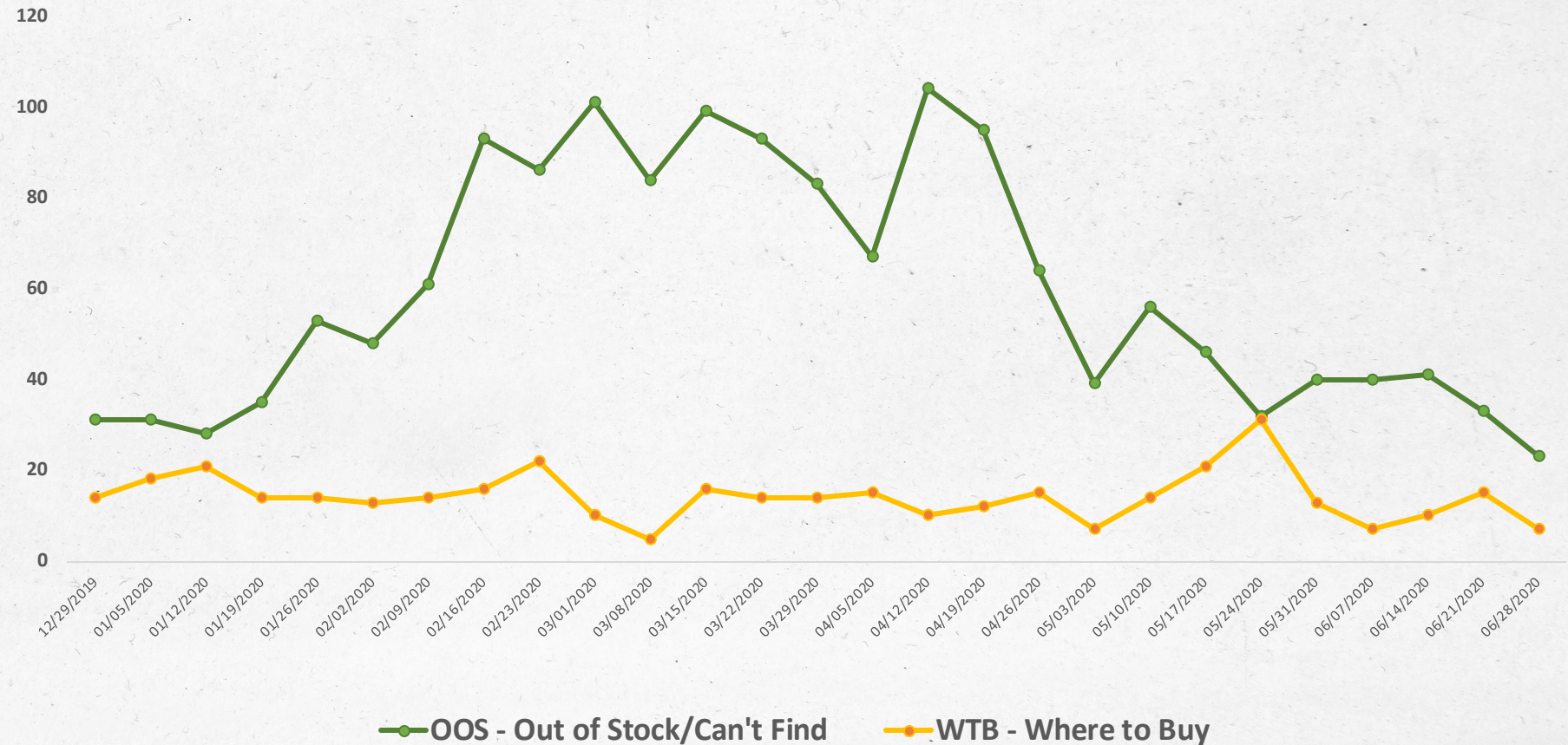


Source: Nielsen Mega-Channel Data thru 7/11/20

# Freshpet consumers confirm improved availability

>90% of consumers claimed they could find the exact item they wanted by June

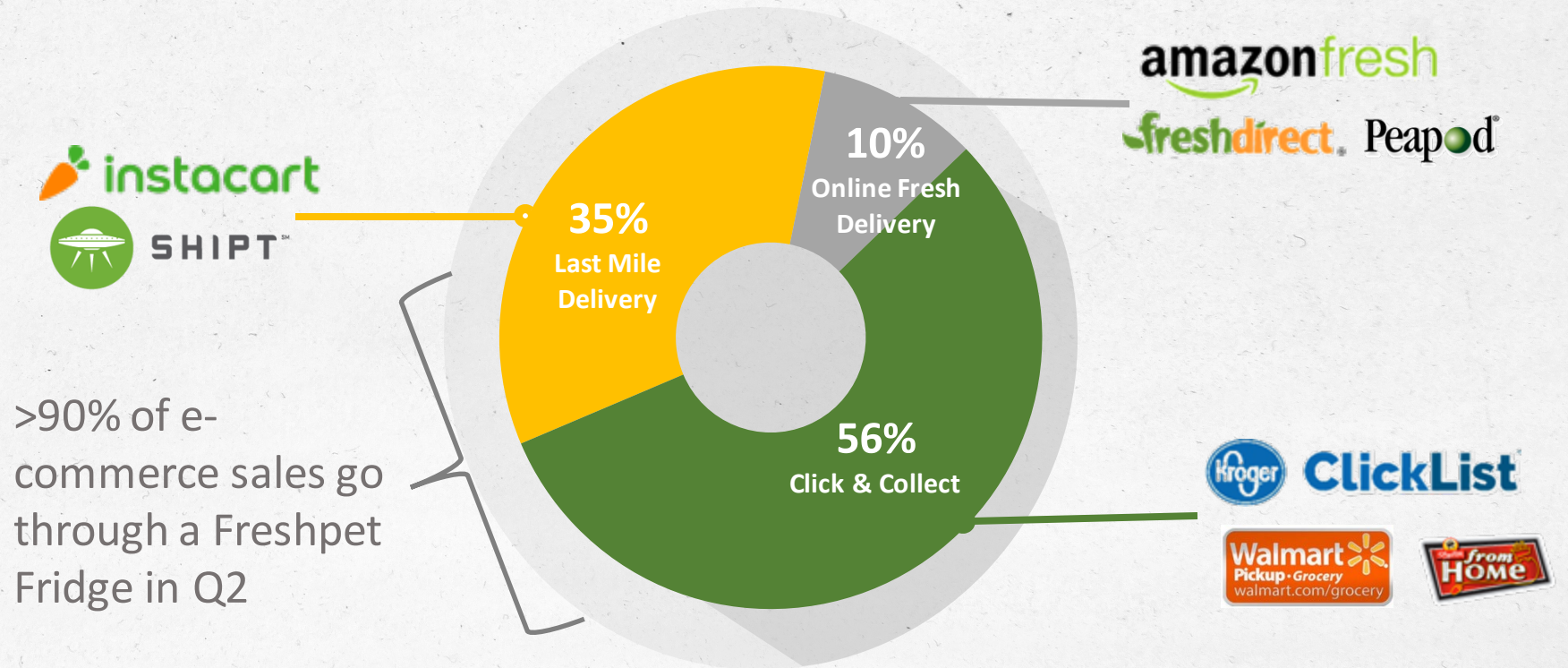
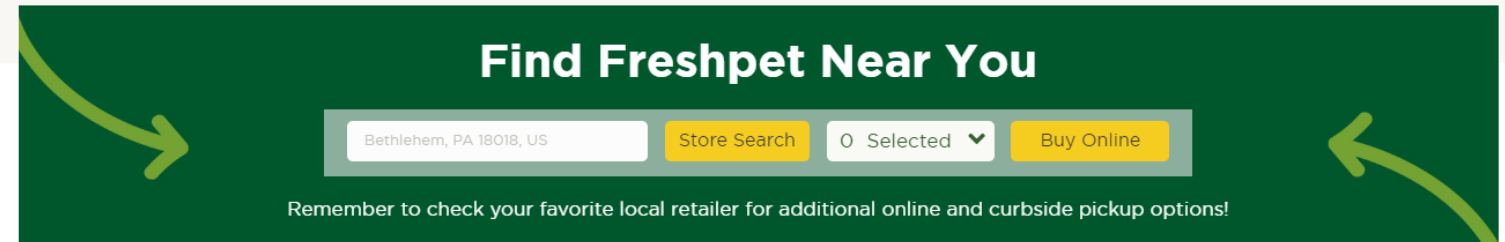
## Freshpet Availability Consumer Comments



Source: Internal company data; Consumer contacts via e-mail, letter and phone

# Q2 2020 e-commerce sales +201% vs. YA

5.0% of Freshpet sales in Q2 2020 were e-commerce

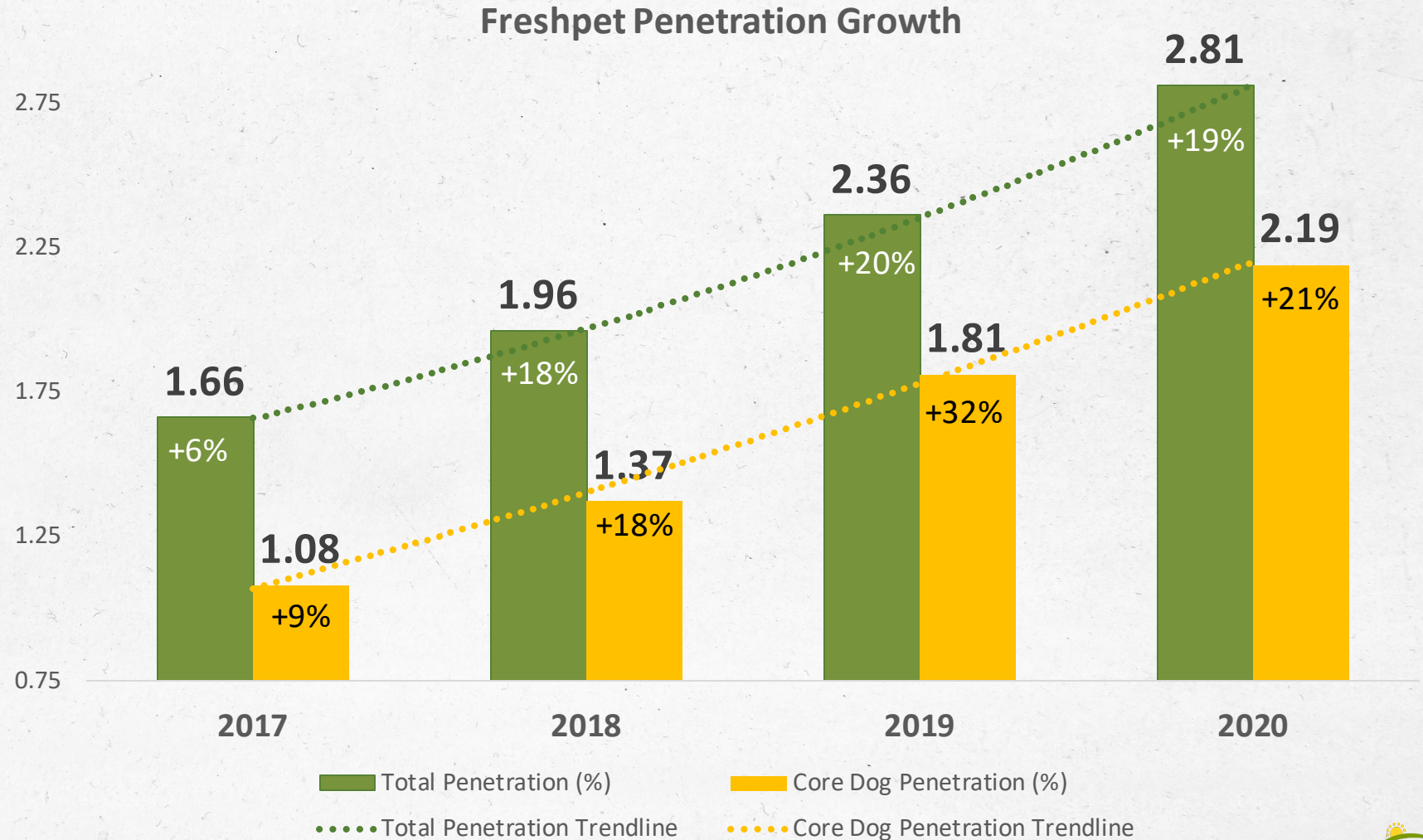


>90% of e-commerce sales go through a Freshpet Fridge in Q2



# Strong penetration growth despite moving April advertising back to May-October

More than doubled  
Core Dog HH  
penetration in 3  
years

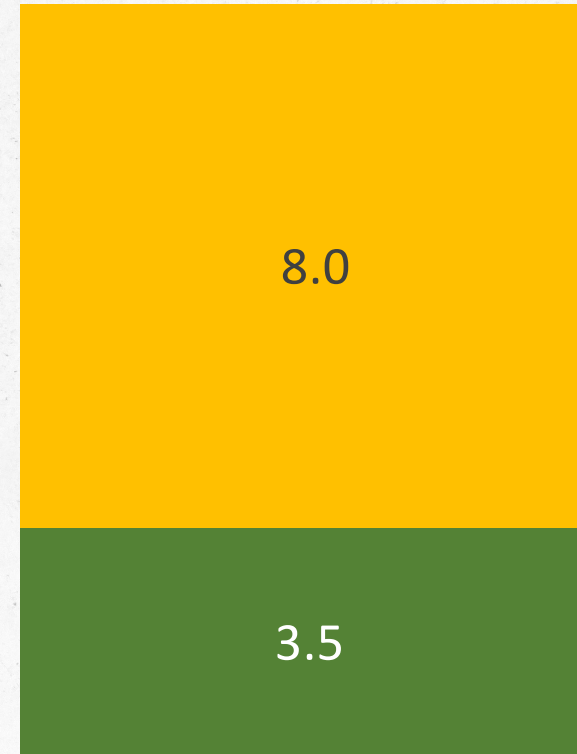


Source: Nielsen HH Panel for the periods ending mid-July 2017, 2018, 2019, 2020

# On pace for our 5 x 2025 HH penetration goal

Added 575K  
incremental users in  
the past year

## Progress Towards 2025 HH Penetration Goal

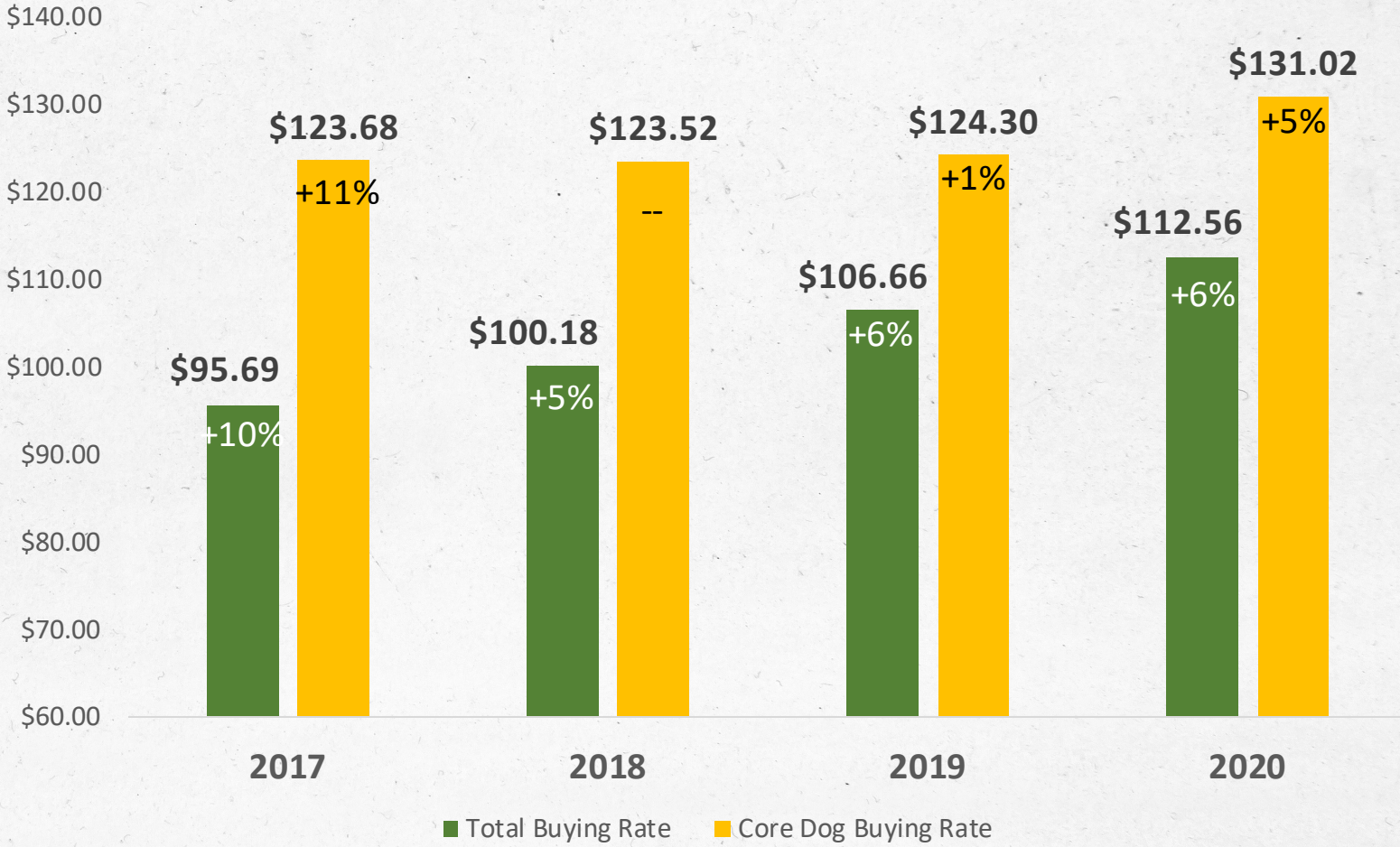


■ Current HH Penetration    ■ 2025 Target HH Penetration

# Buying rate growth continues

5% growth in core dog buying rate

### Freshpet Buying Rate

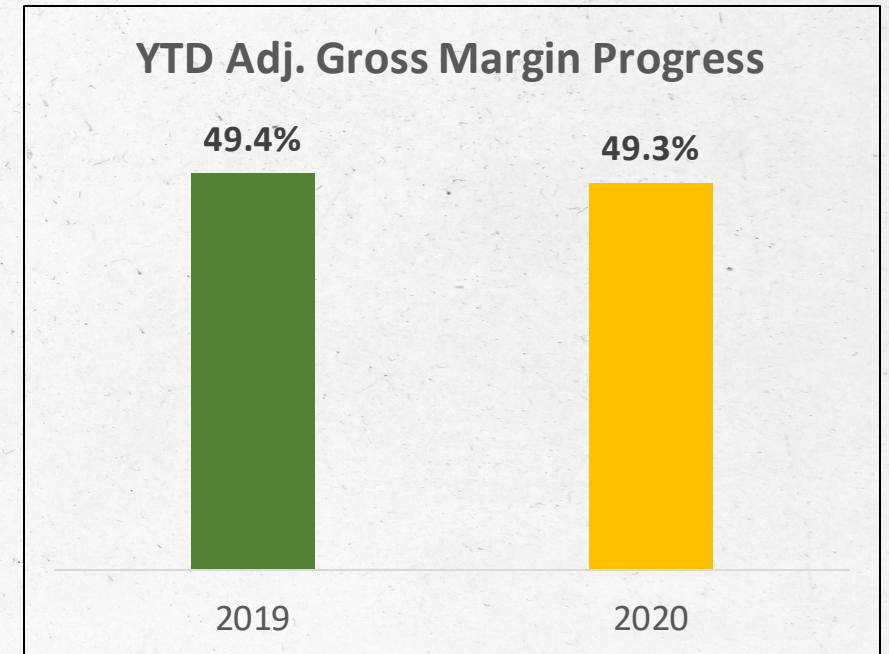
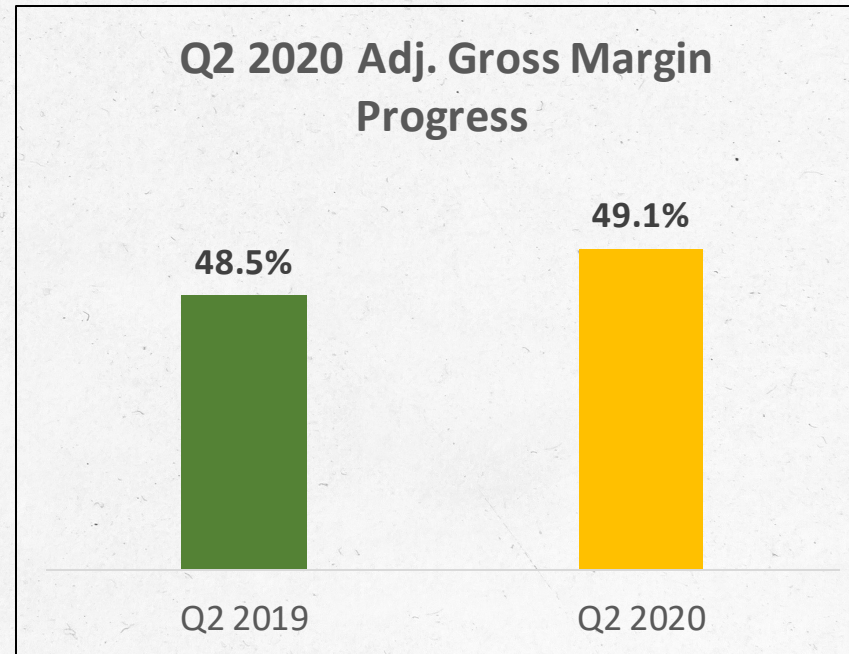


Source: Nielsen HH Panel for the period ending mid-July 2017, 2018, 2019, 2020 and company internal data



# Consistent gross margin performance

Q2 Adj. Gross Margin impacted by mix shift to bags vs. Q1



45.5%

42.4%

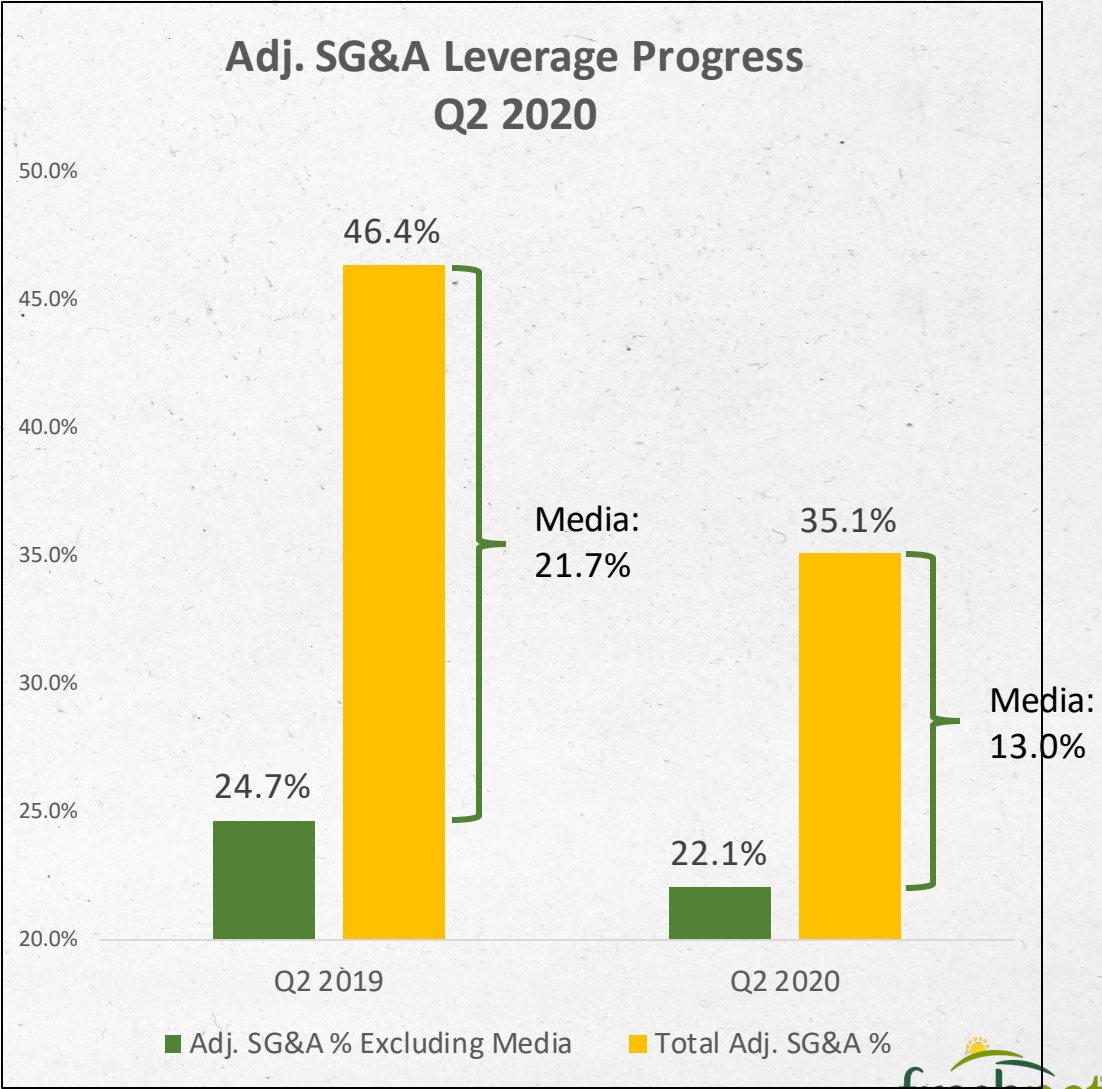
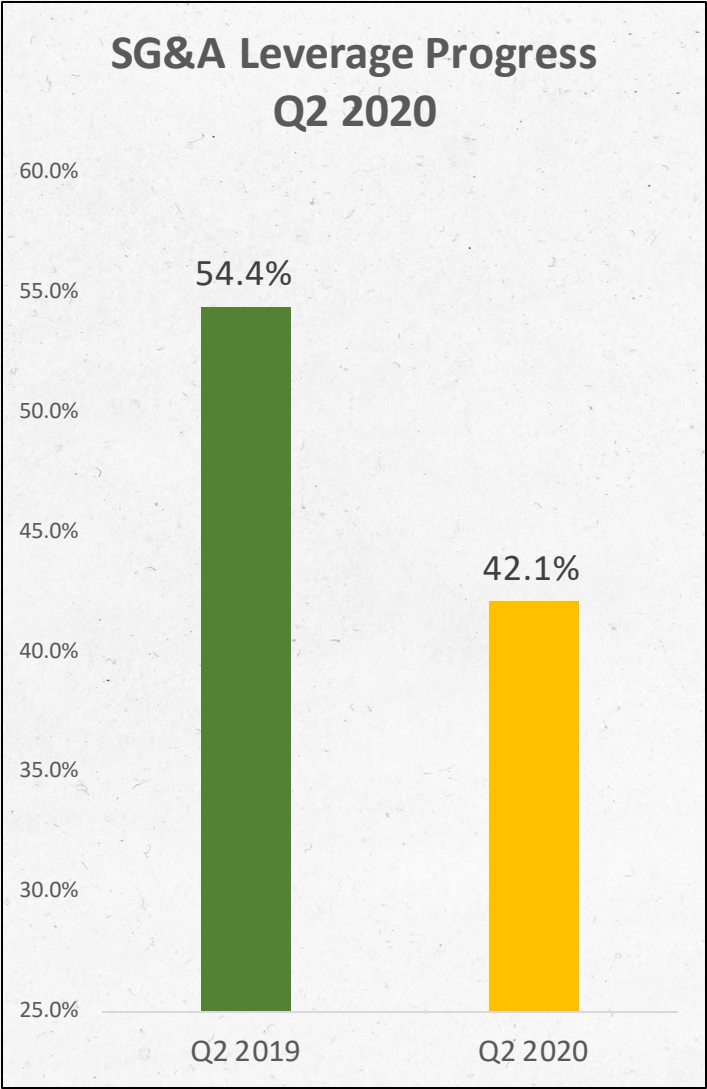
46.4%

43.8%

Gross Margin

# Delivered 260 bps of Adj. SG&A (excluding media) leverage in Q2

Moving April media to May-August drove 340 bps reduction in Adj. SG&A in Q2



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Currently have \$350 million of capacity; will have >\$550 million by year end

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## Capacity addition projects are on track

To meet demand, we have completed the following capacity expansion projects

- ✓ **Rolls line 24/7:** In January, we took our second roll line to 24/7 production. Since then, we have had ample capacity to meet all demand for rolls.
- ✓ **Kitchens South:** In February, we started up a small piece-size/small bag size line in a partner's facility (using our equipment). That start-up has gone well.
- ✓ **Kitchens South – Second Shift:** We started up a second shift at Kitchens South. In combination with the first shift, that site now has capacity for \$50 million of net sales.

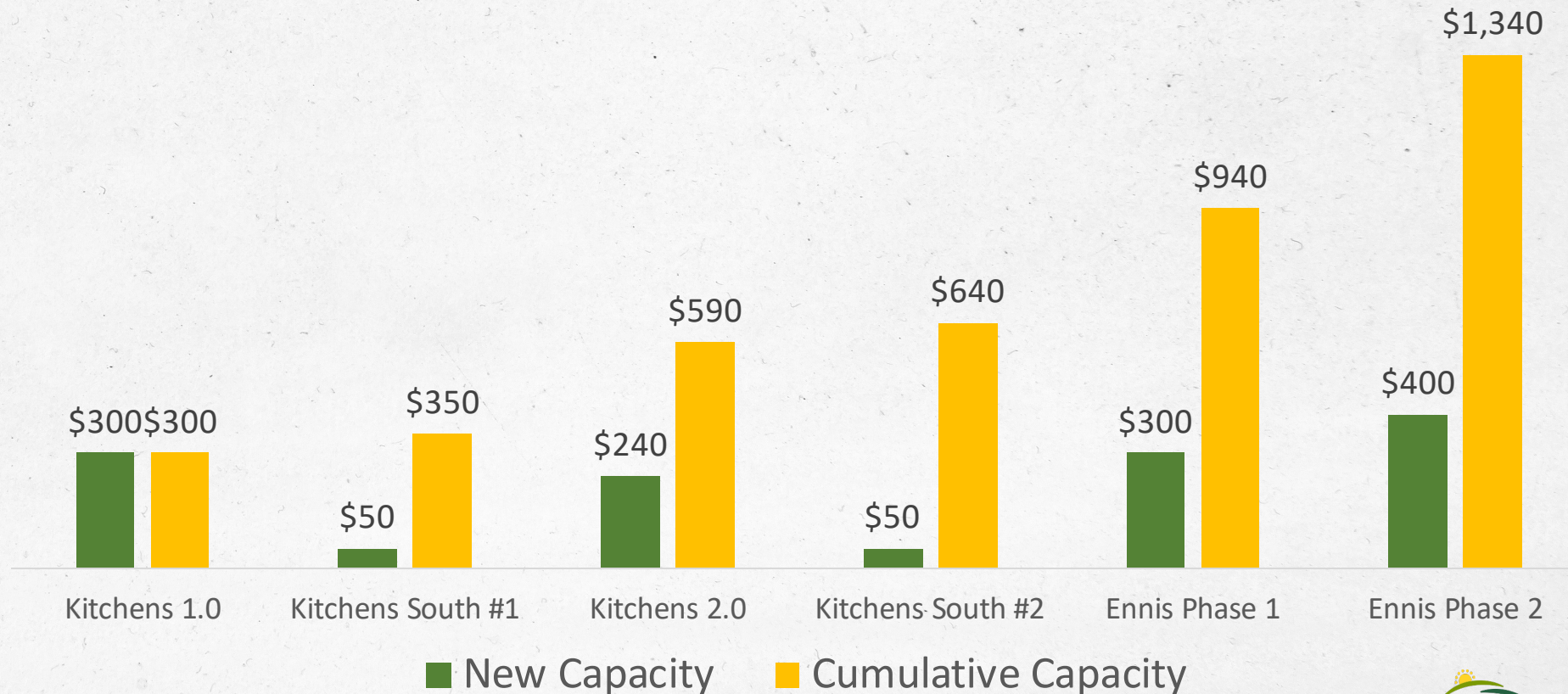
As of today, we have enough capacity to support \$350 million of business. However, we will be a bit tight on Fresh From the Kitchen capacity until Kitchens 2.0 starts up at the end of Q3 and ships product in October.

- ✓ **Kitchens 2.0:** Construction is nearing completion and slated to start-up by the end of Q3. This will take total capacity to >\$550 million.
- ✓ **Ennis, TX Kitchens 3.0:** We will break ground on Kitchens 3.0 in Ennis, TX in early August 2020. It is expected to start-up in the second half of 2022 and the first phase will bring total Freshpet capacity to just under \$1 billion.

# Adding 2<sup>nd</sup> shift at Kitchens South increased our run rate capacity in June to \$350 million

## Freshpet Capacity

Net Sales Potential



Kitchens 2.0 will take capacity to ~\$590 million by the first quarter of 2021

## Kitchens 2.0 construction on track for start-up by Q4

Plan to start-up bag line in Q4 and roll line in Q1 2021

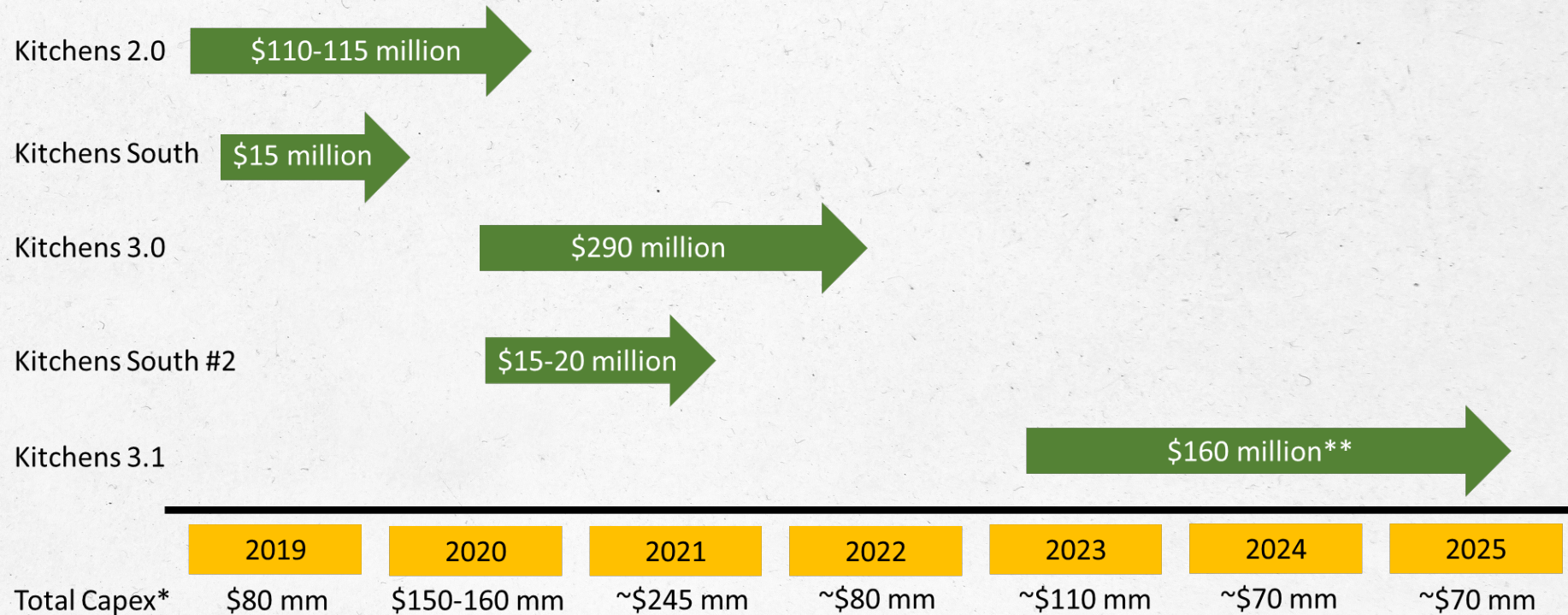


In final installation phase. Expect to begin line trials by the end of September.



# Capital spending plan is on track

Targeting to have available capacity one year ahead of need



\*also includes maintenance capex, fridges and IT

\*\* includes 4 production lines, taking total capacity to \$1.3 billion

# COVID-19 Team Member safety & reward plan is working



**Wellness check:**  
Third-party nurse



**Deep cleaning:**  
Expert “deep cleaning” of Kitchens’ break/meeting areas



**Social distancing:**  
Tripled size of break / meeting areas



**Masks Required:**  
Required use by all team members



**Air filtration:**  
Increased air filtration and system upgrades



**Staggered Shifts:**  
To avoid a concentration of team members



**Personal Sanitation:**  
At doors and in meeting room sanitation



**Suspended absenteeism policy:**  
To encourage people to stay home if needed.  
Reinstated on 7/1/20.



**Quarantine with pay:**  
Followed or exceeded all CDC and FDA guidelines



**Quarterly incentive:**  
Quarterly incentive based on Q1 & Q2 performance on quality, safety, productivity



**Incremental cash bonus:**  
\$500 after tax bonus for all Kitchens’ team members in April



**Safety & Continuity Stock Grants:**  
Stock grants to frontline employees who are critical to protecting our team and ensuring continued operations



**Restaurant gift cards:**  
\$50 gift cards to local restaurants 2x month, helping the community and our team



**Gift baskets to teams families:**  
Game / movie night + stay safe initiatives + masks for family + bulk food

# Committed to protecting our employees and continuing to nourish our pets

Current estimate of  
COVID-19 related  
costs:  
\$4 million

- **Protecting our employees**

- 3<sup>rd</sup> party medical staff performing health checks on employees
- Increased deep cleanings
- Increased sanitizing and social distancing cost
- Providing employees with mandatory personal protective equipment



- **Increased COVID-19 related compensation cost**

- Additional direct compensation to employees
- Increased absenteeism and need for incremental staffing



- **Costs to protect supply chain**

- Temporary cost of bringing on additional ingredient and packaging suppliers in case of disruption at current vendors



These cost are temporary in nature. These cost will be added back to the Company's Net Income to Adjusted EBITDA reconciliation.

# Raising 2020 Net Sales and Adj. EBITDA Guidance

\$ in Millions	Previous	New	Increase
<b>Net Sales</b> vs. YA	<b>&gt;\$310</b> +26%	<b>&gt;\$320</b> +30%	<b>+\$10</b>
<b>Adjusted EBITDA</b> vs. YA	<b>&gt;\$44</b> +51%	<b>&gt;\$46</b> +58%	<b>+\$2</b>

See assumptions on next page

## Updated Commentary:

- **Volume cadence:** Q2 shipments exceeded consumption as we re-filled trade inventory drained by the Q1 COVID-surge. Potential for a small portion of FFTK demand in Q3 to turn into Q4 shipments due to FFTK capacity limits until Kitchens 2.0 begins shipping in October.
- **Advertising investment:** On-air continuously from May until October which could drive stronger HH penetration gains in Q3 than historically. Media viewership is also higher than normal. Media investment split 65%/35% first half/second half.
- **Gross margin:** Q2 adj. gross margin reflects the catch up on bags shipments (vs. Q1 skew towards rolls). Beef cost inflation could drop adj. gross margin slightly below 49%.
- **Add Backs:** COVID-19 related costs will impact Q2 and Q3 most significantly; anticipate \$4 million in total costs for the year

Post-surge pivot has positioned us well to accelerate growth

## Progress Against Guidance Assumptions

Our guidance considers the following factors. We believe we have made reasonable assumptions about each factor. However, the external environment is very dynamic, so we want investors to understand the basis for our guidance:

- ✔ **Supply:** We do not encounter any significant supply interruptions – either upstream from us or in our facilities. *So far, we have not had to shut down our facility at any time due to COVID but have shut down a line from time to time due to absenteeism.*
- ✔ **Costs:** The costs that we incur to manage the COVID-19 crisis total \$4 million and are concentrated in Q2 and Q3. *On track.*
- ✔ **Media Effectiveness:** The effectiveness of our media investment is not adversely impacted by the changing consumer environment. *Media returns greatly exceed YA.*
- ✔ **Shopping Behavior:** The presence of significant restrictions on shopping in stores doesn't prevent reasonable consumption and replenishment patterns similar to what we have seen historically. *Currently strong; on watch for impacts from further social mobility restrictions, the macroeconomic environment and social unrest.*
- ✔ **Retailer Activity:** Retailers resume a significant portion of their fridge placements and new item distribution in Q3. *On track-- added 253 net new stores in Q2*
- ✔ **Customer Credit:** We have no major customer credit issues as a result of the COVID-19 crisis. *No issues to date.*

Too early to tell

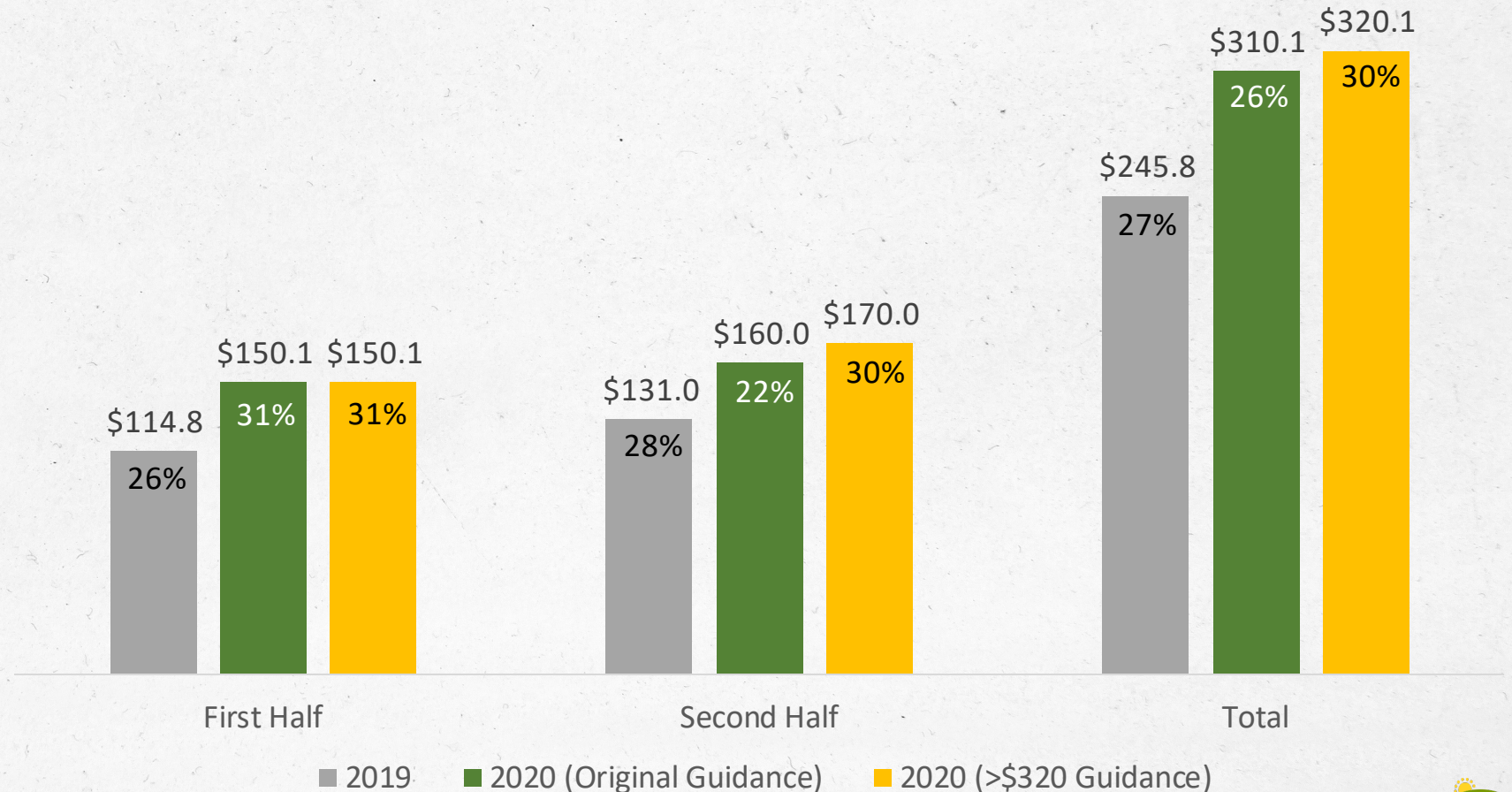
This is not an all-inclusive list. For that, please consult the Risks section of our latest SEC filings.

- ✔ = To date, market conditions and business performance are expected to match the assumption to the best of our knowledge



# Increasing Net Sales Guidance to >\$320 million

## 2020 Guidance



Accelerating consumption trends support second half growth rate of >30%

# “Feed the Growth” is working

Accelerated growth rate and capturing scale benefits



# 2020 Freshpet proxy will include long-term governance transition plan

**Objective:** Transition Freshpet’s governance practices in place since the 2014 IPO as a fast growing, small cap, private equity-backed company to the practices one would expect in 2025 of a mature \$1 billion company that has a broad and sophisticated shareholder base. The plan will match the increasing scale and complexity of the Company over the next 5 years with a step-by-step process that removes the governance practices associated with early stage companies. The plan includes:

	YOUNG	Today	freshpet 2020	2021	2022	2023 to 2025	MATURE
INDEPENDENT CHAIRMAN	Yes	●					Yes
SEPARATE CEO & CHAIR	Yes	●					Yes
NO POISON PILL	Yes	●					Yes
ELIMINATE SUPERMAJORITY VOTING RIGHTS	75%		●*				50%
DIRECTOR RESIGNATION POLICY	No		●				Yes
MAJORITY VOTING IN UNCONTESTED ELECTIONS	No (plurality)			●*			Yes
DIRECTOR RETIREMENT POLICY	No			●			Yes
PROXY ACCESS	No				●*		Yes
SHAREHOLDER RIGHT TO CALL SPECIAL MEETING	No				●*		Yes
DECLASSIFIED BOARD**	3 Year Terms			●*		○	1 Year Terms

\*Proposals requiring shareholder action in that year’s Proxy Statement.  
 \*\* The company expects to submit a stockholder proposal in 2021 to begin declassifying its board in 2023, with the board to be fully declassified by 2025.

Step-by-step governance transition plan matches the increasing scale and sophistication of the Company over the next 5 years





**2025**  
**BY**

**FEED THE GROWTH**



# Appendix

## Reconciliation between Gross Profit to Adjusted Gross Profit

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Gross Profit	\$ 33,933	\$ 27,327	\$ 65,723	\$ 53,242
Depreciation expense (a)	2,550	1,589	4,294	3,155
Plant start-up expense (b)	725	—	1,192	—
Non-cash share-based compensation (c)	493	186	941	334
COVID-19 expense (d)	1,546	—	1,763	—
<b>Adjusted Gross Profit</b>	<b>\$ 39,248</b>	<b>\$ 29,102</b>	<b>\$ 73,914</b>	<b>\$ 56,731</b>
Adjusted Gross Profit as a % of Net Sales	49.1%	48.5%	49.3%	49.4%

- (a) Represents depreciation and amortization expense included in cost of goods sold.
- (b) Represents additional operating costs incurred in connection with the start-up of our new manufacturing lines as part of the Freshpet Kitchens expansion projects.
- (c) Represents non-cash share-based compensation expense included in cost of goods sold.
- (d) Represents COVID-19 expenses including (i) costs incurred to protect the health and safety of our employees during the COVID-19 pandemic, (ii) temporary increased compensation expense to ensure continued operations during the pandemic, and (iii) costs related to mitigate potential supply chain disruptions during the pandemic.

## Reconciliation between SG&A to Adjusted SG&A

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
SG&A expenses	\$ 33,702	\$ 32,672	\$ 68,378	\$ 61,904
Depreciation and amortization expense (a)	2,891	2,334	5,600	4,486
Non-cash share-based compensation (b)	1,793	1,244	3,523	2,296
Launch expense (c)	686	948	1,642	2,071
Loss on disposal of equipment	34	(7)	36	1
Equity offering expenses (d)	—	265	58	299
Enterprise Resource Planning (e)	129	—	402	—
COVID-19 expense (f)	96	—	96	—
<b>Adjusted SG&amp;A Expenses</b>	<b>\$ 28,073</b>	<b>\$ 27,888</b>	<b>\$ 57,020</b>	<b>\$ 52,751</b>
Adjusted SG&A Expenses as a % of Net Sales	35.1%	46.4%	38.0%	45.9%

- (a) Represents non-cash depreciation expense included in SG&A.
- (b) Represents non-cash share-based compensation expense included in SG&A.
- (c) Represents new store marketing allowance of \$1,000 for each store added to our distribution network, as well as the non-capitalized freight costs associated with Freshpet Fridge replacements. The expense enhances the overall marketing spend to support our growing distribution network.
- (d) Represents fees associated with public offerings of our common stock.
- (e) Represents fees associated with due diligence of new Enterprise Resource Planning software.
- (f) Represents COVID-19 expenses including (i) costs incurred to protect the health and safety of our employees during the COVID-19 pandemic, (ii) temporary increased compensation expense to ensure continued operations during the pandemic, and (iii) costs related to mitigate potential supply chain disruptions during the pandemic.

## Reconciliation between Net Income to Adjusted EBITDA

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Net income (loss)	\$ 153	\$ (5,661)	\$ (3,437)	\$ (9,083)
Depreciation and amortization	5,441	3,923	9,894	7,643
Interest expense	80	276	784	379
Income tax expense	22	19	43	38
<b>EBITDA</b>	<b>\$ 5,696</b>	<b>\$ (1,443)</b>	<b>\$ 7,284</b>	<b>\$ (1,023)</b>
Loss (gain) on disposal of equipment	34	(7)	36	1
Non-cash share-based compensation	2,286	1,430	4,464	2,630
Launch expense (a)	686	948	1,642	2,071
Plant start-up expenses (b)	725	—	1,192	—
Equity offering expenses (c)	—	265	58	299
Enterprise Resource Planning (d)	129	—	402	—
COVID-19 expense (e)	1,642	—	1,859	—
<b>Adjusted EBITDA</b>	<b>\$ 11,199</b>	<b>\$ 1,193</b>	<b>\$ 16,938</b>	<b>\$ 3,978</b>
Adjusted EBITDA as a % of Net Sales	14.0%	2.0%	11.3%	3.5%

- (a) Represents new store marketing allowance of \$1,000 for each store added to our distribution network, as well as the non-capitalized freight costs associated with Freshpet Fridge replacements. The expense enhances the overall marketing spend to support our growing distribution network.
- (b) Represents additional operating costs incurred in connection with the start-up of our new manufacturing lines as part of the Freshpet Kitchens expansion projects.
- (c) Represents fees associated with public offerings of our common stock.
- (d) Represents fees associated with due diligence of new Enterprise Resource Planning software.
- (e) Represents COVID-19 expenses including (i) costs incurred to protect the health and safety of our employees during the COVID-19 pandemic, (ii) temporary increased compensation expense to ensure continued operations during the pandemic, and (iii) costs related to mitigate potential supply chain disruptions during the pandemic.