Freshpet, Inc. (FRPT – $97.73)

March 21, 2022*

Freshpet, Inc. (FRPT) develops, manufactures, and markets fresh, refrigerated dog and cat food and dog treats. The Company markets its products to consumers through Company-owned Freshpet Fridges located in grocers, mass retailers, club stores, and pet specialty and natural retailers. The Company manufactures the majority of its products. Freshpet was founded in 2006 and is headquartered in Secaucus, NJ. Its fiscal year ends on 12/31.

Thesis Summary

We are concerned Freshpet's business model may not generate attractive returns given Freshpet Fridges are a significant capital/ongoing investment that may be necessary to obtain distribution and Freshpet's unique product requires it to manage a capital intensive manufacturing footprint. Our business model concerns are heightened given the disclosed payback period may be misleading. In our view, the entrance of numerous direct and indirect competing products into the healthy and nutritious pet food subcategory may dilute Freshpet's value proposition and brand positioning and pressure household penetration growth. In addition, we believe Petco's expanded fresh/frozen partnership and Mars' Cesar brand expansion highlight intensifying competitive pressure. Moreover, we are concerned household penetration growth may be dependent on significant ad spend given Freshpet has already penetrated a significant portion of its target retail store locations. In our view, persistently negative operating income and a full deferred tax asset valuation allowance suggest profitability may be difficult to achieve. Further, we believe the Company's FY 25 guidance may be overly optimistic and difficult to achieve. Our concerns are heightened given elevated inventory and receivable levels, negative free cash flow, a premium valuation, material shareholder dilution, aggressive non-GAAP adjustments, and an ERP implementation. **We are initiating FRPT on *The Short List***.

Company Data	
Country/Exchange	US/NASDAQ
Shares Outstanding (mil)	43.4
Float (mil)	42.0
Short Interest (mil)	3.0
% of Float Short	7.1%
Average Volume (mil)	$51.8
52 Week Range	$78.81 – $186.98
Dividend Yield	0.0%
Market Cap (bil)	$4.2
Net Cash (bil)	$0.1
Enterprise Value (bil)	$4.1
FY 21 Rev (mil)/Rev Growth	$425.5 / 33.5%
FY 21 Adj. EBITDA (mil)	$42.9
FY 21 Adj. GM %/Change	38.1% / (360 bps)
FY 21 Adj. EBITDA Margin %/Chg	10.1% / (460 bps)

Valuation (as of report date)	
NTM P/S	7.4x
NTM EV/ EBITDA	72.8x
NTM P/E	--

Consensus Estimate Drift

	EST	1M Ago	6M Ago	1YR Ago
Q1 22 Rev	$126.0	$123.2	$125.1	$129.1
FY 22 Rev	$576.6	$560.4	$585.0	$563.7
FY 23 Rev	$750.1	$732.6	$772.5	$723.1
Q1 22 EPS	($0.38)	($0.21)	($0.05)	$0.06
FY 22 EPS	($0.48)	($0.17)	$0.54	$0.90
FY 23 EPS	$0.24	$0.43	$1.31	$1.37

Peers Mentioned In This Report
General Mills, Inc. (GIS)
JustFoodForDogs (private)
Mars, Incorporated (private)
Petco Health and Wellness Company, Inc. (WOOF)

Catalysts and Timing
Q1 22 results are weaker-than-expected
FY 22 and/or FY 25 guidance is reduced
Capital intensive business model limits return opportunity
Competition pressures household penetration

*** All research is completed as of 4:00PM – 4:15PM Eastern Time unless otherwise noted.**
Please refer to the end of this report for an updated version of *The Short List*.

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Company Background

Company description: Freshpet, Inc. (FRPT) develops, manufactures, and markets fresh, refrigerated dog and cat food and dog treats. The Company markets its products to consumers through Company-owned Freshpet Fridges located in grocers, mass retailers, club stores, and pet specialty and natural retailers. The Company manufactures the majority of its products. Freshpet was founded in 2006 and is headquartered in Secaucus, NJ. Its fiscal year ends on 12/31.

Revenue by channel: In its FY 21 10K, the Company disclosed it sold its products to end consumers through Company-owned Freshpet Fridges located in grocers, mass retailers, club stores, and pet specialty and natural retailers. In FY 21, the grocery, mass, and club channel accounted for 83.9% (76.8%) of revenue (store count), while the Pet Specialty and Natural channel accounted for 16.1% (23.2%).

FY 21 Revenue & Stores By Channel Analysis	As % of Revenue	As % of Store Count
Grocery, Mass, & Club	83.9%	76.8%
Pet Specialty & Natural	16.1%	23.2%
Total	100.0%	100.0%

Background on major customers: In its FY 21 10K, the Company disclosed its customers determined whether they purchased product directly or through third-party distributors. In FY 21, McLane Company (private) accounted for 16.0% of revenue, Target Corporation (TGT) accounted for 8.0%, and all other customers accounted for 76.0%.

Customer Analysis (as % of revenue)	FY 21
McLane	16.0%
Target	8.0%
All other customers	76.0%
Total	100.0%

Background on manufacturing & geographic exposure: In its FY 21 10K, the Company disclosed approximately 99.0% of its product volume was manufactured internally and the majority of its revenue was generated in the US. On its Q4 21 Conference Call on 02/28/22, the Company represented it was building manufacturing capacity to support $2,000.0 million in revenue.

Competition: Freshpet competes with other pet food brands marketed as fresh/natural such as JustFoodForDogs, Cesar Fresh Chef, Instinct, The Farmer's Dog, among others (see Appendix A). While Freshpet's products are marketed as fresh, natural, and nutritious alternatives to traditional wet and dry pet food offerings, Freshpet products compete with all pet food options for household wallet share. Accordingly, Freshpet also competes with a variety of pet food manufacturers including Mars, Nestle, J.M. Smucker, Colgate-Palmolive, and General Mills, among other regional niche and direct-to-consumer brands.[1]

[1] Mars, Incorporated (private), Nestle S.A. (NESN.S), The J.M. Smucker Company (SJM), Colgate-Palmolive Company (CL), General Mills, Inc. (GIS)

Voyant's Earnings Risk Assessment

We are concerned Freshpet's business model may not generate attractive returns given Freshpet Fridges are a significant capital/ongoing investment that may be necessary to obtain distribution and Freshpet's unique product requires it to manage a capital intensive manufacturing footprint. Our business model concerns are heightened given the disclosed payback period may be misleading. In our view, the entrance of numerous direct and indirect competing products into the healthy and nutritious pet food subcategory may dilute Freshpet's value proposition and brand positioning and pressure household penetration growth. In addition, we believe Petco's expanded fresh/frozen partnership and Mars' Cesar brand expansion highlight intensifying competitive pressure. Moreover, we are concerned household penetration growth may be dependent on significant ad spend given Freshpet has already penetrated a significant portion of its target retail store locations. In our view, persistently negative operating income and a full deferred tax asset valuation allowance suggest profitability may be difficult to achieve. Further, we believe the Company's FY 25 guidance may be overly optimistic and difficult to achieve. Our concerns are heightened given elevated inventory and receivable levels, negative free cash flow, a premium valuation, material shareholder dilution, aggressive non-GAAP adjustments, and an ERP implementation. **We are initiating FRPT on *The Short List***.

Capital Intensive Business Model May Not Generate Attractive Returns, In Our View

Background on business model: Freshpet sells its products to consumers through Company-owned Freshpet Fridges located in grocery stores, mass retailers, club stores, and pet specialty and natural retailers. In its FY 21 10K, the Company disclosed its Freshpet Fridges typically replaced standard shelving in the pet aisle or an end-cap of a retail store. Freshpet Fridges are manufactured by third-parties and are recorded as a long-term asset on the balance sheet. The Company represented installation and ongoing maintenance was paid for and coordinated by Freshpet and executed through third-party service providers and Freshpet retained ownership of the fridges. In addition, the Company indicated it employed brokerage partners to conduct a physical audit of the Freshpet Fridge network on an ongoing basis to ensure quality, cleanliness, and appropriate in-stock levels. Each Freshpet Fridge is protected by a manufacturer's warranty of three years.

Freshpet Fridges are a significant capital investment & may be necessary to obtain distribution: The Company discloses the number of retail stores with refrigerators in its 10Q and 10K filings and the number of second fridges in its quarterly investor presentations. In addition, in its Q4 21 Earnings Release on 02/28/22, the Company disclosed it offered a $1,000 marketing allowance for each store added to its distribution network. Utilizing the total store and second fridge counts, gross refrigeration equipment balance, and the store marketing allowance, we estimated the total investment-per-fridge is approximately $5,500. While Freshpet Fridges may improve brand visibility and enable the Company to control brand presentation, we believe Freshpet Fridges are a massive capital investment and may be necessary to obtain distribution given pet aisles generally do not contain refrigeration equipment and endcap refrigeration shelf space may be limited.

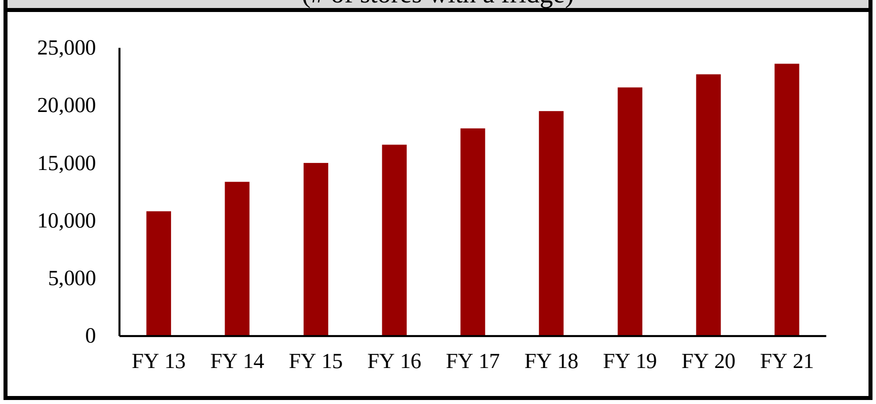
Freshpet Fridge Investment Analysis	FY 21
Total store count	23,631
Second fridges	3,201
Total fridge count (Voyant estimate)	26,832
Gross refrigeration equipment balance ($ in millions)	$122.1
Gross cost-per-fridge (Voyant estimate)	$4,549
Store marketing allowance	$1,000
Total investment-per-fridge (Voyant estimate)	$5,540

Freshpet is required to make significant ongoing expenditures to maintain distribution, in our view: In its FY 21 10K, the Company disclosed each fridge had a three-year manufacturer's warranty and it depreciated fridges over nine years. On its Bank of America Securities 2022 Consumer and Retail Technology Conference Call on 03/09/22, Freshpet indicated it was "comfortable" operating each fridge for the depreciable life (i.e. nine years), however, certain fridges were replaced earlier due to size and technology upgrades and, to a lesser extent, service challenges. In our view, fridge service costs may increase materially following the manufacturer's warranty expiration. Given Freshpet is responsible for fridge maintenance and replacement, we are concerned the Company is required to make significant ongoing expenditures to maintain distribution.

> Fridges have, on average, a 9-year life. And they pretty much -- I mean, hold to that, that's -- we depreciate over 9 years. So we're sort of very comfortable with that life. We do replace fridges sometimes in advance of that life due to the customer wanting to upgrade. It could be an upgrade for a size or an upgrade for a technology, if they have an older fridge. Sometimes for service, but it's largely more for upgrades in terms of replacements in advance. (CFO Ms. Heather Pomerantz, Bank of America Securities 2022 Consumer and Retail Technology Conference Call, 03/09/22)

Fridge replacements/upgrades may ramp materially, in our view: From FY 13 to FY 21, the Company added 12,795 retail store locations to its distribution network. While we acknowledge certain fridges may have been replaced/upgraded early, we are concerned the store count growth over the last eight years suggests fridge replacements/upgrades may ramp materially given the nine-year depreciable/useful life. As such, our concerns about the significant ongoing fridge expenditures are heightened. In addition, we believe fridge replacements (i.e. as installed fridges reach the end of their useful life) may provide limited incremental revenue.

Freshpet Store Count Analysis
(# of stores with a fridge)



Disclosure change suggests maintenance costs may be excluded from disclosed payback period, in our view: Historically (from the Company's S1 to its FY 19 10K), the Company disclosed it calculated payback period by comparing total current fridge costs, including installation and maintenance to current margin on net revenues and the average Freshpet Fridge had less than a 15 month cash-on-cash payback period. However, in its FY 20 10K, the Company removed maintenance costs from its payback period calculation disclosure and the Company disclosed the average fridge had less than a 12 month cash-on-cash payback period. In our view, the disclosure change suggests the Company no longer includes maintenance costs in its payback period calculation. Further, while increased fridge productivity may have driven a majority of the disclosed payback period improvement, we are concerned the disclosed payback period may have benefited from the calculation change.

> We currently estimate less than 15 month cash-on-cash payback for the average Freshpet Fridge installation, calculated by **comparing our total current costs for a refrigerator (<u>including installation and maintenance</u>)** to our current margin on net revenues. (FY 19 10K) [emphasis added]

> We currently estimate less than 12 month cash-on-cash payback for the average Freshpet Fridge installation, calculated by **comparing our total current costs for a refrigerator (<u>including installation</u>)** to our current margin on net revenues. (FY 20 10K) [emphasis added]

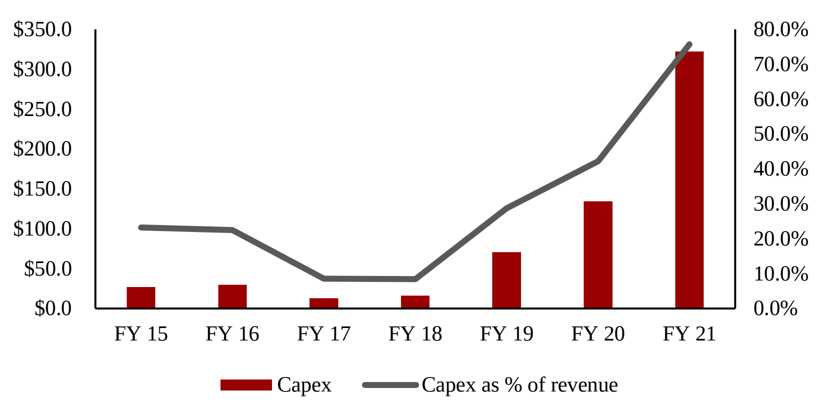
Disclosed payback period may be misleading & obfuscate fridge unit economics, in our view: Based on the Company's payback period disclosure, we believe the Company calculates payback period by dividing fridge unit cost including installation by adjusted gross profit-per-fridge. Accordingly, we are concerned the Company's calculation may not account for key fridge/product related costs such as maintenance costs, fridge replacements/upgrades, outbound freight, brokerage, and/or the store marketing allowance. As such, we believe the disclosed payback period may be misleading and obfuscates fridge unit economics. Our concerns are heightened given the Company has yet to generate a profit and carries a full deferred tax asset valuation allowance (discussed herein).

Background on manufacturing footprint: In its FY 21 10K, the Company disclosed co-packers provided certain finished product, but 99.0% of its product volume was manufactured using Freshpet owned equipment. The Company represented all of its products were manufactured in the US and guided to continue to expand its manufacturing capacity to support growth.

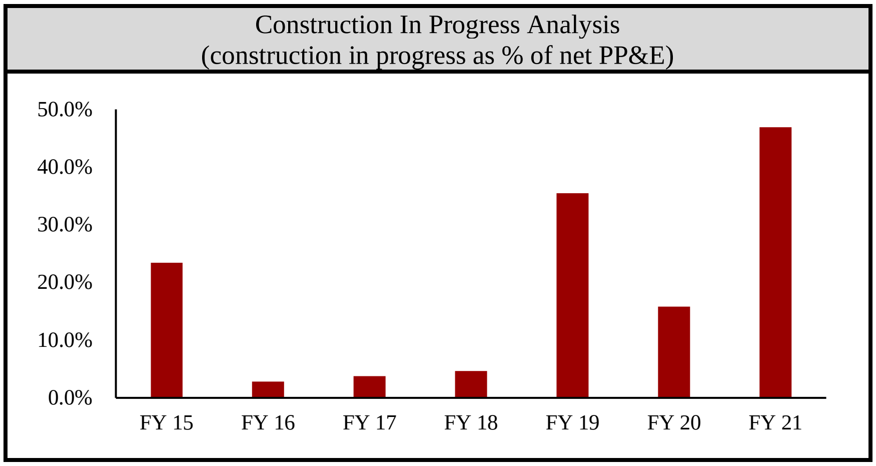
Freshpet's product requires it to manage an internal manufacturing footprint: As mentioned, approximately 99.0% of the Company's product volume was manufactured using Freshpet owned equipment. On its Barclays Global Consumer Staples Virtual Conference Call on 09/08/20, the Company represented the uniqueness of its product required it to design, construct, and manage internal manufacturing capacity. In FY 21, capital expenditures surged 139.4% to $322.1 million and accounted for 75.7% of revenue. On its Q4 21 Conference Call, the Company represented its inability to leverage co-packers required it to expand manufacturing capacity materially to meet demand over the next several years. In our view, the uniqueness of Freshpet's product requires it to manage a capital intensive internal manufacturing footprint and we are concerned the inability to expand production quickly through co-packers may compel Freshpet to overbuild capacity to support growth expectations.

> They could use co-packers to expand their capacity more quickly, but whereas we have to design, construct, start-up, and then hire and train employees to build capacity because our product is so unique, so differentiated and nobody else does it. (CEO Mr. William Cyr, Barclays Global Consumer Staples Virtual Conference Call, 09/08/20)

Capital Expenditure Analysis
($ in millions)



Significant manufacturing capacity ramp ahead of demand may pressure margins, in our view: In FY 21, construction in progress as a percent of net PP&E increased 3,110 basis points to 46.9%. On its Barclays Global Consumer Staples Conference Call on 09/09/21, the Company represented it was constructing or had plans to construct manufacturing capabilities to increase its capacity from $325.0 million to $2,000.0 million by FY 25. On its Q4 21 Conference Call, the Company acknowledged it would have excess capacity "for a period of time." While the Company acknowledged it was overbuilding capacity, we believe the Company may have excess capacity for several years and manufacturing capacity underutilization may pressure margins given the Company guided for FY 25 revenue of $1,250.0 million (discussed herein) but for capacity to support $2,000.0 million in revenue.



Competitive Entrants & Alternative Food Options May Pressure Household Penetration

Background on competition: As mentioned, the Company competes with a variety of pet food manufacturers including Mars, Nestle, J.M. Smucker, Colgate-Palmolive, and General Mills, among other regional niche and direct-to-consumer brands for household wallet share.

Competitive entrants & alternative food options may pressure household penetration growth, in our view: In its FY 21 10K, the Company disclosed Freshpet was designed to address pet parents' unmet need related to high quality and healthy pet food. Throughout the course of our research, we identified several pet food brands which offer fresh, nutritious, and/or human-grade pet food similar to Freshpet's product (see Appendix A). Further, we believe a number of new competing products may enter the category over the coming years. In our view, the entrance of direct and indirect competing products into the healthy and nutritious pet food subcategory may dilute Freshpet's value proposition and brand positioning (i.e. fresh, natural, and/or nutritious), pressure household penetration growth, and/or compel Freshpet to maintain high advertising/marketing spend levels. We included certain initiatives highlighting intensifying competitive pressure below:

> We believe that the pet food industry has not kept pace with how consumers think about food for their families, including their pets. As a result, consumers are searching for higher quality, less processed food for their dogs' and cats' meals that measure up to today's sensibilities of what actually constitutes "good food." Freshpet was specifically designed to address this growing need. (FY 21 10K)

- **Petco's JFFD store expansion highlights an elevated competitive environment, in our view:** In its Press Release on 05/15/18, Petco Health and Wellness Company, Inc. (WOOF) announced it entered into an exclusive partnership with JustFoodForDogs (private; JFFD herein) to offer fresh, human-grade dog food in strategic Petco locations through full exhibition kitchens or stores within stores. On its Q2 22 Conference Call on 08/19/21, Petco indicated it was "highly dedicated" to its JFFD partnership and guided to more than triple its JFFD distribution to 700 stores by FY 21 end.[2] On its Needham and Company Annual Consumer Tech/E-Commerce Conference Call on 11/22/21, Petco indicated JFFD was its leading fresh/frozen dog food brand. In our view, the Petco commentary and expanded JFFD distribution highlight an elevated competitive environment.

  > We increased our footprint of JFFD will be in over 700 by the end of the year. So we're highly dedicated to that. (CEO Mr. Ronald Coughlin, Q2 22 Conference Call, 08/19/21)

- **Petco may prioritize JFFD frozen dog food over Freshpet product, in our view:** In its Press Release on 03/01/22, Petco announced it expanded its partnership with JFFD. Specifically, Petco guided to co-develop and launch a new private label human-grade fresh and frozen pet food for its WholeHearted brand with JFFD in H2

[2] Petco's fiscal year ends on Saturday closest to 01/31.

22 and expand JFFD product distribution from 700 of its stores to more than 1,000 in FY 22. Petco disclosed the companies would jointly invest in new marketing programs and guided for the expanded pet care center presence to drive awareness and support the relationship. In addition, Petco received warrants for JFFD equity tied to the successful execution of the parties' 2022 plan, with the opportunity to acquire additional equity over time. In our view, Petco's private label fresh and frozen offering and expanded JFFD distribution partnership may pressure Freshpet adoption. We are concerned Petco may prioritize JFFD product over Freshpet given Petco's exclusive brick-and-mortar JFFD distribution rights, JFFD investment, and the joint marketing program suggest Petco may prioritize JFFD product over Freshpet's.

> As part of the expansion, Petco and JustFoodForDogs will co-develop a new human-grade fresh and frozen owned brand pet food for Petco's WholeHearted line, as well as pilot a custom food program at Petco's pet care centers. Currently available in approximately 700 Petco locations nationwide, the JustFoodForDogs offering is planned to expand to more than 1,000 Petco pet care centers by the end of 2022, further solidifying Petco's commitment to providing premium fresh and frozen food options to pets and increasing the availability of JustFoodForDogs nutrition nationwide. With the expanded partnership and exclusivity arrangement, Petco will continue to be the only national brick and mortar retailer to offer JustFoodForDogs products in retail stores and online through same-day delivery, buy online, pick up in store (BOPUS), and other online fulfillment options. The companies will also jointly invest in new marketing programs and the expanded pet care center presence to support the deepening relationship and fast-growing category. Additionally, Petco will receive a warrant for JustFoodForDogs equity tied to the successful execution of the parties' 2022 plan, and will have the opportunity to acquire additional equity over time. (WOOF Press Release, 03/01/22)

- **Mars' Cesar brand expansion highlights intensifying competitive pressure, in our view:** In its 12/01/21 Press Release, Mars announced it launched Cesar Fresh Chef, a fresh, refrigerated dog food under its Cesar brand.[3] Mars represented the cut-and-serve rolls were made with human-grade ingredients and did not include artificial flavors, colors, or preservatives. Mars indicated Cesar Fresh Chef is sold exclusively at more than 800 Walmart stores. In our view, a large pet food manufacturer's expansion into the fresh/frozen pet food subcategory highlights intensifying competitive pressure. We believe the exclusive Cesar Fresh Chef relationship with Walmart suggests Walmart may prioritize Cesar Fresh Chef over Freshpet products.

> This expansion by CESAR into the refrigerated dog food space gives our shoppers a fresh way to feed their pets from a brand they already love and trust, made with delicious and balanced human-grade ingredients. (Mars Press Release, 12/01/21)

- **General Mills commentary may be indicative of Blue Buffalo brand expansion, in our view:** On its Q3 21 Conference Call on 03/24/21, General Mills guided to expand its Blue Buffalo pet food brand offering wherever it saw pet parent interest.[4] Given material fresh/frozen pet food subcategory growth and a large competitor's recent brand expansion into refrigerated dog food (discussed above), we believe the fresh/frozen pet food subcategory may be experiencing increased interest from large, traditional pet food producers and General Mills may expand its Blue Buffalo brand to include a fresh/frozen offering.

> It's still a very small part of the category, but the trend is pet parents continuing to mix different kinds of food. So we'll continue to look at all those different areas and continue to take the Blue Buffalo master brand where we think pet parents want to see it. (GIS Pet Segment Group President Ms. Bethany Quam, Q3 21 Conference Call, 03/24/21)

Price increases may compel certain consumers to trade-down to lower priced food, in our view: On its Q2 21 Conference Call on 08/02/21, the Company guided to increase prices in a "noticeable" way in late FY 21 to offset inflationary pressure. In its Q4 21 Investor Presentation on 02/28/22, the Company disclosed it increased pricing on average by 4.8% in Q4 21 and guided to increase pricing by another 12.0% in FY 22. On its Q4 21 Conference Call, the Company indicated it was budgeting for a "reasonable level of price sensitivity." However, the Company guided

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[3] https://www.prnewswire.com/news-releases/the-cesar-brand-introduces-refrigerated-pet-food-product-with-new-cesar-fresh-chef-line-301435078.html
[4] General Mills' fiscal year ends on 05/31.

for higher pricing to only negatively impact household penetration temporarily. In our view, material price increases may cause certain consumers to trade-down to lower priced pet food options (e.g. human-grade wet or dry options) and our competition concerns are heightened.

> Our price increases will be very noticeable to consumers because we don't do any merchandising, thus we can't reduce that. And we believe that downsizing our packages will be disruptive to consumers who expect a bag or roll to feed their pet for a set number of days. (CEO Mr. William Cyr, Q2 21 Conference Call, 08/02/21)

Retailer Saturation Highlights Limited North American Greenfield Prospects, In Our View

Reduced North American retail store count opportunity guidance highlights aggressive expectations: In its FY 16 10K, the Company disclosed it believed there was an opportunity to install a Freshpet Fridge in at least 35,000 North America retail stores. However, in its FY 21 10K, the Company disclosed it believed there was an opportunity to install a Freshpet Fridge in at least 30,000 North America retail stores, 5,000 below the prior disclosure. In our view, the North American retail store count opportunity guidance reduction highlights a history of aggressive management expectations.

> As of December 31, 2016, Freshpet Fridges were located in over 16,600 stores, and we believe there is an opportunity to install a Freshpet Fridge **in at least 35,000 stores across North America**. (FY 16 10K) [emphasis added]

> We are in approximately 23,600 stores and believe there is opportunity for us to install a Freshpet Fridge **in at least 30,000 stores in North America**. (FY 21 10K) [emphasis added]

Location saturation suggests additional household penetration may be dependent on significant ad spend: In FY 21, Freshpet's retail store count was 23,631, 78.8% of its guided total store count opportunity. Given Freshpet already penetrated a significant portion of its target retail store locations, we believe household penetration and revenue growth may be dependent on growth at existing locations. In our view, driving household awareness/penetration at existing locations may be more marketing intensive than driving household awareness/penetration through new distribution locations. As such, we are concerned Freshpet may be dependent on significant ad spend (discussed herein) to drive additional household penetration.

Freshpet Fridge Location Analysis	Store Count
FY 21 store count	23,631
Total store count opportunity per 10K	30,000
Total store count opportunity penetration	78.8%

Remaining stores may be less attractive and/or cannibalize existing location demand, in our view: Throughout our research, we identified Freshpet products were sold in several blue-chip retailers including Albertsons, BJ's, Costco, Kroger, Petco, PetSmart, Publix, Safeway, Target, Wal-Mart, Whole Foods. In our view, Freshpet may have initially prioritized gaining distribution in the largest retailers' highest foot traffic locations over smaller distribution partners. Accordingly, we are concerned remaining store location opportunities may be less attractive and/or cannibalize existing store location demand.

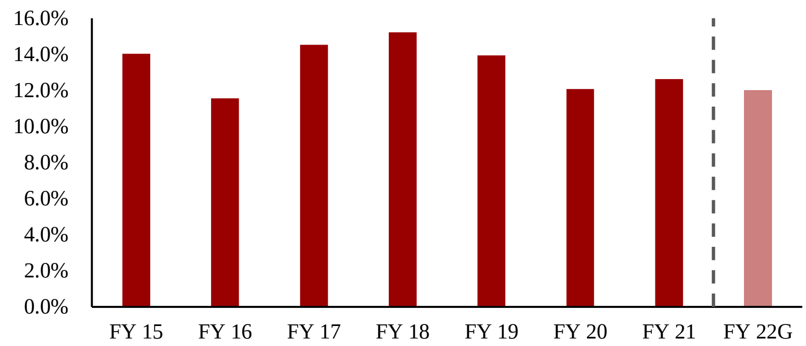
Marketing Spend Levels May Remain Elevated & Limit Margin Expansion, In Our View

Guidance for limited advertising spend leverage for third consecutive year: In FY 21, advertising spend as a percent of revenue increased 50 basis points to 12.6%. Over the past seven years, advertising spend accounted for approximately 13.0% of revenue on average. On its Q4 21 Conference Call, the Company guided for advertising spend to account for 12.0% of revenue. Given guidance for advertising spend levels to remain relatively flat from

FY 20 to FY 22 and the guidance implies advertising spend levels will remain within the historical range, we are concerned the Company may have limited ability to leverage advertising spend.

> Our first priority is to fully support our growth via a significant increase in our media investment. We expect to spend about 12% of sales in media in the U.S., and it will be front-loaded to begin filling the excess capacity Billy described. (CFO Mr. Heather Pomerantz, Q4 21 Conference Call, 02/28/22)

Advertising Spend Analysis
($ in millions)

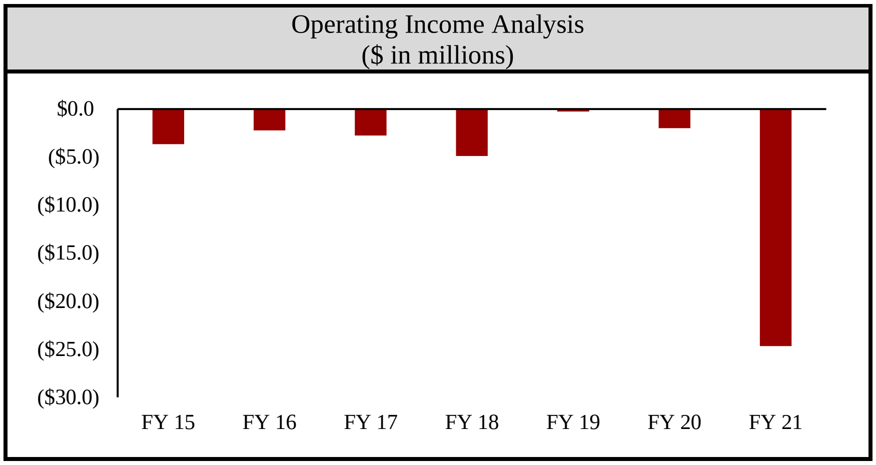


Marketing guidance heightens our concerns about advertising spend levels: From FY 17 to FY 21, Freshpet spent $178.0 million on advertising to increase target consumer awareness from 35.0% of target consumers in FY 16 to 46.0% of target consumers in FY 21. On its Q4 21 Conference Call, Freshpet guided to drive growth via a significant media investment increase. However, the Company guided for advertising levels to decline materially at maturity. Given the marketing guidance commentary and material advertising spend to increase awareness from FY 17 to FY 21, our concerns about Freshpet's dependence on advertising spend to drive growth are heightened. While Freshpet guided to reduce media investment levels at maturity, we believe a media investment reduction may negatively impact its household penetration and consumer buying rate given significant competitive threats (discussed heretofore). Accordingly, we are concerned Freshpet may need to maintain or increase marketing spend levels as it matures to attract new customers and/or retain existing customers.

Freshpet Aided Awareness Analysis	% of Target Consumers Aware of FRPT
FY 21 aided awareness	46.0%
FY 16 aided awareness	35.0%
Change	*1,100 bps*
FY 17 to FY 21 advertising spend (in millions)	$178.0

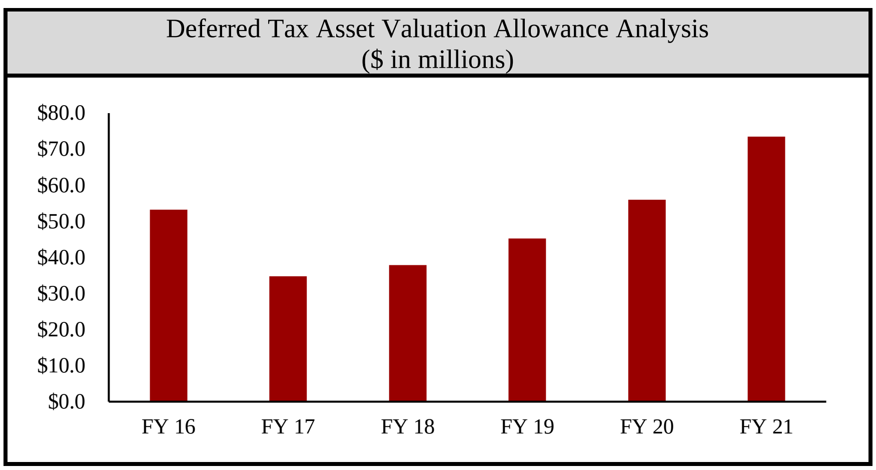
Inability To Generate Profit Heightens Our Concerns About Freshpet's Business Model

Persistently negative operating income highlights an inability to scale business model, in our view: In FY 21, the Company reported an operating loss of $24.7 million, the largest operating loss in at least ten years. In its FY 21 10K, the Company attributed the operating loss to increased inflation, depreciation, freight, and advertising spend. In our view, the persistently negative operating income suggests it may be difficult for Freshpet to scale its business model. While the Company may be able to leverage certain manufacturing and fridge costs, we believe a large portion of the Company operating expenses may be more variable in nature and may remain elevated (e.g. refrigerator freight costs, Freshpet Fridge maintenance/brokerage expenses, and advertising spend, as discussed above). Accordingly, we are concerned it may be difficult for Freshpet to achieve profitability.



Full deferred tax asset valuation allowance heightens our concerns: In FY 21, the Company's deferred tax asset valuation allowance increased 31.3% to $73.5 million. In its FY 21 10K, the Company disclosed the realization of gross deferred tax assets was dependent on its ability to generate sufficient taxable income prior to the expiration of its net operating loss (NOL) carryforwards, the majority of which expire between 2022 and 2041. However, the Company recognized a full valuation allowance as it did not believe the realization of its gross deferred tax assets is more likely than not. In our view, the full deferred tax asset valuation allowance suggests operating losses may persist. Accordingly, our concerns about the Company's ability to scale its capital intensive business model are heightened.

> The realization of the gross deferred tax assets is dependent on several factors, including the generation of sufficient taxable income prior to the expiration of the net operating loss carryforwards. The Company believes that it is more likely than *not* that the Company's deferred income tax assets will *not* be realized. The Company has experienced taxable losses from inception. As such, there is a full valuation allowance against the net deferred tax assets. (FY 21 10K)



FY 25 Guidance May Be Difficult To Achieve, In Our View

Material long-term guidance increase attributed to materially higher market share gain expectations: In its Investor Presentation on 09/07/20, the Company guided for FY 25 revenue (adjusted EBITDA margin) of $1,000.0 million (25.0%). The Company guided to drive revenue growth by increasing household penetration from 3.0 million to 8.0 million households. However, in its Q4 20 Investor Presentation on 02/22/21, the Company increased its FY 25 revenue (household penetration) guidance 25.0% (37.5%) to $1,250.0 million (11.0 million). On its Q4 20 Conference Call on 02/22/21, the Company attributed the long-term revenue and household penetration guidance increase to accelerated demand trends and the expectation it would achieve a far higher share of its total addressable market.

Freshpet FY 25 Guidance Analysis	Revenue	Adjusted EBITDA Margin	Household Penetration
Guidance as of 09/07/20	$1,000.0	25.0%	8.0
Guidance as of 02/22/21	$1,250.0	25.0%	11.0
Change	*25.0%*	*0 bps*	*37.5%*

Background on prime prospect addressable market: In its Investor Day Presentation on 08/19/21, the Company represented it classified its target consumer as "Prime Prospects." The Company disclosed Prime Prospects were pet food buyers who shared similar values to current Freshpet buyers such as importance of fresh, natural, and preservative-free foods; willingness to sacrifice their needs to make their pet happy; importance of humanely-sourced and sustainable ingredients; and a willingness to pay a premium for good food. On its Jefferies Virtual Pet Summit Conference Call on 09/16/21, the Company guided for its Prime Prospects addressable market to increase to "north of 30 million" by FY 25 as consumer values continue to shift toward higher quality pet care and Generation Z consumers mature to household formation/pet ownership age.

> My guess is that they're adding 1 million households to our TAM every year. I can't say that, that's exactly right. That's our best indication. But I wouldn't be surprised if we arrive at 2025, we're telling you that TAM is north of 25 million, it might be north of 30 million. (CEO Mr. William Cyr, Jefferies Virtual Pet Summit Conference Call, 09/16/21)

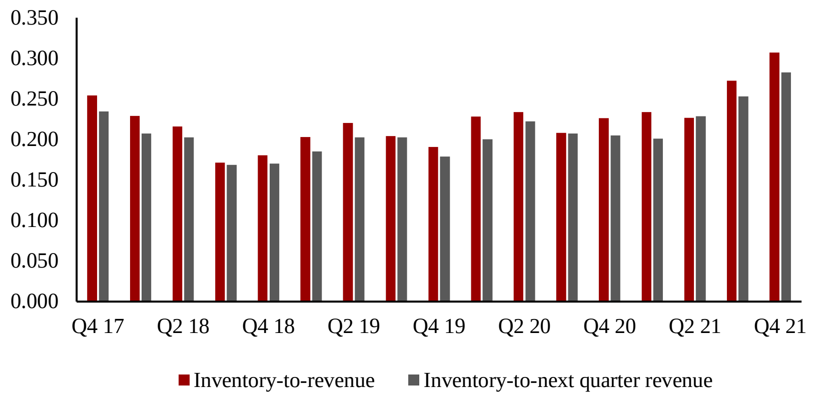
FY 25 guidance implies material market share gains & may be difficult to achieve, in our view: In its ICR Conference Investor Presentation on 01/09/22, Freshpet indicated its Prime Prospect addressable market was 25.0 million households. In its Q4 21 Investor Presentation, the Company disclosed its current household penetration was 4.2 million. Accordingly, Freshpet's household penetration accounted for 16.7% of its Prime Prospect addressable market. However, Freshpet's FY 25 guidance implies its market share will nearly double to approximately 31.4% of its Prime Prospect addressable market. In our view, competitive entrants and alternative food options (discussed heretofore) may pressure Freshpet's household penetration growth and make its FY 25 guidance difficult to achieve. Our concerns are heightened given the significant market share gains implied by its guidance.

Freshpet Household Penetration Analysis	FY 21	FY 25 (Guidance)
Household penetration (in millions)	4.2	11.0
Prime Prospect addressable market (in millions)	25.0	>35.0
Household penetration as % of Prime Prospects	16.7%	31.4%

Inventory Levels Surge Despite Out Of Stock Commentary Highlight

Inventory levels surge despite persistent commentary about out-of-stocks: In Q4 21, inventory increased 86.1% year-over-year to $35.6 million, while revenue increased 37.1% to $115.9 million. Accordingly, inventory-to-revenue surged 35.7% to 0.307, the highest level in at least six years. In addition, inventory-to-next quarter revenue surged 38.0% to 0.282. On its Q4 21 Conference Call, the Company highlighted significant cost inflation, ongoing retailer out-of-stocks, freight issues, and an ERP implementation. Accordingly, while we acknowledge inflation, persistent out-of-stocks, freight issues, and an ERP implementation (discussed herein) may have impacted Freshpet balance sheet inventory levels, we are concerned the Company may have overbuilt inventory in an attempt to mitigate out of stocks and margins may be pressured to the extent competition impacts demand.

Inventory Analysis



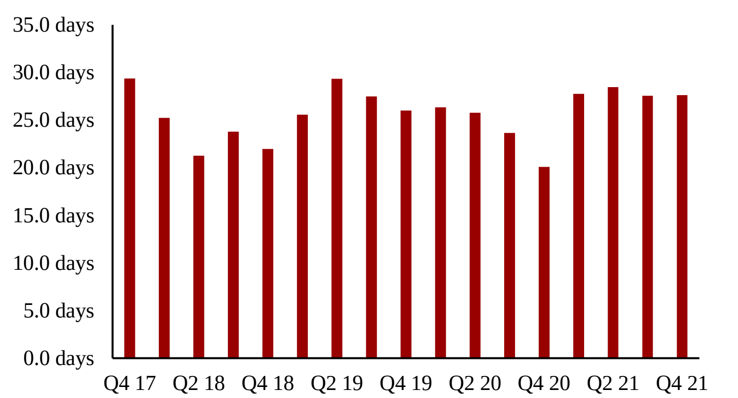
Competitor supply availability may enable it to gain market share, in our view: On its Q3 22 Conference Call on 11/18/21, Petco highlighted JFFD's ability to ramp supply to support its distribution expansion efforts. In our view, a competitor's ability to maintain adequate supply may compel certain households to gravitate toward JFFD's product amid Freshpet out-of-stocks. Accordingly, we believe JFFD's supply availability may enable it to gain market share and our competition concerns are heightened.

> We've been pleased with JustFoodForDogs' ability to ramp supply in support of our expansion and increased demand from pet parents. (WOOF CEO Mr. Ronald Coughlin, Q3 22 Conference Call, 11/18/21)

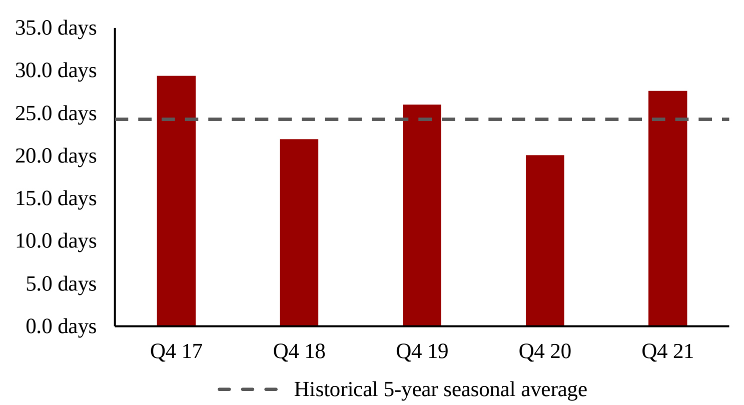
Elevated Receivable Levels Highlight Revenue Growth Pressure, In Our View

Receivable levels surge to second highest seasonal level in at least six years: In Q4 21, receivables increased 88.6% year-over-year to $34.8 million, while revenue increased 37.1% to $115.9 million. Accordingly, days sales outstanding surged 37.6% to 27.6 days, <u>the second highest seasonal level in at least six years</u>. On its Q4 21 Conference Call, the Company represented it began replenishing trade inventory levels in Q4 21 and completed the trade inventory sell-in in February 2022. In our view, the commentary and receivable level build highlight difficult comparable periods as revenue growth may have benefited from a channel inventory sell-in/replenishment.

Receivables Analysis
(days sales outstanding)



Seasonal Receivables Analysis
(days sales outstanding)

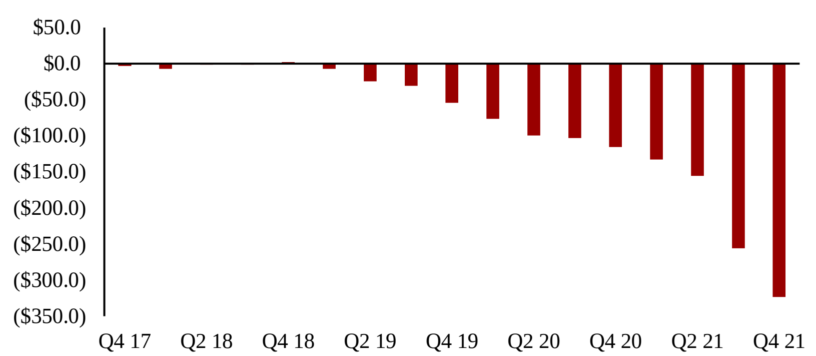


Negative Free Cash Flow Levels Highlight The Capital Intensity Of The Business Model

In the twelve-months ended Q4 21, free cash flow declined $207.9 million to negative $323.4 million. Since FY 15, the Company has burned $531.3 million in free cash flow. In its FY 21 10K, the Company disclosed it may not be able to generate sufficient cash flow to fund its liquidity needs. While the Company's significant capacity overbuild negatively impacted free cash flow levels, we believe the fridge replacement cycle may drive consistently elevated capital expenditures and persistently negative free cash flow. Further, we are concerned the risk factor disclosure highlights the capital intensity of the business model.

> We cannot assure you that our business will generate cash flow from operations in an amount sufficient to enable us to fund our liquidity needs. Further, our capital requirements may vary materially from those currently planned if, for example, our revenues do not reach expected levels, or we have to incur unforeseen capital expenditures and make investments to maintain our competitive position. (FY 21 10K Risk Factor)

12M Free Cash Flow Analysis
($ in million)



Other Observations: Rich Valuation, Dilution, Aggressive Add Backs, & ERP

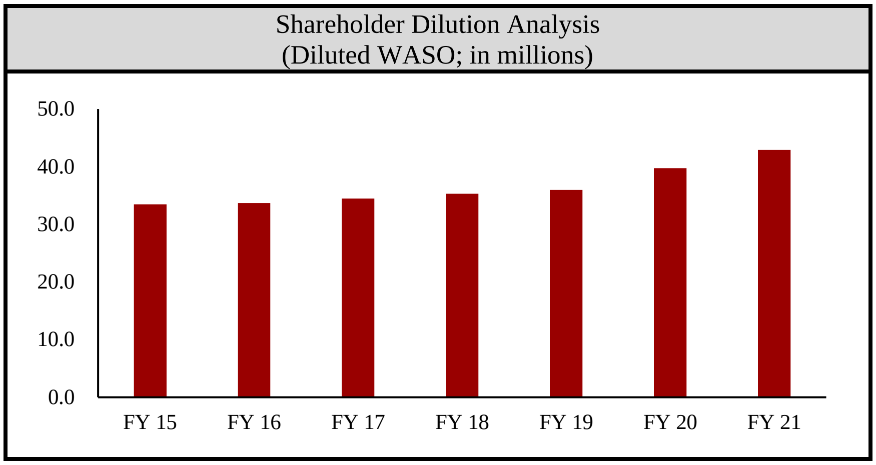
Valuation appears stretched relative to recent pet food transactions, in our view: As of the date of this publication, Freshpet trades at 7.3x (72.8x) forward revenue (forward EV/EBITDA), 30.4% (203.3%) above the average multiple paid for recently acquired companies in the pet food/treat space.[5] While Freshpet may have a stronger revenue growth outlook and certain investors may view it as an acquisition candidate (discussed herein), we believe Freshpet's valuation appears stretched given its less attractive margin profile and capital intensive business model. Our concerns are heightened given General Mills can leverage its existing manufacturing and distribution capabilities to generate cost synergies for the acquired businesses.

Valuation Analysis	EV/S	EV/EBITDA	EBITDA Margin
Blue Buffalo (acquired by GIS in April 2018)	6.3x	25.1x	25.0%
Tyson Foods pet treats business (acquired by GIS in July 2021)	5.0x	~23.0x	>20.0%
Average	5.6x	~24.0x	>20.0%
Freshpet, Inc. (forward multiples/margin)	7.3x	72.8x	9.6%
% above (below) average	*30.4%*	*203.3%*	*(1,040 bps)*

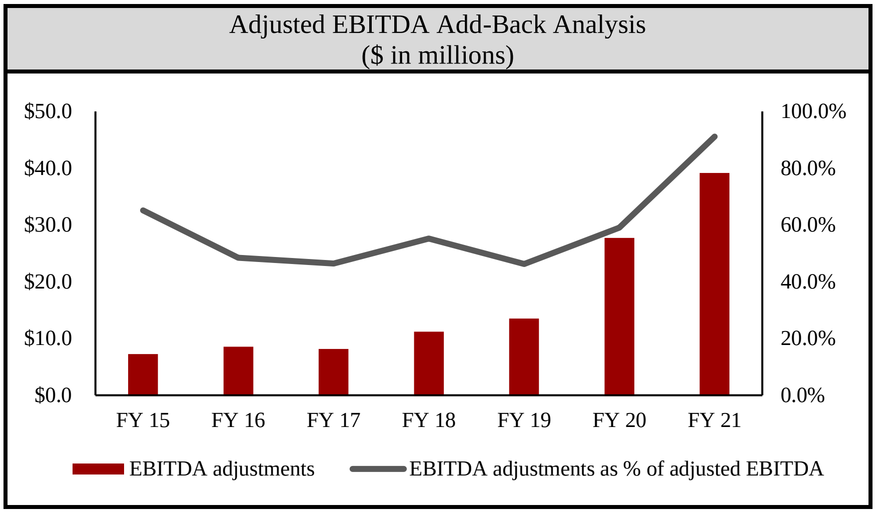
Shareholder dilution highlights increased investment risk, in our view: From FY 15 to FY 21, the diluted weighted average shares outstanding increased 28.2% to 42.9 million. As of FY 21 end, the Company had 3.5

[5] Our analysis utilizes an EBITDA estimate for the Tyson Foods pet treats business based on General Mills' commentary from its BMO Conference Call on 05/20/21. However, we believe our analysis is conservative given we compared the historical multiples of recent acquisitions to FRPT's forward multiple.

million service period and performance-based options and service period and performance-based RSUs outstanding. In addition, in FY 20 and FY 21, the Company raised $584.2 million through equity offerings. In our view, the material shareholder dilution and potentially dilutive effect of share-based compensation highlight increased investment risk. Further, we believe the capital intensive nature of Freshpet's business model may compel Freshpet to raise additional capital through equity/debt offerings.



Persistent non-GAAP add-backs highlight potentially aggressive non-GAAP accounting, in our view: Since FY 15, the Company has excluded a material amount of expenses from its adjusted EBITDA metric, including litigation, leadership transition, ERP, Covid-19, plant start-up, store marketing, non-capitalized freight, and share-based compensation related expenses. While certain excluded costs may be warranted, we believe the material amount of non-GAAP adjustments highlight potentially aggressive non-GAAP accounting.



ERP implementation may increase disruption risk, in our view: On its Q4 20 Conference Call on 02/22/21, the Company indicated it was upgrading its enterprise resource planning (ERP) system as part of its operational improvement plan to support the scale of its business. In its FY 21 10K, the Company disclosed it completed the ERP implementation in Q1 22. While the ERP implementation may create certain efficiencies over the long-term, we are concerned an ERP system implementation may increase near-term business disruption risk.

Conclusion

We are concerned Freshpet's business model may not generate attractive returns given Freshpet Fridges are a significant capital/ongoing investment that may be necessary to obtain distribution and Freshpet's unique product requires it to manage a capital intensive manufacturing footprint. Our business model concerns are heightened given the disclosed payback period may be misleading. In our view, the entrance of numerous direct and indirect competing products into the healthy and nutritious pet food subcategory may dilute Freshpet's value proposition and brand positioning and pressure household penetration growth. In addition, we believe Petco's expanded fresh/frozen partnership and Mars' Cesar brand expansion highlight intensifying competitive pressure. Moreover, we are concerned household penetration growth may be dependent on significant ad spend given Freshpet has already penetrated a significant portion of its target retail store locations. In our view, persistently negative operating income and a full deferred tax asset valuation allowance suggest profitability may be difficult to achieve. Further, we believe the Company's FY 25 guidance may be overly optimistic and difficult to achieve. Our concerns are heightened given elevated inventory and receivable levels, negative free cash flow, a premium valuation, material shareholder dilution, aggressive non-GAAP adjustments, and an ERP implementation. **We are initiating FRPT on *The Short List*.**

Appendix A: Competitive Analysis

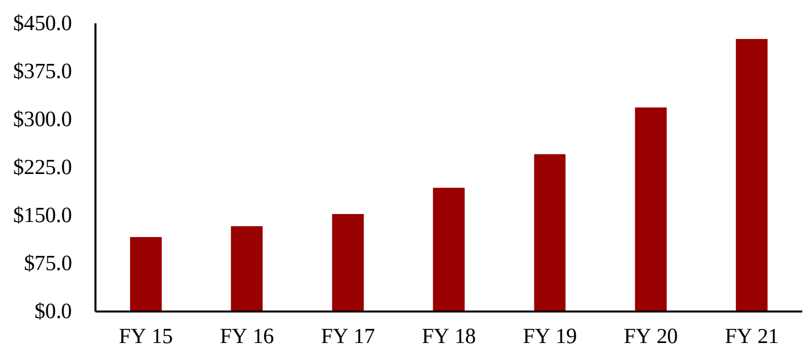
Brand	Product Selling Proposition
JustFoodForDogs	Pantry fresh and frozen fresh
Cesar Fresh Chef	Refrigerated fresh
The Farmer’s Dog	Refrigerated fresh
Spot and Tango	Refrigerated/frozen fresh
NomNom	Refrigerated/frozen fresh
Ollie	Refrigerated/frozen fresh
PetPlate	Refrigerated/frozen fresh
A Pup Above	Refrigerated/frozen fresh
Pure Balance	Refrigerated fresh
Tylee	Frozen fresh
Instinct	Frozen raw
Open Farm	Frozen fresh, freeze dried raw, & human-grade wet
The Honest Kitchen	Human-grade dehydrated
The Simple Food Project	Freeze dried
Sunday’s	Human-grade air dried
Redbarn	Refrigerated fresh & air dried
Wellness	Human-grade wet
Maev	Raw

Risks to Our Thesis & Valuation

Favorable Tailwinds, Long-Term Guidance, & International Opportunity

Pet ownership & health/wellness trends guided to drive material revenue growth: In FY 21, revenue increased 33.5% to $425.5 million. In its FY 21 10K, the Company guided for increased pet ownership and pet humanization, health, and wellness trends to drive material revenue growth over the next several years. The Company disclosed its product was designed to address consumers' growing need for high quality and healthy pet food options as the pet food industry had not kept pace with how consumers think about feeding their pets.

Revenue Analysis
($ in millions)



Long-term guidance implies durable revenue growth: As mentioned, in its Q4 20 Investor Presentation on 02/22/21, the Company increased its FY 25 revenue (household penetration) guidance 25.0% (37.5%) to $1,250.0 million (11.0 million). On its Q4 20 Conference Call, the Company attributed the long-term revenue and household penetration guidance increase to accelerated demand trends and the expectation it would achieve a far higher share of its total addressable market. The updated FY 25 revenue guidance implies a compound annual revenue growth rate of approximately 31.0% from FY 21 to FY 25.

Freshpet FY 25 Guidance Analysis	Revenue	Adjusted EBITDA Margin	Household Penetration
Guidance as of 09/07/20	$1,000.0	25.0%	8.0
Guidance as of 02/22/21	$1,250.0	25.0%	11.0
Change	*25.0%*	*0 bps*	*37.5%*

International markets highlighted as growth opportunity: In its FY 21 10K, the Company represented the majority of its revenue was generated in the US. However, the Company highlighted international growth opportunities. Specifically, the Company guided to increase its international market penetration over the coming years. On its Q4 21 Conference Call, the Company guided to increase its Canadian, UK, and French media investments as part of its long-term plan to develop an international business.

> We are increasing our media investment in Canada, the U.K. and for the first time, in France. Those efforts are part of a long-term plan to develop a robust international business. (CFO Ms. Heather Pomerantz, Q4 21 Conference Call, 02/28/22)

Valuation Analysis

As of the date of this publication, Freshpet's shares traded at 7.3x (72.8x) forward revenue (forward EV/EBITDA), 30.4% (204.2%) above the average multiple paid for recently acquired companies in the pet food/treat space. In our view, Freshpet may trade at a premium to recent precedent transactions as certain investors view it as an acquisition candidate. However, we believe it may be unattractive for a consumer-packaged goods conglomerate to acquire Freshpet at a material premium given Freshpet's unique manufacturing and distribution requirements may prevent a strategic acquiror from realizing significant synergies. Our concerns are heightened given we believe a large peer's brand expansion into the fresh/frozen subcategory suggests internal development may be more attractive than an acquisition.

Valuation Analysis	EV/S	EV/EBITDA
Blue Buffalo (acquired by GIS in April 2018)	6.3x	25.1x
Tyson Foods pet treats business (acquired by GIS in July 2021)	5.0x	~23.0x
Average	5.6x	~24.0x
Freshpet, Inc. (forward multiples/margin)	7.3x	72.8x
% above (below) average	*30.4%*	*203.3%*

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This report was produced by Voyant Advisors, LLC ("Voyant"). The following Research Analysts employed by Voyant contributed to this report: Graeme Lazarus, Dayne Burzinski, Miles Trevelyan, and Ryan DesJardin. Voyant's home office is at 15373 Innovation Dr, Suite 365 San Diego, CA 92128. The firm's home office is where information about the valuations herein are located, unless otherwise indicated in the report.

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