Third Quarter 2024 Earnings Results Prepared Remarks
Utz Brands, Inc.

Thursday, October 31, 2024

CORPORATE PARTICIPANTS

Kevin Powers, Senior Vice President, Investor Relations
Howard Friedman, Chief Executive Officer
Ajay Kataria, Chief Financial Officer

PRESENTATION

Kevin Powers

Good morning and thank you for joining us today for our pre-recorded discussion of our third quarter 2024 earnings results. On the call today are Howard Friedman, CEO, and Ajay Kataria, CFO. In addition, later this morning at 8:00 a.m. Eastern Time, we will host a live question-and-answer session which you can access via webcast on our Investor Relations website.

Please note that some of our comments today will contain forward-looking statements based on our current view of our business and actual future results may differ materially. Please see the forward-looking statement disclaimer in the earnings materials and our recent SEC filings, which identify the principal risks and uncertainties that could affect future performance.

Today, we will discuss certain adjusted or non-GAAP financial measures, which are described in more detail in this morning's earnings materials. Reconciliations of non-GAAP financial measures and other associated disclosures are contained in our earnings materials and posted on our Investor Relations website.

Finally, the Company has also posted presentation slides and additional supplemental financial information on our Investor Relations website.

And now, I'd like to turn the call over to Howard.

Howard Friedman

Thank you, Kevin, and good morning, everyone.

I'm pleased with our year-to-date progress and financial performance as we execute against the strategies we laid out at our 2023 Investor Day. This year, we are:

- Driving branded volume growth led by our Power Four Brands;
- Gaining value and volume share in our Expansion geographies, and volume share in our Core geographies;

- Delivering accelerated productivity cost savings and optimizing our network, which are fueling margin expansion;
- Developing our capabilities and building out a robust analytics platform; and
- Improving our balance sheet flexibility ahead of our original targets.

Our progress demonstrates that we are on track to deliver, or in certain cases exceed, the three-year targets we introduced at our Investor Day.

Let's begin with a few key messages:

- In the third quarter we delivered Organic Net Sales growth of 1.9% led by branded volume growth supported by increased distribution and marketing investments.
- We maintained a disciplined pricing strategy and gained volume share in the Salty Snack category for the fifth consecutive quarter. Our combination of brand building, innovation, execution, and distribution gains are helping to sustain our volume market share trends in a more competitive environment.
- We delivered our seventh consecutive quarter of year-over-year Adjusted EBITDA Margin expansion fueled by strong Adjusted Gross Margin expansion. To date, our strong productivity and cost performance are providing flexibility to increase investments behind our brands, support our geographic expansion, and manage our promotional activities to address consumer value expectations, which are collectively driving solid volume growth.
- We continue to observe consumers seeking more value, whether it be deal-shopping, channel-shifting or moving up and down the price ladder. These behaviors are influencing the competitive environment and resulted in more promotional pricing during the third quarter, particularly in potato chips. These dynamics impacted our sales growth in the quarter and our expectations for the fourth quarter, and as a result we revised our full-year Organic Net Sales growth outlook on September 5th, 2024.
- Today, we are reaffirming this revised 2024 Organic Net Sales growth outlook, and we are also reaffirming our Adjusted EBITDA, Adjusted EPS, and Net Leverage Ratio outlooks. Ajay will provide more details on these topics during his portion of the presentation.
- Looking ahead to our fourth quarter, we continue to expect our Organic Net Sales growth to accelerate, driven by volume growth, fueled by increased marketing investments, innovation, distribution gains, and an easier prior-year comparison.

Summarizing our financial performance in the quarter, we drove Organic Net Sales growth of 1.9%, expanded Adjusted Gross Margin by 270 basis points and Adjusted EBITDA Margin by 80 basis points, and increased Adjusted Earnings Per Share by 23.5%.

Our third quarter results reflect strong execution against the clearly defined portfolio strategy introduced at our Investor Day, as we direct our investments to support our Power Brands to fuel our distribution gains, geographic expansion, and volume growth.

To that end, across measured and unmeasured channels combined, our Power Brands volume increased 4% in the quarter led by our Power Four Brands: Utz®, On The Border®, Zapp's® and Boulder Canyon®. Importantly, as consumers continue to shop for value outside of traditional channels, our solid momentum continued in our non-measured channels to include club, hard discount, dollar, and e-commerce. In the quarter, our branded volumes increased nearly 8% in our non-measured channels.

We will continue to support this momentum with increased marketing investment and disciplined promotional spending adjustments, while we address softness in our dips and salsa business, where we experienced distribution losses last year. Finally, consistent with our portfolio strategy, we are purposely de-emphasizing non-strategic and lower margin areas of our business, such as co-manufacturing.

Turning to our consumption results in the quarter, for the 13-weeks ended September 29th, our consumption in measured channels as defined by Circana MULO-C, decreased 1.3%, which lagged the Salty Snack category decline of 0.4%. In the quarter, our sales trends were primarily impacted by a more competitive promotional environment in potato chips, and softness in the convenience store channel. Despite this, our retail volumes increased by 0.4% compared to a 0.2% decline for the Salty Snack category, and for the fifth consecutive quarter, we gained volume share in the Salty Snack category.

While we are not pleased with our consumption results in the quarter, context matters, and let's discuss how we got here. As you may recall, we executed our final broad-based pricing actions in 2023, and we assumed no benefit from price in 2024. At the same time, some of our competitors continued to take price this year, and our volumes through the end of the second quarter remained strong on a relative basis.

As we entered July and August, the Salty Snack category saw further increased promotional activities, particularly in the convenience store and mass channels, and we began to see a shift in consumer behavior to buying more based on price. Importantly, household penetration in the Salty Snack category in the third quarter has increased, but we have simultaneously seen buy rates decrease largely led by fewer consumer shopping trips.

While we were aware during our second quarter earnings call that some of our competitors had begun to take discrete pricing actions, the environment became more promotional over the third quarter than we anticipated, led by a greater number of competitors and affecting more channels. As a result, we saw share losses, particularly in potato chips, for about a six-week period, and then our share trends began to improve as we also utilized our own focused promotional activities.

Despite these promotional environment challenges, our investments in geographic expansion and our disciplined pricing strategy drove volume share gains led by our Power Four Brands. We continued to adjust to the dynamic consumer spending environment and more value-seeking behavior, and we remained thoughtful about the areas where we reinvest to drive demand. We will remain disciplined and targeted in evaluating price gaps with our competitors for the remainder of the year, and will adjust, as necessary, to continue to drive value both for our consumers and our retail customers.

To that end, our retail volumes increased 0.4% compared to a 0.2% decline for the Salty Snack category, and we gained volume share. Of note, our Organic Net Sales growth outpaced retail consumption, primarily due to solid performance in non-measured channels, and planned strong seasonal shipments to support incremental merchandising events relative to last year.

From a geography standpoint, in the third quarter our retail consumption in our Core geographies lagged the Salty Snack category. For perspective, in our Core we are inherently more competitive given our stronger market positions. As a result, fluctuating pricing gaps due to promotional activity are more likely to impact our growth. As I mentioned earlier, the competitive promotional environment intensified during the quarter, and this was most pronounced in our Core – in particular potato chips. This was largely across all major channels, including convenience stores, where our performance did not meet our original expectations.

Despite this, in the Core our volume share trends fared better than our value share as we maintained a disciplined and focused pricing strategy. From a volume share perspective, while our share declines were driven by potato chips, we held or maintained share across our other major sub-categories to include tortilla chips, pretzels, cheese snacks, and pork. From a channel perspective, our share declines were driven by the convenience store and mass channels. Within the convenience store channel, to be more competitive we are actively transitioning our assortment in potato chips to smaller bag sizes and lower prices points. Where we've made the swaps, we are pleased with the results. In addition, we are investing to regain distribution in key retailers and implementing initiatives to further leverage our hybrid go-to-market model.

And finally, while our third quarter trends in the Core were challenged, we have gained volume share in our Core year-to-date, and we remain on track to hold share for the year, consistent with the goals we laid out at our most recent Investor Day.

In our Expansion geographies, we once again drove both value and volume share for the total Company, our Power Brands, and our Power Four Brands. Our growth easily outpaced the Salty Snack category fueled by continued distribution gains, and share gains led by Utz®, On The Border®, Boulder Canyon®, and our Foundation Brands. Our consumer-loved portfolio continues to resonate as we drive space gains primarily across the mass and club channels, and in large national grocers with regional banners.

From a sub-category perspective, our measured channel growth for the total Company was led by continued outperformance in tortilla chips and cheese snacks, and our On The Border® and Boulder Canyon® brands both gained share during the quarter. Our Zapp's® share performance was largely impacted by potato chip softness in the grocery and convenience store channels, as we continued to make pack size adjustments and as we lap the introduction of Zapp's™ pretzel sticks in the prior year period.

Tortilla chip growth was led by On The Border® consumption growth of 4%, fueled by double-digit growth in our Core geographies, and growth in both traditional grocery, mass, and convenience store channels. Our rebound in cheese snacks continued in the quarter led by share gains for our iconic Utz® Cheese Balls with strong growth in the grocery channel.

Within potato chips, our share performance was impacted by softness in our Utz® brand due to competitive promotional activity, and in Zapp's®, along with softness in our Golden Flake® business. Boulder Canyon® gained share led by strong same store velocities in both traditional channels and in the natural channel, with growth of 26.5% and 37.3%, respectively. Going back to our Investor Day, our goal was to build Boulder Canyon® into a $100 million retail sales brand by 2026. I'm pleased to say that we are on track to reach $100 million in annual retail sales in 2024, and we are excited about the growth opportunities that lie ahead for this very on-trend brand.

Boulder Canyon® is the #2 potato chip brand in the natural channel with our Avocado Oil chip ranked #1 in terms of dollar sales, and we are expanding from kettle style and flat chips into the wavy potato chip segment with new innovation. The wavy segment is currently outpacing the potato chip sub-category growth, and our Boulder Canyon® Wavy chips carry all the familiar better-for-you credentials to include being made with avocado oil, and non-GMO project verified. In addition, our recently introduced Canyon Poppers®, which are off to a great start, are resonating with consumers looking for better-for-you indulgent cheesy snacks. We are focused on driving distribution from the natural channel to traditional channels.

As we wrap up 2024, from a portfolio standpoint, our focus remains driving outsized investment on our Power Four Brands. We expect this will be seen in our fourth quarter and full-year results in terms of advertising and consumer spend, innovation, and overall marketing capabilities. As a reminder, coming into the year we expected to increase our marketing spend by 40%, but because our productivity savings are ahead of plan and strong early returns on our marketing investments, we elected to increase our marketing spend this year to 60%. These efforts are focused on driving awareness with increased media spend and new brand campaigns, and today you can see our new Zapp's® and Utz® campaigns streaming across social channels and connected TV.

Finally, these collective efforts are leading to improvements in critical consumer panel metrics that reflect the power of our consumer-loved portfolio. For the 52-week period ended September 29th, versus the comparable prior year period, our:

- Household penetration has increased 180 basis points to 48.3%;
- Buyers have increased by over 2.7 million to 62.7 million; and
- Our total buyer repeat rates have remained consistent at nearly 70%, which we are particularly proud of given the number of new consumers that have purchased our brands.

It's clear that our brands are resonating with consumers and retailers, and we are excited for continued growth as we move into the final quarter of the year and have a strong finish to the year.

Now I'd like to turn the call over to Ajay.

Ajay Kataria

Thank you, Howard, and good morning everyone.

I will begin with a big thank you to all Utz associates for delivering another strong quarter. The team's efforts are evident in our financial results.

In the third quarter our Organic Net Sales increased 1.9%, Adjusted EBITDA increased 3.6%, and Adjusted Earnings Per Share increased 23.5%, as our productivity programs and actions to optimize our network and portfolio are delivering stronger profitability. Importantly, our Organic Net Sales growth, combined with these actions, resulted in our seventh consecutive quarter of Adjusted EBITDA margin expansion, as we delivered a 14.8% Adjusted EBITDA margin in the quarter.

During the quarter, our Organic Net Sales growth was led by volume/mix growth of 2.4%, driven by our Power Four Brands. In addition, pricing impacted sales growth by (0.5%) due to a disciplined pricing strategy in the face of a more promotional environment. Our total net sales growth was impacted by the divestiture of the R.W. Garcia® and Good Health® brands which impacted net sales growth by (3.6%).

Moving down the P&L, Adjusted Gross Margin expanded 270 basis points in the third quarter. Our third quarter margin expansion reflects continued strength in our productivity programs this year, as our manufacturing and procurement projects delivered strong results, which more than offset investments in our supply chain. Some examples of these investments include:

- Deploying integrated work systems in manufacturing where we are standardizing work at all levels, with a goal to increase ownership, minimize scrap and maximize yield and efficiency;
- Driving sourcing excellence programs and supplier relationship management in procurement; and
- Accelerating automation and new production capacity investments in our scaled facilities in Hanover, and in our Kings Mountain plant.

Adjusted SD&A Expenses increased 6.9% primarily due to increased marketing spend as we grow our share of voice in the marketplace, and due to higher selling and administrative expenses primarily to support distribution growth in our Expansion geographies.

Bringing it together, Adjusted EBITDA increased by 3.6% to $54.0 million, and Adjusted EBITDA Margin expanded by 80 basis points to 14.8% of sales. The margin expansion was driven by 400 basis points of productivity, partially offset by 110 basis points of higher supply chain costs to include investments, 100 basis points of higher marketing spend, 60 basis points of selling and administrative expenses, and 50 basis points of price.

In addition, Adjusted Net Income increased 20.3% and Adjusted EPS increased by 23.5% to $0.21 cents per share. Stronger operating earnings were aided by lower Core Depreciation and Amortization Expense and lower interest expense due to meaningful de-leveraging this year.

Turning to cash flow and the balance sheet, GAAP cash provided by operations year-to-date was $52.0 million aided by strong working capital performance in the third quarter, which is in line with typical seasonality. I'll note that there are items related to our plant dispositions this year that are impacting our cash results. These include approximately $10 million of working capital changes related to our transition services agreement with Our Home™, and approximately $20 million paid in taxes which were related to the divestiture transactions.

Capital expenditures year-to-date were $60.9 million and reflect spending primarily related to investments in our manufacturing plants to support our productivity and network optimization initiatives. Our expansion plans at our Kings Mountain facility remain on track, and we are planning to begin kettle chip production there in the first quarter of 2025. Finishing up cash flow, year-to-date, we have paid $30.8 million in dividends and distributions to shareholders.

Turning to the balance sheet, cash on hand was $64.9 million and our liquidity improved to nearly $224 million, giving us ample financial flexibility. Net Debt at quarter-end improved to $731.5 million and our Net Leverage Ratio improved to 3.7 times trailing twelve months Normalized Adjusted EBITDA of $196.5 million. Just to note, this represents a 1.1 turn improvement versus the end of the third quarter last year.

As a reminder, back in February, we closed the disposition transactions of the Good Health® and R.W. Garcia® brands, and three manufacturing facilities for a total consideration of $182.5 million, made up of $167.5 million in proceeds plus $15.0 million benefit from an ongoing transition services agreement. The approximately $150 million in after-tax proceeds from the transaction were immediately used to pay down long-term debt.

In addition, in the second quarter, we closed the dispositions of two additional manufacturing facilities for a total consideration of $18.5 million, with approximately $14 million in after-tax proceeds, which were used to pay down $9 million of long-term debt and added $5 million to the balance sheet. We also successfully completed a repricing of our $630 million Term Loan due in January 2028, which reduced the applicable interest rate by 36 basis points.

These two debt repayments plus the lower interest rate on our Term Loan will result in approximately $14 million in lower interest expense for 2024. Notably, our fixed rate debt now comprises approximately 80% of our total debt, at a blended average rate of 4.6% via interest rate swaps. Consistent with our strategy, these actions accelerate our expected timeframe to achieve our target of approximately 3.0x Net Leverage Ratio by year-end 2025, which is a year ahead from the year-end 2026 target set at our 2023 Investor Day.

Now turning to our full-year outlook for fiscal 2024. Our 2024 outlook continues to position Utz well to deliver our 2026 financial targets.

As Howard mentioned earlier, on September 5th we updated our full year 2024 Organic Net Sales growth outlook, and we reaffirmed the remainder of our 2024 financial targets. Today, we are reaffirming our complete 2024 financial outlook.

We continue to expect Organic Net Sales growth of between 2%-2.5%. We continue to expect our growth in the fourth quarter to accelerate, fueled by distribution gains in our Core and Expansion geographies, increased marketing spending, and an easier prior year comparison.

Moving to Adjusted EBITDA, we continue to expect growth of 5%-8%, fueled by gross margin expansion from our productivity programs, partially offset by investments in growth. Our strong productivity year-to-date gives us confidence in our ability to deliver on our cost-saving commitments this year and expand Adjusted Gross Margin by more than 250 basis points compared to the prior year. Our 2024 Adjusted EBITDA outlook continues to maintain a balance between productivity savings, investments in growth, and flexibility, as conditions merit.

Finally, we are reaffirming our Adjusted Earnings Per Share growth outlook of 28%-32%. We expect our earnings growth will be driven by increased operating earnings, a more favorable Effective Normalized Tax Rate, and lower Core Depreciation and Amortization Expense resulting from our plant dispositions earlier this year.

Our additional assumptions remain unchanged. We expect our Effective Normalized Tax Rate to be between 17%-19%, and interest expense of approximately $47 million. Capital expenditures are expected to be between $80 and $90 million and our Net Leverage Ratio is expected to be approximately 3.6x at fiscal year-end 2024.

Our 2024 results and outlook reflect the progress we have made this year to deliver on our four fundamental strategies laid out at our Investor Day. An improved capital structure and continued momentum in our productivity programs are enabling investments in growth, that are setting us up well for the future. The entire Utz team is working well together to deliver our three-year goals. And now I'd like to turn the call back over to Howard for some final remarks.

Howard Friedman

Thank you, Ajay. I'm really pleased with our progress against our strategies, and we are on track to deliver, or in certain cases, exceed our three-year financial targets. We are well-positioned to finish the year on a high note, and to drive accelerated growth in the fourth quarter. Specifically, we are:

- Activating distribution gains in both our Core and Expansion geographies with large regional and national customers across the grocery, natural, mass, and club channels;
- Driving growth and momentum of our Utz®, On The Border® and Boulder Canyon® brands;
- Increasing our marketing support behind our Power Four Brands;
- Gaining momentum of innovation investments which has us well-positioned for the holidays; and
- Lapping a much easier growth comparison.

I'd like to thank our Utz associates for their efforts in a dynamic environment, and we look forward to delivering a strong 2024 for all of our stakeholders.