



Freshpet (NASDAQ: FRPT)

The Abominable Snow-Bears

Recommendation: *SHORT*

Price as of February 21st, 2025: \$100.28

Implied Upside / (Downside): (15.3%)

Time Horizon: *12 Months*

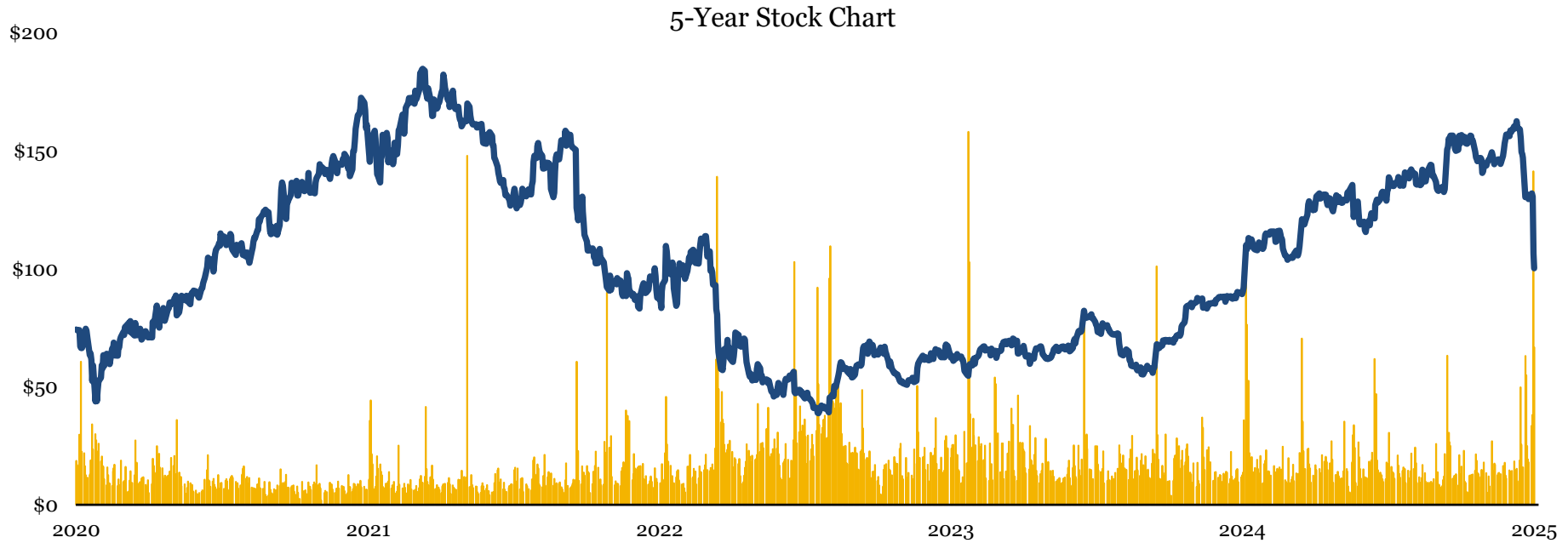
Team Members:

Colin Carpenter

Jon Hanson

Noah Moyer

Freshpet: All Bark and No Bite



Growth Narrative Extrapolated

- The Street complacently accepts management's 25% top-line growth targets
- Unreasonably high household penetration is implied by our reverse DCF and Street revenue estimates

TAM Is Overstated

- We believe TAM is ~20% smaller than management claims
- Even if Freshpet achieves significant market penetration, consumption habits must radically change to meet expectations

Competition Threatens CAC

- The Street fails to accurately gauge competitive threats given that Freshpet is the only public company in the space
- Fiercely competitive advertising is a major threat to Freshpet's media-driven growth algorithm

Ennis Plant Economics Eroding

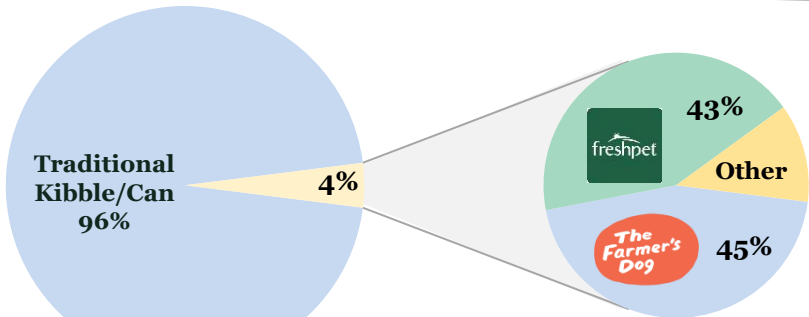
- Plant economics at the new Ennis, TX facility are challenged. We believe shifting commentary and poor incrementals are indicative of the poor returns it will earn
- A lack of concern from the Street will shift as margins are slow to inflect

The Pet Food Industry Is Fragmented and Changing

The Fresh Food Market Has Emerged From Dry Kibble

Pet Food Market: \$53B

Fresh/Frozen Market: ~\$2B



Freshpet Disrupted and Many Have Followed

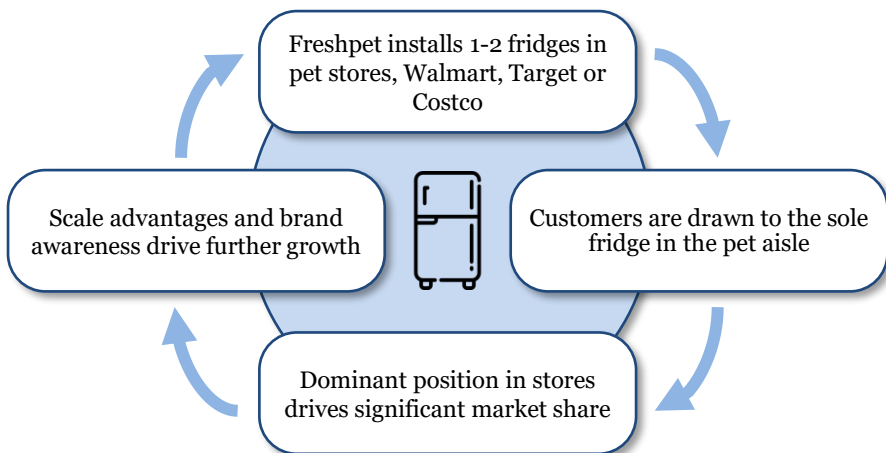
Exclusive Fridge Model

Direct-to-Consumer Model

Traditional Kibble and Private Label

The market for fresh pet food is **rapidly growing** because the industry has **minimal barriers to entry**. Startups tend to be DTC players due to a lack of a familiarity with retailers. These include Ollie and JustFoodForDogs. Cesar and NomNomNow, owned by Mars, have made a push into retail via **Walmart and PetSmart**, respectively

Freshpet Has Relied Heavily on Its Fridge Flywheel



Direct-To-Consumer Concepts Have Become Mainstream

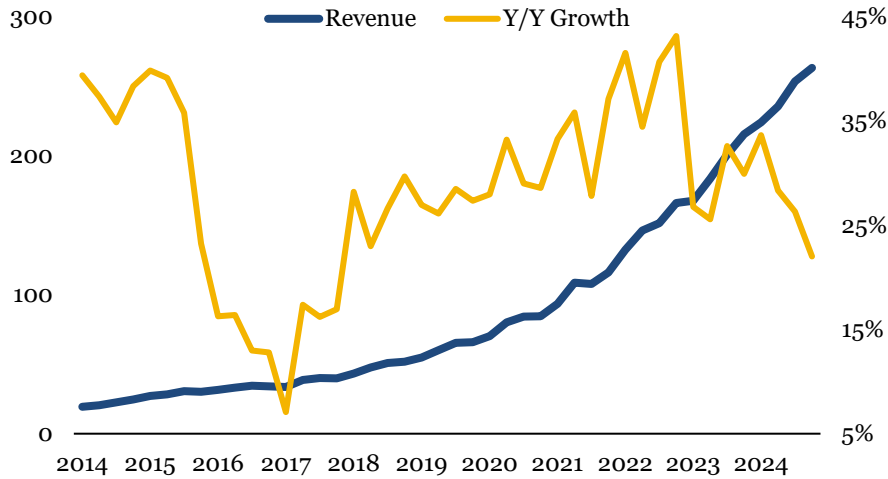
- Less Capital Intensive:** DTC providers save on fridge CapEx and incentive fees for shelf space
- Subscription Model:** Customers who purchase online subscribe to automatic recurring shipments
- Customization:** Owners can build a meal plan for their pets based on size, breed, and eating habits

(1) Company Filings, (2) Pitchbook, (3) Estimated From Historical Scanner Data

Current Narrative: Freshpet Is a Never-Ending Growth Story

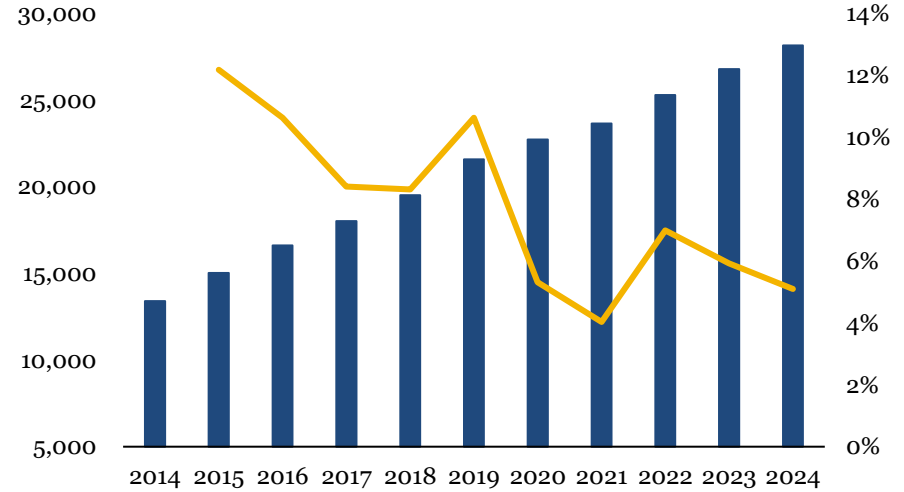
Growth From Being a First Mover in an Emerging Category

Quarterly Revenue (mm) and Y/Y Growth⁽¹⁾



Fueled by Fridge Location Expansion

Location Count and Y/Y Growth⁽¹⁾



Freshpet Relies on Heavy-Use Households

HIPPOH Acquisitions and Conversions Are Essential for Growth⁽²⁾



39% of Customers are considered “High Profit Pet Owning Households,” or **HIPPOHs**



They Represent 90% of Sales

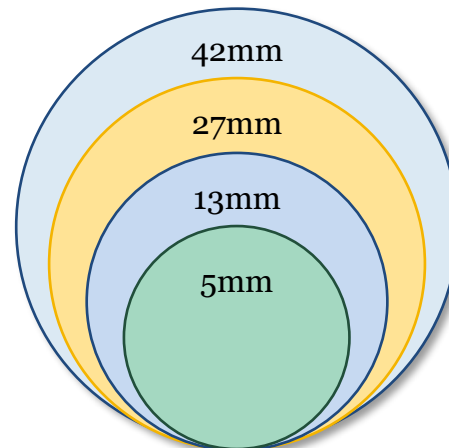
HIPPOH Avg. Revenue / Household: **\$168.78**
 Non-HIPPOH Avg. Revenue / Household: **\$11.75**

“The core of our business again is the **5 million HIPPOHs**, the super heavy, heavy group. **We love those guys**. They're 90% of our business. That's who we're focusing on. That's who we want to cultivate and that's the behavior we want to encourage” – 3Q24 Freshpet CEO

Which Is a Crucial Component of the Growth Story

Management’s Household TAM Estimate⁽³⁾

65mm US Dog-Owning Households



- Management Fresh Pet Food TAM Claim
- “HIPPOH Prospects”
- Current Freshpet Households
- Current Freshpet HIPPOHs

(1) Company Filings, (2) Freshpet 3Q24 Investor Presentation, (3) Freshpet Shareholder Outreach

Wall Street Fully Buys Into This Growth Narrative

Excessive Optimism Has Detached the Valuation From Reality

Unbridled Confidence From Management

“We continue to believe that we are **well on track** to deliver our 2027 target of **20 million households** (up from 13.5 million today)”⁽¹⁾

“We’re **very bullish** on this business growing nicely over the next several years. Do I think we’re going to grow at a **25% clip in 2035? Probably not. It’s possible**”⁽²⁾

“Part of it is just the math that we’re going to continue to **grow 25% every year...** So we will need to continue to **spend pretty heavily on CapEx**”⁽³⁾

Is Fully Believed by the Sell-Side



“It seems almost assured this **topline and margin progress will be sustainable**”

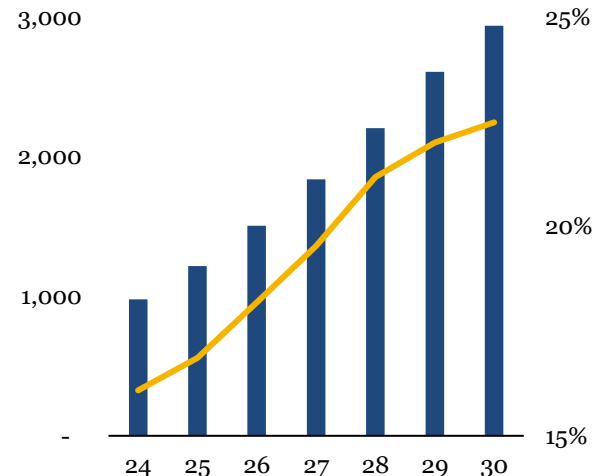


“FRPT’s valuation is **clearly elevated**. While this represents **undeniable risk** in the event of any financial shortfall, we also see it as reflecting **strong fundamental momentum**”



“We’ve been arguing the **valuation is full** for a while and **it hasn’t mattered**, as long as fundamentals continue to improve, the shares will follow”

Consensus Revenue (mm) & EBITDA Margin



The Market Narrative Implies That Freshpet Captures the Category With Little Competition

We Determined This Using a Reverse DCF



We built a 25-year reverse DCF assuming management’s **42mm HH TAM**



We built in **5% average revenue per household growth and 1600bps** of adj. EBITDA margin expansion by 2030 in line with Street



Using these assumptions, we believe the current stock price implies a TAM penetration of **55% by 2028** (26mm) and **94% by 2034** (42mm)

We believe that TAM is in fact much smaller, and emerging competitive dynamics **make high penetration unattainable**, even when using management’s estimates

We Also Backed Into Household Penetration Implied by Street Revenue Estimates

Reverse Revenue Build	2023	2024	2025	2026	2027	2028	2029	2030	2031
Street Revenue Estimates	767	977	1217	1506	1837	2204	2608	2938	3312
Y/Y Growth %		27%	25%	24%	22%	20%	18%	13%	13%
Management HH TAM	42	42	43	44	45	45	46	47	48
Growth Escalator %			2%	2%	2%	2%	2%	2%	2%
Average Revenue Per HH, \$	73	72	76	80	84	88	92	97	102
ARPH Growth %		4%	5%	5%	5%	5%	5%	5%	5%
Households, mm	11	14	16	19	22	25	28	30	33
Household Penetration %	25%	32%	37%	43%	49%	55%	61%	64%	67%

(1) Freshpet 3Q24 Earnings Call, (2) Freshpet 2Q24 Earnings Call, (3) 2Q24 Deutsche Bank Conference

Freshpet's Stated TAM Is Overestimated and Increasingly Penetrated

How We See TAM Differently

Income and Dog Size Constraints

"The only thing that might be able to out-eat a large dog is a **teenage boy**... So it's pretty amazing, like, the opportunity in front of us. We're **going from small to large dog**"⁽¹⁾

We disagree with management's optimism surrounding large dogs because of **price and fridge space constraints** (60lb dog requires 12-14lbs per week = \$35)

We believe income is a **structural limitation** to the TAM given that Freshpet **costs 2-5x the price** of alternatives⁽²⁾

We **disaggregated dog-owning households** by income and dog size, applying adoption rates based on AVMA surveys to **build a bottoms-up view of TAM**

Household TAM Is Already 40% Penetrated

Our Calculated TAM Is Over 20% Smaller Than Management's Claim

<\$50k	Small Dogs (<25 lbs.)	Medium Dogs (25-40 lbs.)	Large Dogs (>40 lbs.)	Total
Estimated # of HHs	6.58	4.34	5.04	
Target Adoption Rate	40%	25%	10%	
FRPT TAM HHs	2.63	1.08	0.50	4.22
\$50-99k	Small Dogs (<25 lbs.)	Medium Dogs (25-40 lbs.)	Large Dogs (>40 lbs.)	
Estimated # of HHs	7.11	4.69	5.45	
Target Adoption Rate	75%	40%	25%	
FRPT TAM HHs	5.33	1.88	1.36	8.57
>\$99k	Small Dogs (<25 lbs.)	Medium Dogs (25-40 lbs.)	Large Dogs (>40 lbs.)	
Estimated # of HHs	11.29	7.44	8.64	
Target Adoption Rate	100%	75%	40%	
FRPT TAM HHs	11.29	5.58	3.46	20.33
Total				33.12
Management Guide				42.00
Variance				-21%

Consumption Habits Must Radically Change, but Even Management Does Not Foresee This

Most Customers Reject Its Intended Use Case

Over 60% of households use Freshpet either **very infrequently** or as a topper to entice their dog to **eat regular dry kibble**⁽³⁾

Management and Street Are Overly Optimistic

Management's TAM estimates are **inflated** by assumptions that **large dogs** drive further household opportunity. Management's stated TAM has increased from **33mm in 2016 to 42mm in 2025**

Meeting Street expectations requires **dominant share** in an **increasingly competitive market** alongside significant heavy-use conversions

Consensus 2030 Revenue of \$3.0B Requires Lofty Usage Growth

		2030 Household Penetration %				
		50%	55%	60%	65%	70%
ARPH CAGR %	5%	\$1.8B	\$2.0B	\$2.2B	\$2.4B	\$2.5B
	7%	\$2.0B	\$2.2B	\$2.4B	\$2.6B	\$2.8B
	9%	\$2.2B	\$2.4B	\$2.6B	\$2.9B	\$3.1B
	12%	\$2.5B	\$2.8B	\$3.0B	\$3.3B	\$3.5B

Management **guides for 3-5%** growth in ARPH, but current **expectations imply 9-12%** is required reach consensus revenue targets

(1) 2024 ICR Conference, (2) Deutsche Bank Pricing Data, (3) 4Q24 Morgan Stanley Conference

The Single-Player Retail Landscape Will Soon Change

Retailers Demand Multiple Players

Management Understands

“On the part about the retailers, there’s no doubt that retailers are **inherently uncomfortable** with a category where there is a **single player**”⁽¹⁾

– 3Q24 Freshpet CEO

Adding Competitors

“We haven’t seen fridges go into store from another manufacturer.

What we’ve seen is Walmart trying to **put a second player in the business**”⁽²⁾

– 3Q24 Freshpet CEO

Walmart Leads the Way

“We are starting to see a couple of retailers [Walmart]... literally just a handful... that are tinkering and trying different fridge layouts with some of **their own models**”⁽²⁾

– 3Q24 Freshpet CEO

Concentration Risk

24.5%

Walmart Sales 2024

Incumbents Are Beginning to Respond

Established Brands Can Leverage Existing Expertise to Enter Fresh

Large kibble players like Mars (Pedigree) and General Mills (Blue Buffalo) already have **manufacturing, distribution, and relationships with retailers**. There is evidence that they may push into fresh food, which is currently being **ignored by the Street**



Purchased DTC NomNomNow in 2022

- Bound by an **exclusivity agreement** with PetSmart
- Likely to expire within 2 years, **catalyzing a larger rollout**

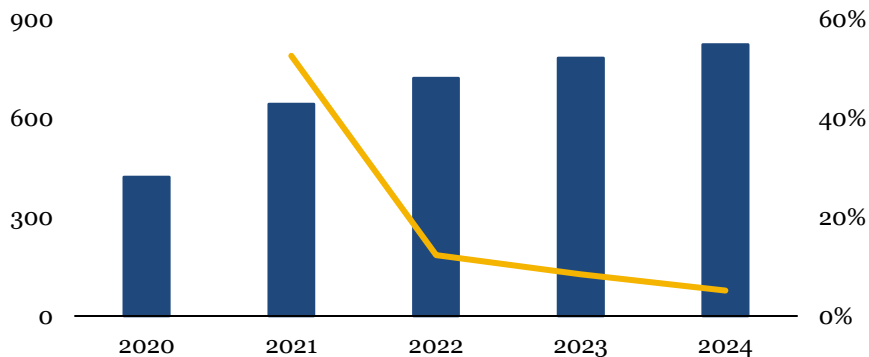


“There’ll be **another opportunity** for us in fresh pet food. Don’t be shocked if **we take another run** at trying something in **the fresh pet food space**”⁽³⁾

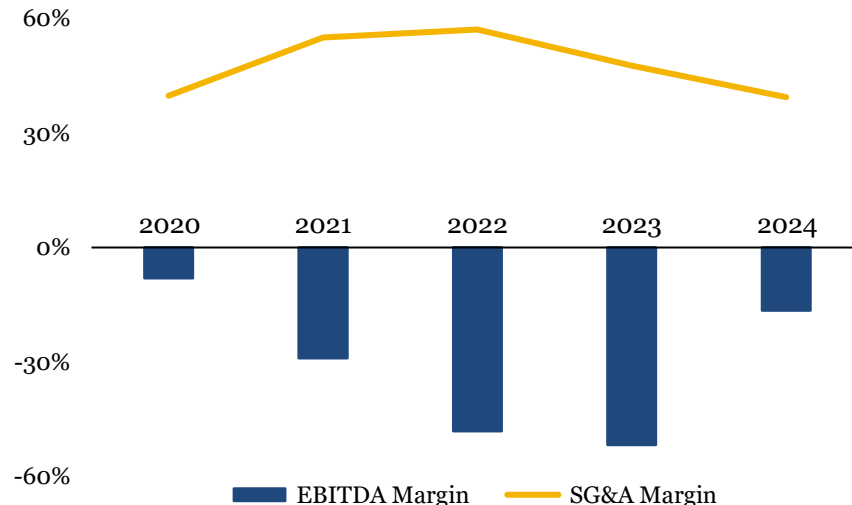
– 3Q24 General Mills CEO

Oatly Case Study: Retail Disruptors Often Fail to Maintain Growth and Market Share

Oatly Annual Revenue (mm) and Y/Y Growth⁽⁴⁾



Effect of Increased Competition on SG&A / EBIT Margins



New Entrants



Private Label Competitors



(1) 4Q24 Morgan Stanley Conference, (2) Freshpet 3Q24 Earnings Call, (3) General Mills 2Q24 Earnings Call, (4) Oatly Company Filings

Freshpet's View of the Competitive Landscape Does Not Match Reality

Management Distorts the Threat From The Farmer's Dog

Management's View

- “We don't view ourselves as bumping into each other, at least not at this point”⁽¹⁾
- “They have skimmed off a relatively small number of households, but very high buying rate households”⁽²⁾
- “And the combination of their advertising and our advertising investment is doing a nice job building the category”⁽¹⁾

Our View

- They compete for the **same customers**. We believe they will aggressively compete as they scale
- DTC competitors **specifically attract the HIPPOH customers** Freshpet requires to meet Street expectations
- Ad spend ramp-up **signals arms race** to capture category growth as low-hanging fruit is no longer available

The Farmer's Dog Sees It Differently

The Modern Acre Podcast Interviewed Co-Founder Brett Podolsky



19 Views – Agribusiness Podcast

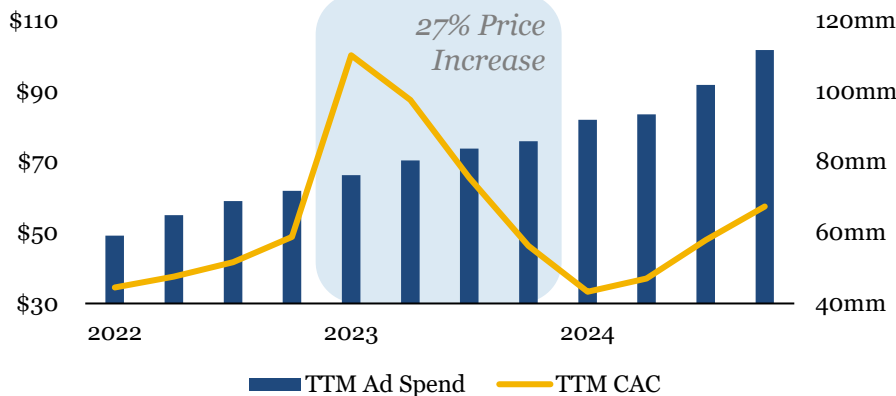
We discovered a niche podcast that gave us **one of few available insights** into the strategy employed by **The Farmer's Dog** and other DTC competitors

“We want to **cut out all of those middlemen** like the distributor and the retail store. It allows us to make a **direct connection** to our customers”⁽³⁾
 –The Farmer's Dog Co-Founder

We believe the **lack of public commentary** from The Farmer's Dog has allowed FRPT's blue-sky narrative to be accepted by Street despite competition being the **greatest threat** to the business

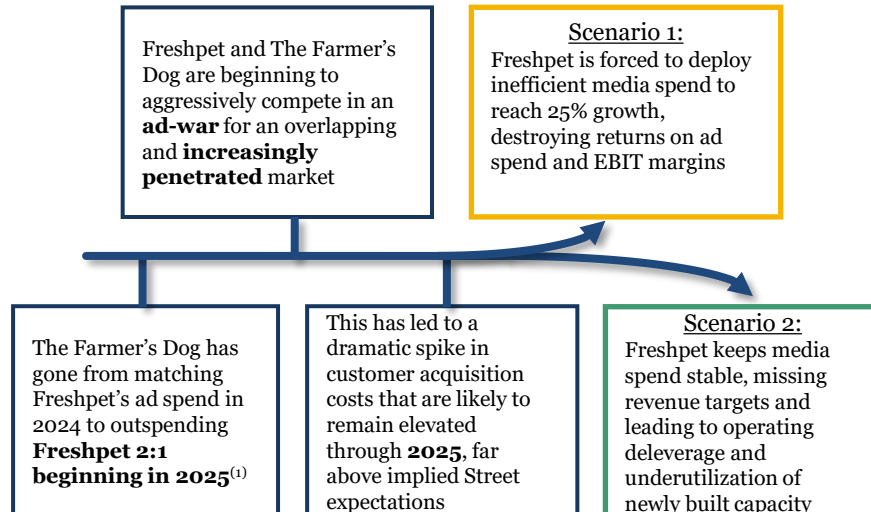
Freshpet's Growth Engine Breaks Down as Competition Disrupts Media Efficiency

Household CAC Has Spiked Amid Advertising Competition



“The reality is everybody who gets farther out in their TAM, higher and higher media budgets ultimately experiences some level of inefficiency or reduction in. And so **we are not going to defy gravity**”⁽⁴⁾ – Freshpet CEO

Difficult Catalysts Ahead Result in Lose/Lose Scenarios



(1) 2025 ICR Conference, (2) 4Q22 Stephens Conference, (3) The Modern Acre, (4) 4Q24 Morgan Stanley Conference

Nobody Worries Until the Economics of a \$1B Factory Start to Crumble

New Ennis Factory: Priced for Perfection

Our Math Says Ennis Has an Implied Hurdle of 18% EBIT Margins

The sell-side has largely ignored Ennis, celebrating positive incremental margins after massive price-taking rather than looking at the actual economics of the plant and degree of leverage attainable

By analyzing total investment, future output, WACC, and steady-state EBIT margin, we backed into the required EBIT margin for the Ennis plant to be accretive

Long-Run Factory Math	Ennis
Est. Total Capital Required	1,686
Est. Total Output	1,250
Steady-State COGS Margin	58%
Steady-State Logistics Margin	4%
Steady-State SG&A Margin	27%
Calculated EBIT Margin	12%
Required EBIT Margin	18%
Tax	21%
Necessary NOPAT	173.658
Total Invested Capital	1,686
WACC	10.30%
Target ROIC	10.30%

Management's Commentary Has Shifted Negatively

We Compared Recent Filings to Identify Cracks in the Narrative⁽¹⁾

"The increase in gross profit as a percentage of sales was primarily due to lower input costs, reduced quality costs, **and improved leverage on plant expenses.**" – 2nd Quarter to 3rd Quarter 2024, 10-Q Difference

"In Ennis, we started up a line in September... another line in December we have construction going on there. So there's a nonstop process of expansion that makes it a little bit harder to get to the level of performance you get in a more stable operation" – 3Q24 Earnings Call

"We could go build another Ennis. **It's expensive.** It might be the right thing to do, but it will be **very, very expensive...** we're very open to partnering with someone" – Dec 2024, Morgan Stanley Conference

Ennis Will Not Be the Tailwind to Margins That Management and the Street Assume

How We Interpret This

We calculated unit-level ROIC by using CapEx allocated to the plant and its contribution to NOPAT. **Ennis does not currently come close to earning Freshpet's cost of capital**

Recent estimated output based on incremental investment to open a new line, coupled with management commentary on output, is **evidence of the questionable incremental returns** earned by Ennis even as it scales

Estimated ROIC of Ennis So Far Is Lackluster

Total Factory Current	
Ennis Cumulative Invested Capital:	686
Ennis Estimated Output:	232
COGS Margin	60%
Logistics Margin	5.50%
SG&A Margin	30%
EBIT	10.44
Tax Rate	21%
NOPAT	8.25
Invested Capital	686
ROIC	1%

Incremental Margins Also Value Destructive

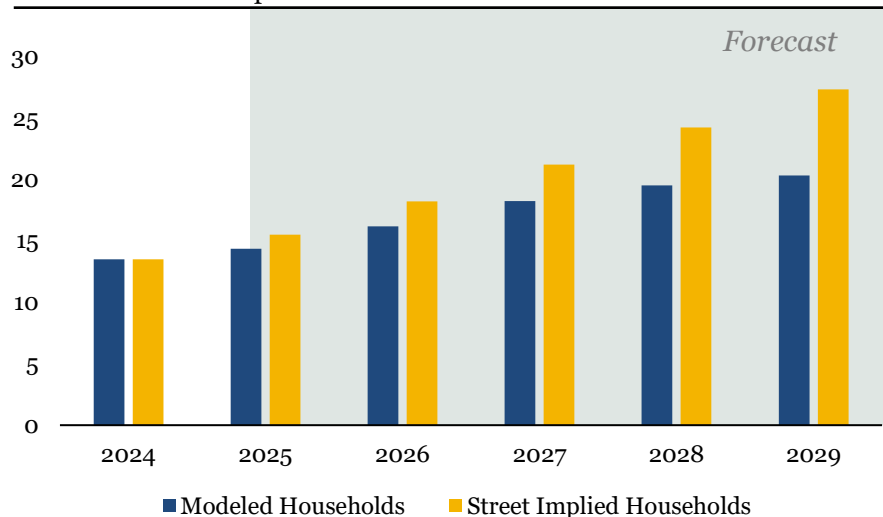
Line 5 Illustrative ROIIC	
Incremental Invested Capital:	42
Incremental Estimated Output:	19
Inc COGS Margin	50%
Inc Logistics Margin	4%
Inc SG&A Margin	29%
EBIT	3
Tax Rate	21%
Inc NOPAT	3
Inc Invested Capital	42
ROIIC	6%

(1) Company Filings

Thesis In the Model

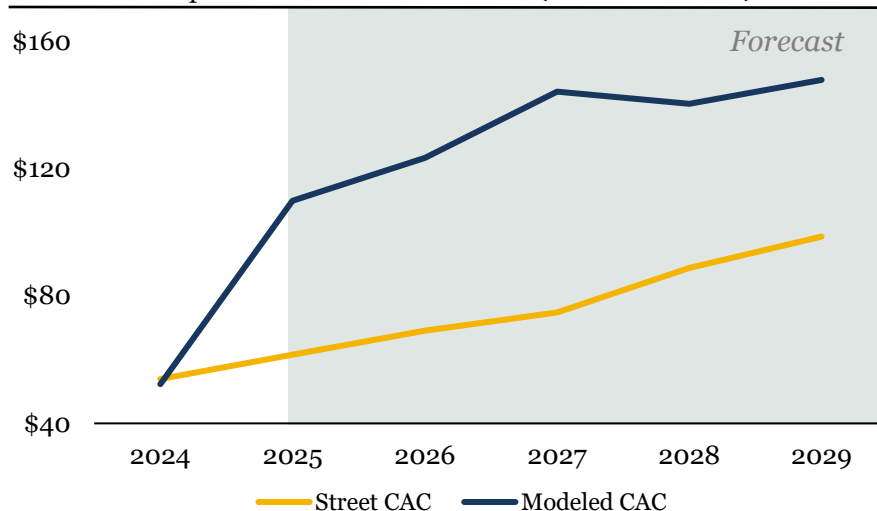
Household Penetration Continues to Slow

Implied Street Households vs. Modeled



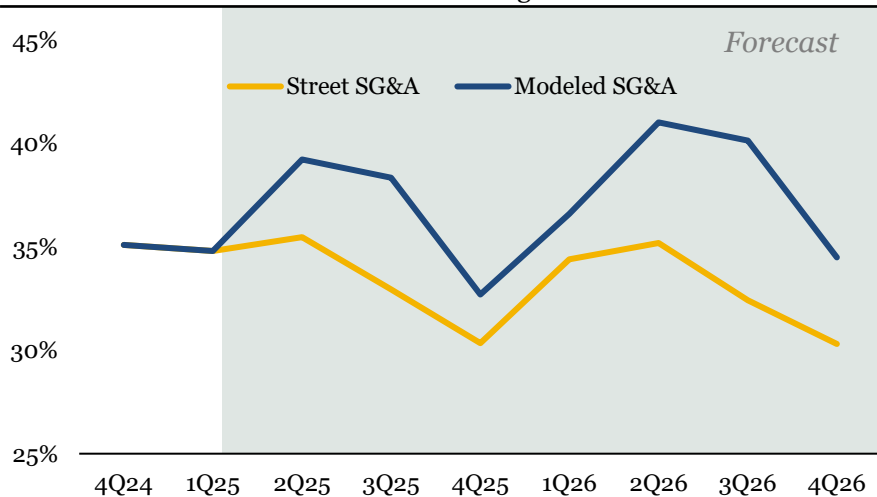
Competition Drives CAC Higher

Implied Street CAC vs. Modeled (Household Basis)



Media Spend Requirements Delay SG&A Leverage

Near-Term Street SG&A Margin vs. Modeled



Lower Media Spend & 25% Growth Are Mutually Exclusive

What We Don't Think Will Happen

Our Rationale

“If we reached the \$1.8 billion goal in 2027 and get the **media spend down around 9% of sales**, which we expect on both as \$160 million of media spend. 1 brand. 1 country. We think that’s a powerful resource to drive **25% CAGR**”⁽¹⁾

– Freshpet COO



25% Revenue CAGR is unlikely without aggressive media spend



Further complicated by increasing competition driving higher CAC



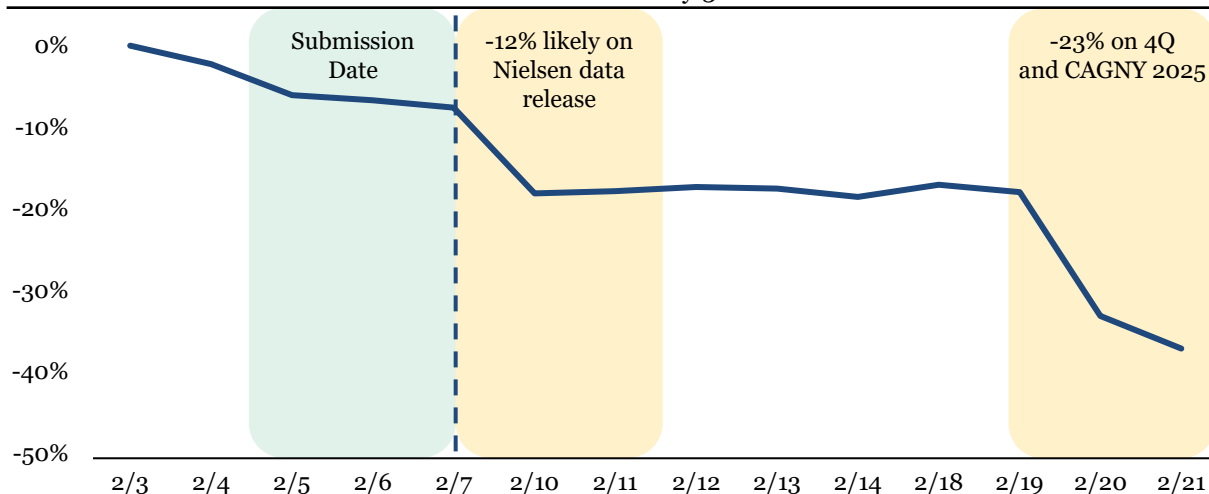
US TAM is simply too small with competitive threats encroaching

(1) Freshpet 3Q23 Earnings Call

Since Our Initial Submission: 4Q 2024 Earnings and CAGNY

The Growth Story Has Deteriorated Much Faster Than We Anticipated

Stock Price February 3 – 21

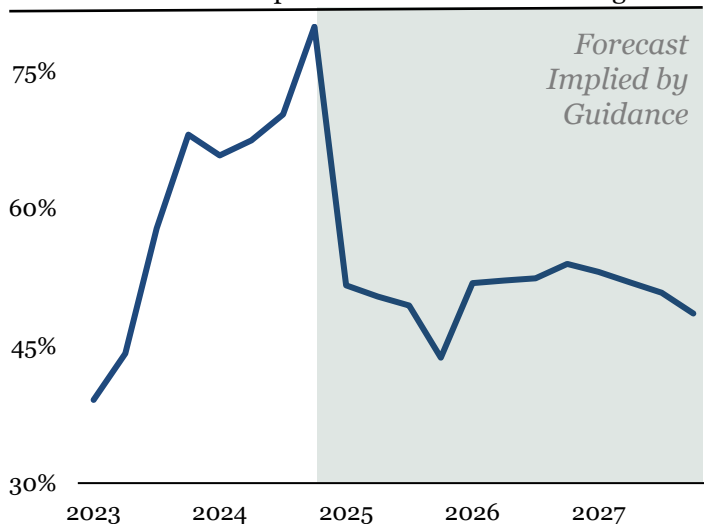


4Q & CAGNY Snapshot⁽¹⁾

- 2025 revenue guide came in light at 21-24%
- Management increased GM target from 45% to 48% but **retained** their 2027 sales target
- “So with that, we are the future of pet food. Thank you very much. **We are not trying to avoid any questions**” – Freshpet CEO
- 4Q Earnings/CAGNY is the **first time** management has ever ended an event **without taking webcasted questions**

2027 Guide Implies Crumbling Incrementals

Historical and Implied Incremental Gross Margin



(1) 4Q 2024 and CAGNY 2025

Cracks Have Emerged In the Top-Line Growth Story

Management’s Explanation for Sub-25% Guidance Seems Dubious

“Maintaining a 25% growth rate would require us to **commit to bring on more capacity sooner**. This would compromise our ability to be free cash flow positive and cause us to commit to more lines using the existing technology when **we believe we are on the verge of breakthrough new technology**”⁽¹⁾ - 4Q24 Freshpet CFO

The Format of Management’s Guide Has Changed

We believe management has **adjusted its guidance format** due to the business **shifting from being supply-constrained to demand-constrained**, making it more challenging to accurately forecast growth

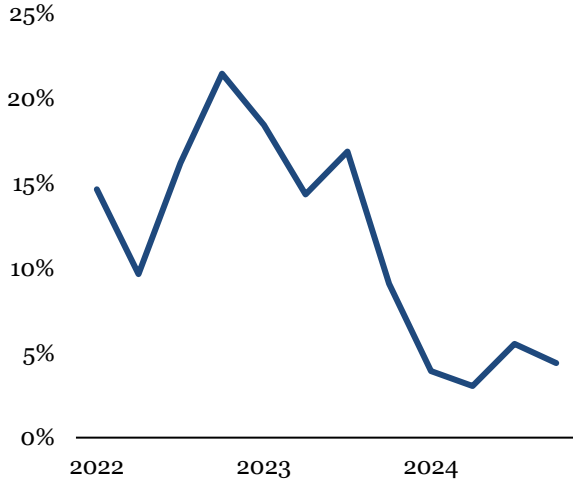
Year	2020	2021	2022	2023	2024	2025
Revenue Guide	>26%	>35%	~35%	~26%	>24%	21-24%
Variance	2.8%	-1.0%	3.5%	2.3%	2.7%	

Management has **consistently guided for 25%** long-term growth targets. Now, management is comfortable growing slower because of “breakthrough technology.” We think this is actually because **demand is slowing**

Management Has Lost Credibility

Management Has Drastically Changed How They Discuss the Business

ARPH Growth Y/Y



They Will Now Stop Reporting HIPPOHs

“Going forward, we will be reporting on a **narrower and more important group** of consumers than the HIPPOHs that we previously reported on. We will focus on a group we call MVPs, or Most Valuable Pet-Parents”⁽¹⁾
 – 4Q24 Freshpet CEO

Why Are They Doing This?

Management is narrowing their core customer group to “MVPs” because they are **struggling to increase consumption frequency**. Reporting on this more concentrated group gives the appearance of greater ARPH growth

Management Buries Advertising Headwinds

“We **began to see progress in G&A leverage**, too. Adjusted SG&A, **excluding media and logistics**, is about half of where it was in 2017”

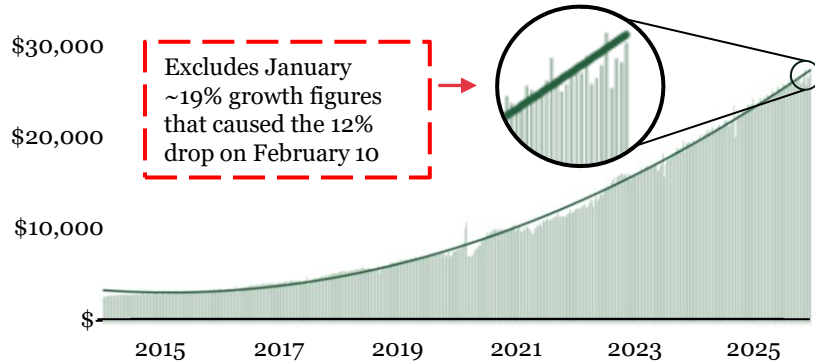
Excluding media from SG&A **hides the impact of inefficient ad spend**, creating a rosy picture despite a **145bps YOY increase**

DTC Ads We’ve Seen



Management’s Misleading Commentary Will Continue to Erode Confidence

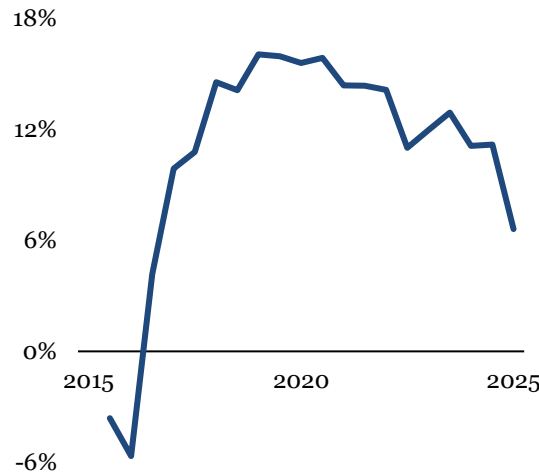
Misleading Nielsen Mega-Channel Data From Management



“It is **one of the smoothest curves** over the longest periods of time that I’ve seen in my 40 years in the CPG industry. But it hasn’t always been smooth, meaning there’s some **bumps along the way** that don’t appear to be very significant”⁽²⁾

(1) 4Q 2024 Earnings Call, (2) CAGNY 2025, (3) WhaleWisdom

Deceleration Exposed by 3-Month Growth



LOs: Next Incremental Sellers

WCM	6%
WELLINGTON MANAGEMENT®	5%
WASATCH ADVISORS	4%
FRANKLIN TEMPLETON	4%

We believe a **shift in how management is perceived** will lead to long-only holders **losing confidence**⁽³⁾

How We See Our Thesis Playing Out

Catalyst Path and Risks to Our Thesis

Short-Term

Post-CAGNY Through 1Q 2025

- **Continued growth deceleration** evidenced by Nielsen data as competition intensifies, with dollar-volume growth data remaining under guidance
- **SG&A spend remains elevated** or increases as ad spend is higher or less efficient in 1Q

Medium-Term

2025

- **Revenue growth diverges** from Street expectations as competition thwarts strong growth in household penetration
- **Lack of fixed cost leverage** at Ennis plant causes margin expansion to materialize below expectations
- **Sharp increase in CAC** due to ad war with The Farmer's Dog and others

Long-Term

Narrative Shifts

- Long-term **FCF generation is called into question** as poor unit economics are demonstrated by lower-than-expected margin expansion
- Fresh pet food space becomes **largely commoditized as a lack of barriers to entry** and perceived profitability attracts new entrants, specifically large kibble players with established retail presences

Risks to Our Thesis

- Management issues stronger guide or narrows toward the higher end of 4Q estimates
- Significant drop in CAC and SG&A Margin as ad-war never materializes

- Industry tailwinds allow for growth without direct competition
- HIPPOH/MVP conversions stronger than expected or large dog mix increases

- First-mover advantage leads to unassailable scale
- Multi-fridge storefronts strengthen barrier to entry within stores and lock out retail competitors

Using a Blended Valuation, We See 15.3% Downside Over 12 Months

10-Year DCF and NTM EBITDA Multiple Blended Valuation⁽¹⁾

NTM Adj. EV/EBITDA Multiple	
NTM EBITDA	160
Assumed Multiple	28x
Terminal Value	4,481
PV of Terminal Value	4,266
Implied Enterprise Value	4,266
(+) Cash	275
(-) Debt	421
Implied Equity Value	4,120
Diluted Shares Outstanding	50
Implied Share Price	\$ 81.94
Downside	-18%

10 Year DCF	
Discount Rate	10.30%
Long-Term Growth Rate	2.50%
PV of UFCF	2,476
Terminal Value	2,096
Implied Enterprise Value	4,572
(+) Cash	269
(-) Debt	421
Implied Equity Value	4,420
Diluted Shares Outstanding	50
Implied Share Price	\$ 87.90
Downside	-12%

We used the consensus EBITDA multiple with our estimates of NTM EBITDA to isolate the idiosyncratic factors of our thesis

Blended Valuation	
Multiple Valuation	\$ 81.94
LTGR Valuation	\$ 87.90
Multiple Weight	50%
LTGR Weight	50%
Implied Share Price	\$ 84.92
Current Share Price	\$ 100.28
Upside / (Downside)	-15.3%

Sensitivity Analysis

Discount Rate

		12.3%	11.3%	10.3%	9.3%	8.3%
EBITDA Multiple	24x	-31%	-27%	-21%	-14%	-5%
	27x	-27%	-22%	-17%	-10%	0%
	30x	-22%	-18%	-12%	-5%	4%
	33x	-18%	-13%	-8%	-1%	9%
	36x	-13%	-9%	-3%	4%	13%

2035 Freshpet Households

		22	24	26	28	30
HIPPOH Proportion %	38%	-30%	-23%	-16%	-8%	-1%
	40%	-29%	-21%	-14%	-6%	1%
	42%	-27%	-19%	-12%	-4%	4%
	44%	-25%	-17%	-10%	-2%	6%
	46%	-25%	-17%	-10%	-2%	6%

Where Do We Go After Falling 35%?

Why Freshpet Is Still a Short

We have yet to see the effects of intensifying retail competition. We believe that over the next 12 months, new competitors will enter the market, challenging Freshpet's market share and reducing efficiency on ad spend

Several research reports after 4Q/CAGNY expect a reacceleration of growth in 2026, which we see as highly unlikely given current trends and worsening competitive dynamics

Freshpet Could Be a Long if It Transforms Into a Margin Story

After falling 35%, Freshpet is approaching fair value assuming growth tapers to low double-digits by 2028. Freshpet would be a long if we could see a clear path to mid-20s adj. EBITDA margins (similar to Blue Buffalo in 2017) despite slower growth

(1) Market Data as of February 21, 2025

Management Overview and Model Information

Freshpet Management



Scott Morris

President & Co-Founder

President since 2016 with previous experience at The Meow Mix Company and Ralston Purina



Billy Cyr

Chief Executive Officer

CEO since 2016 with previous experience at Sunny Delight Beverages Co. and Procter & Gamble




Todd Cunfer


Chief Financial Officer

CFO since late 2022 with previous experience at Simply Good Foods Company and The Hershey Company

Model Information


Revenue Build


 We construct our revenue build using our household TAM estimate (33mm with a 2% growth escalator) and assumptions for household penetration over time


 We break out households into HIPPOHs and Non-HIPPOHs, modeling HIPPOH conversions and average household revenues for both groups

 We project household penetration (relative to our TAM estimates) above 60% in 2035, corresponding to 25mm households

Costs and Margins

 We tie CapEx spend on fridges and new production lines with revenue growth, assuming management accurately matches their capacity buildout with demand

 We assume moderately elevated marketing expense persisting for several years before tapering off in the out-years, consistent with our belief that ad spend will be both higher and less efficient at generating growth

 We project terminal EBITDA margins around 19%, which compares well with premium CPG companies, though it is below Blue Buffalo's performance