

## **Operator**

Good morning and welcome to the Innovative Food Holdings First Quarter 2025 Earnings Conference Call. My name is Ronit Wallerstein and I'll be moderating today's call. With me on today's call for Innovative Food Holdings is Bill Bennett, our CEO; Brady Smallwood, our COO; and Gary Schubert, our CFO.

Throughout the conference, we will be presenting both GAAP and non-GAAP financial measures including, among others, historical and estimated EPS, adjusted EBITDA, which is net income before costs associated with amortization, depreciation, interest and taxes, and excluding certain one-time expenses; and adjusted fully diluted earnings per share, using the weighted average shares outstanding for the quarter ended 3.31.25. These measures are not calculated in accordance with GAAP. Quantitative reconciliation of certain of our non-GAAP financial measures to their most directly comparable GAAP financial measures appear in today's press release.

I would also like to remind everyone that today's call will contain forward-looking statements from our management made within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, concerning future events. Words such as "aim", "may", "could", "should", "projects," "expects", "intends", "plans", "believes", "anticipates", "hopes", "estimates", "goal" and variations of such words and similar expressions are intended to identify forward-looking statements.

These statements involve significant known and unknown risks and are based upon a number of assumptions and estimates, which are inherently subject to significant risks, uncertainties and contingencies, and many of which are beyond the Company's control.

Actual results, including without limitation, the results of our Company's growth strategies, operational plans, as well as future potential results of operations or operating metrics (and other matters to be addressed by our management in this conference call), may differ materially and adversely from those expressed or implied by such forward-looking statements.

Factors that could cause actual results to differ materially include, but are not limited to, the risk factors described and other disclosures contained in our filings with the Securities and Exchange Commission including the risk factors and other disclosures in our Form 10-K and our other filings with the SEC, all of which are accessible on [www.sec.gov](http://www.sec.gov). Except to the extent required by law, we assume no obligation to update statements as circumstances change.

With that, I would like to turn the call over to Mr. Bill Bennett. Please go ahead.

## **Bill Bennett**

Hello everyone and good morning. I'm happy to welcome you to our Q1 2025 earnings call. You can read more detail about our results when we file our 10Q with the SEC later today. I also

want to make sure you're aware that we've posted a new investor presentation on our website, IVFH.com, which gives an overview of the company, and the longer-term strategy we are building.

There are a number of strong points about this quarter's performance, alongside several areas where we are not yet satisfied and are working to accelerate progress. I'll start with the strong points.

First, our year-over-year revenue growth accelerated to 26.0% in Q1, from +19.2% in Q4. Our recently completed acquisitions, net of our divestitures, contributed approximately three points of that growth. That means our organic growth, excluding the impact of M&A and divestitures, came in at 22.9%. This was the first full quarter in which our new retail cheese business was fully integrated, and it was the largest single contributor to our overall top-line momentum.

Looking across the rest of our portfolio, we continued to see growth in several key areas, including our Artisan platform, our Amazon channel, the new distribution partner we onboarded last spring, Sysco, and our airline catering partners. We also launched our new airline cheese business this quarter, and we continue to chase multiple additional growth opportunities, both with cheese and with additional categories.

While the team has driven strong growth across many areas of the business this quarter, three areas remained an opportunity for us, and I want to highlight the actions we're taking to turn them into drivers of future revenue and profit growth.

First, our digital channels business continued to decline by single digits as our US Foods business completed two years of declines. Their marketplace platform is seeing intensifying competition, as they have expanded the number of sellers and items available on their marketplace.

I'll tell you a bit about the problem we're trying to solve here. In any marketplace strategy, catalog expansion is a core growth lever. This is why companies like Amazon and Walmart consistently focus on the breadth and depth of their offerings. We see this in our data as well, that catalog growth directly correlates to revenue growth. For most distributors, expanding a product catalog is a slow and costly process. But in our case, with an established drop-ship infrastructure, we should be able to do it faster and at a lower cost. Unfortunately, our legacy systems have made this more difficult than it should be. Until recently, our vendor onboarding process relied on outdated tools—including an Excel-based template with over 150 fields required for every new item. This has understandably created friction, particularly for the smaller, artisan vendors that should be a competitive strength for us. Historically, it took us 6 to 12 months to fully onboard a single vendor. That translated into an average of just 13 new SKUs added per week—far too slow to drive catalog growth, especially when factoring in natural attrition and item discontinuation.

We are now in the process of rebuilding our catalog management platform using AI-driven third-party tools. These tools will allow for concurrent processing by multiple team members, eliminate our reliance on the rigid Excel templates, and streamline the vendor onboarding experience. Vendors will now be able to upload any version of their catalog, and the AI will parse the data, auto-populate required fields, source additional data from public databases, resize and enhance images, and generate optimized product titles and descriptions.

This transformation will reduce vendor onboarding time from 6–12 months down to a fraction of the time. This means our people can shift from tedious manual data entry to higher-value activities like vendor sourcing and quality validation—further accelerating the flywheel. While this is still a work in progress, I look forward to updating you on our continued progress in future quarters.

The second area of opportunity this quarter relates to the profitability of our retail business. In Q1, we narrowed our loss from approximately \$700,000 in Q4 to approximately \$425,000. While this represented some progress, we obviously still have work to do. There are a number of strong initiatives underway, which Brady will speak to in greater detail later in the call. We remain confident in the path to sustainable profitability, but we know we have more work to do.

The third area of opportunity is the integration of our recently acquired businesses. We are still in the process of stabilizing the businesses after their purchase and the relocation of LoCo. As part of this process, we made the decision to exit a subset of legacy customers that did not meet our profitability or credit standards. We're now implementing standard operating procedures across all key functions and tracking daily progress. We've upgraded the talent on the team, including the recent hire of a full-time accountant to replace the bookkeeping originally done by a contractor and the founder, and we're systematically building a scalable playbook. This playbook will help us much more quickly and efficiently integrate our next acquisitions with clear documentation around every key process in the operation. Despite all of this transition, these businesses remained profitable in Q1, even while running out of two separate locations for much of the quarter and incurring costs that won't continue into the future.

Once this integration is complete, we'll begin driving the growth levers we've previously outlined, including cross-selling opportunities across our digital platforms. We anticipate being well-positioned to begin accelerating revenue and profit from these channels in the back half of the year.

In summary, Q1 was a quarter of strong top-line growth and clear progress, but also one of focused investment and transformation. We're seeing traction in key parts of the business and laying the foundation for long-term value creation. I want to thank our team for their focus and execution, and we look forward to updating you further in the quarters ahead.

With that, I'll turn it over to Brady to talk through some of the specific actions we've taken in the operation of our business this quarter. Brady?

## **Brady Smallwood**

Thanks, Bill, and good morning everyone.

Today I'll focus my comments mainly on our Pennsylvania-based business as this was our first full quarter operating a substantial retail business out of this hub, and we only hit our fully scaled points of distribution in mid-January. So far, our rollout has been roughly in-line with internal expectations, driving significant topline growth while requiring some upfront investments to transform the operations. This program launched with long-lead-time imports, large volume buys, and no historical demand data. For all of our current active items, forecasts had to be made before launch, but importantly, upfront commitments from our customer helped de-risk those inventory positions, so we were able to prioritize service levels out of the gate, which required significant working capital outlay. Now, with better visibility into demand and item variability, inventory ended the quarter slightly down from its peak, and is currently down more than 50% from its peak and approaching target levels. In some cases, partner-funded promotions helped clear longer positions without impacting margin and have informed a stronger demand management playbook.

We've also strengthened our cost structure: With scale, we've negotiated vendor cost reductions and mitigated some foreign exchange rate and tariff pressure. The rotational structure of this program also allows sourcing flexibility to maintain price competitiveness.

Operationally, reducing trim has been a key focus. We now weigh every wheel and cut, capture data in real time, and adjust specs by cheese type. We're building sales channels for each trim type—some routed into drop ship, others into airline formats. About a third of our retail products are also included in airline contracts, enabling us to repurpose trim as sellable product.

We've also reduced freight cost per unit by optimizing case packs and pallets and renegotiating freight carrier rates. Our scale in retail is improving unit economics across the network, including airlines, which is predominantly serviced out of our Pennsylvania facility.

The capabilities we're building are also unlocking new revenue streams. Within just the last 60 days, we have expanded cheese conversion for airline customers and one large importer. We see a need in the market for the types of services and products we can provide, and we are expanding cooler capacity to support future growth aspirations.

Speaking of airlines—this business continues steady year-over-year growth. While macro uncertainty exists, our gains are primarily driven by execution such as new items, more partners, and stronger reliability.

As you can tell, we've been focused on launching retail and supporting growth in airlines, while continuing to source new opportunities. While we still have work ahead to operate with excellence and solidify our new partnerships, we remain bullish on the growth opportunities that lie ahead.

## **Gary Schubert**

Thank you, Brady. Hello everyone. As we look back on the first quarter of 2025, I am pleased to share the financial highlights and my perspective on our performance.

As Bill stated, for the first quarter of 2025, we reported revenue of \$19.5 million, representing a 26% increase compared to \$15.5 million in the same period last year. Our organic revenue growth, excluding the effects of divestitures and acquisitions, was an impressive 23%.

The cost of goods sold for the quarter increased by 28.6% to \$15.1 million compared to \$11.7 million last year. Our gross margin dropped by 157 basis points to 22.9%, mainly due to expected changes in our sales mix as we expanded our cheese business. Cheese products sold to retailers carry lower margins than other offerings and account for 19% of Q1 sales compared to 0% in the same period last year. Excluding cheese, gross margins improved by 282 basis points. However, the cheese business is expected to improve with better volume costing and operational efficiency. The margin decline was partially offset by lower shipping costs, which declined 280 basis points, representing 9.6% of revenue in Q1 2025 compared to 12.4% last year.

Our operating expenses saw some changes as well. Total cash operating expenses increased by \$835 thousand, reflecting growth in our national distribution channels and M&A activity in Q4 2024. This represents an decrease from 22.8% to 22.4% of total revenue. Although payroll and related costs rose by \$377 thousand to \$2.9 million, a result of higher headcount to support our national distribution business and employees added through acquisitions, we saw a decrease as a percentage of revenue to 14.9% from 16.1% last year.

Professional and legal fees increased by \$472 thousand to \$762 thousand, with approximately \$288 thousand attributable to various legal and transactional activities related to acquisitions and other corporate actions, representing 1.48% of total revenue. Additionally, we incurred \$72 thousand in auditor expenses that were pulled forward into Q1, partially due to the acquisitions but largely due to the renegotiated contract which shifted more of the annual engagement into Q1. This brings the total professional and legal fees to 3.9% of total revenue compared to 1.9% last year.

Turning to profitability, we experienced a GAAP net loss from continuing operations of \$430 thousand compared to a net income of \$1.9 million last year. This translates to GAAP net loss from continuing operations per fully diluted share of 0.008 cents, compared to income of 2.8 cents in 2024. Adjusting for non-recurring items and non-cash expenses, our Q1 adjusted net

income from continuing operations of \$46 thousand, a slight decrease compared to \$161 thousand in 2024. This results in adjusted net income per fully diluted share of .001 cents, compared to .003 cents in 2024.

**Now, let's delve into our cash flows, which is a critical area of focus for our financial health and operational sustainability:**

**Net cash used in operating activities** was \$977 thousand for the first quarter of 2025. This was primarily driven by changes in working capital components. Accounts receivable decreased by \$1.5 million, reflecting the collection of receivables related to elevated cheese sales in Q4 2024. Inventory increased by \$617 thousand to support anticipated demand from new retail and airline customers and to replenish depleted inventory levels associated with the newly acquired LoCo Foods distribution business. Accounts payable and accrued liabilities decreased by \$1.8 million, primarily due to paydowns of inventory purchases related to the elevated Q4 2024 cheese sales, which were settled in Q1 2025.

**Net cash used in investing activities** was \$163 thousand, primarily related to purchases of property and equipment. These investments included equipment for cheese cutting operations and warehouse improvements to support the consolidation of LoCo Foods and Golden Organics, acquired in Q4 2024.

In summary, our cash flow activities reflect our strategic investments and operational adjustments to support future growth. The net cash used in operating activities highlights our efforts to manage working capital effectively, particularly in response to the elevated cheese sales and the integration of newly acquired businesses. The investments in property and equipment are aimed at enhancing our operational capabilities and supporting the consolidation of our recent acquisitions.

Looking ahead, I'm excited to share an update on our uplisting journey. We plan to start with the name change to Harvest Group Holdings within the next month. Along with this, and after thorough analysis, we'll also redomicile to the state of Texas. Shortly after, we'll file our NASDAQ application and announce a reverse stock split closer to the uplisting.

We do not currently have concrete dates to share publicly, but we continue to make progress and will provide updates as the process advances.

In conclusion, we are pleased with our revenue growth and the strategic progress we have made in expanding our market presence and customer base. We remain committed to driving shareholder value through disciplined financial management and strategic investments. Thank you for your attention. With that, I'll hand it back to Bill to share his thoughts and lead us into the Q&A session. Bill, over to you.

**Bill Bennett**

Thanks, Gary. Lots of good things happening across the business, with several areas of intense focus as we continue on our strategic journey.

With that said, we're happy to take some Q&A, so I'll turn it back to Ronit to moderate the Q&A for us.

**Operator**

We'll now move to the Q&A section of the call. If you'd like to ask a question, please use the Zoom function to "raise your hand" or dial \*9 if you are calling in from a phone. Please limit your comments to one question and one follow-up if needed, and keep your comments professional and respectful. We've allocated approximately 20 minutes to this portion of the call.

**Bill Bennett**

Thanks, Ronit. We have a couple questions coming in through the chat that I can hit on since we don't have any raised hands. So first off from Ian Cassel: "I have a question about the cheese retail business. Can you become profitable at the current scale or do you have to grow it significantly to get to breakeven?"

So we do think that we can get to profitability at the current scale. It's hard, I know, for investors who only get a quarterly snapshot of our financials. But I'd encourage you to just remember that we only finished the ramp up of this retail business in January with that additional rollout that we had announced at that point. And so, really, we only had a partial quarter of this business at full scale.

And we continue to learn every single day on how to be more efficient with the process. We're already getting improved costs, that haven't yet showed up in the financials. I actually just visited the Pennsylvania facility this week and witnessed some new processes they have in place that are reducing labor by upwards of 30% per unit. We continue to find efficiencies in our shipping, capabilities and contracts.

So all of those things we continue to push on and expect that we can get to profitability within our current scale. But that said, like Brady mentioned, we also continue to chase additional top-line opportunities. And just having these capabilities in place opens up so many doors that we just didn't have access to before. So, hopefully, that answers your question.

The second question I have in the chat is from JD Abouchar: "What lessons have you learned from the recent acquisitions?"

Yes. Great question. I said this at the outset, that we had a lot to learn. That was why we didn't want to pursue additional acquisitions too quickly and we're definitely living through that now. So one of the things I think has been really interesting to learn is that with acquiring a small business like this, there's a lot of work that has to be done on the processes. Historically, the founder wore most of the hats in the building and, frankly, is typically overworked and doesn't have enough bandwidth to tackle all the different things that need to be handled. So you have people shouting over walls to handle a missed invoice or something like that. We really, especially now that they're part of a public company, we have to get all of those controls in place that you would expect a public company to have.

So, I would say, so far that's been more challenging than we anticipated. And it's why, as I mentioned in my comments, we're just getting more and more granular and into the weeds as we see the level of detail that's needed to sort of set up those processes and build the right habits with the team. So we've identified now probably 15 different core operational processes around the facility that we've now written a standard operating procedure for.

We then actually plug those all into our activity tracking tool and we keep track of those daily in my conversations with our president there. And it's helping us make tremendous progress in pushing forward to the objectives that we have. So that's one big thing is just the importance of process and then making sure that we've got the right talent in place to implement those processes.

A second thing that I would say is that I think so many decisions are made in a small operation like these by gut. And of course we just don't want to operate that way. So one of the other things we're doing with them is building out scalable tools that we'll be able to leverage in other parts of the business. So one example of this is just the inventory ordering process. Historically, in these two businesses that we acquired, POs were placed for new inventory literally by walking through the warehouse and looking at which items seemed to be low on inventory.

There was no formal forecasting process. There was no, if you know anything about operations management and reorder points and managing by standard deviation of demand, all of those, good kind of business school concepts aren't really in place in an operation like this. And so we're now building out tools that can really make the business turnkey from an operational standpoint.

And that's why I say when we make another acquisition at some point in the future, it's going to be so much easier to go through integration because we're going to literally have the entire playbook written. Here's how you accept an order. You need three signatures on the invoice before it's passed into the warehouse. Here's how you place a PO on new inventory. You have to have a forecast in place. You have to have your reorder point established et cetera, right? So as we get through each of those processes, I'm confident that we're going to get those businesses to where we need them to be, but it is definitely a learning process.

All right. I just keep getting more questions here in the chat. So I'm just going to keep going there. Next one is from Brian Harper: "Can you describe the process for cheese fulfillment? Is it standard and the same for each store? Is it customized? Are you cutting individual portions or is that done at store level?"

Yes. So one of the key pieces of value that we're adding in this cheese relationship with Sam's Club is that we do all the processing centrally, right? So there's no in-store labor for them to be able to still offer this fresh cut cheese. So by doing all of the cutting, wrapping, and everything in a central way, that's what enables us to then invest in the machinery and automation to do it as efficiently as possible and even save additional costs over what it would take to do those processes in store.

Now the offering that the retailers asked us for is what's called a "fixed weight" program. So each piece of cheese is exactly the same weight as the next. A lot of retailers do what's called a "variable weight" program. Every cheese is a little bit different weight and you charge by the pound.

So because of that we've -- that's been part of the learning curve we've gone through on that retail business is figuring out how to reduce trim as much as possible so that we can get to as precise cuts of cheese that, that Sam's Club has asked for. So I think that answers each of your questions there. And the last piece I'll say is, we do distribute not to their stores directly, but to their DCs. So that definitely helps on our efficiency and enables us to hit the cost structure that we need to for them.

All right. Got another one from Ian Castle: "You mentioned the focus on increasing the velocity of new products into your catalog. What is the current weekly number compared to last year's number you mentioned in your prepared remarks and where would you like it to be in 12 months?"

Yes. So we haven't implemented this system that I've talked about so far, right? We're still sort of under development of this AI platform that will accelerate the pace for us. So year-to-date, we're on about the same pace that we were on last year. What will really change once we can accelerate this pace of catalog additions is that we can start to go after vendors in a much more aggressive way. It's interesting - our sourcing team today has to be extremely selective in terms of which vendors they put in the pipeline because they know it's going to take a long time. And we do a lot of trying to convince these vendors to stick with us and, hey, it's going to be worth it. You're going to get on this US Foods platform. The sales are going to come, but we just we need your help filling out this 150 column spreadsheet. And we know it's painful, but we'll get there.

In the future, we're just not going to have to put so much scrutiny on which vendors get into the pipeline. Of course, we want the right vendors and the right items. But my point is there are hundreds of vendors that I would love to have on the platform that we can't do today because

of these manual processes. Even as we've talked through this with US Foods in particular, they are incredibly excited about the pace that we'll be able to accelerate with them.

And they've even talked about pushing some of the smaller vendors that they would like to do business with, but can't justify setting up on their platform, pushing those vendors to us to actually set up into our catalog. We've talked about how as we make additional acquisitions that this will be able to grow our catalog even faster and that's something they're excited about. So it's even reinforcing the relationship with US Foods that, as I mentioned, is of course a key part of getting that business back to growth.

And then one more follow-up from Ian: "Can you give some more color on the potential of further growth in cheese retail versus airlines? What other categories could become potential opportunities?"

Yes. So we continue to look at how else we could expand these businesses both within Sam's Club as well as across other retailers across the landscape. And I think the most natural extensions are into sort of adjacent categories to gourmet cheese. So things like cured meats or olives or other gourmet sort of shelf stable products that can go alongside the gourmet cheese.

We've also talked about opportunities in fresh seafood and fresh beef where we have connections with artisanal vendors that could really bring something unique, whether it's to Sam's Club or to other retailers. So all of those opportunities are things that we're pursuing. Like I've said many times, any kind of B2B sales process is long and most retailers don't reset their shelves more than once or twice a year.

And so the actual selling process for a new addition could be six to 12 months out from when the shelf actually gets reset and the sales start to flow. So we'll continue to keep you updated as we hear more back from the different sales opportunities that we're pursuing, but definitely don't have anything new to announce at this time.

All right. I just got one more in the chat from Alan Abel: "Hey, Bill. What financial metrics do you or will you consider the most important in potential acquisitions going forward? What makes targets look good to you?"

Yes, good question. So I don't know that I have anything super creative here other than sales and profit. I mean, the way we looked at both of these acquisitions was that we felt like we had synergies that we could bring to them that they couldn't achieve on their own, which, of course, as I said before, we didn't bake into the valuation model, right? We paid a fair value for these businesses as standalone entities. And so that's why it's so important that as we get them back to growth and then generating additional profit, those will be the two key things that we look for.

Now the levers to pull to get there are maybe kind of the next set of KPIs that maybe have even more strategic importance to us than the actual dollars that we'll generate out of the revenue

and profit, because that's what will dictate our ability and desire to go after more acquisitions. So things like how fast can we scale Golden Organics' catalog onto US Foods and actually get meaningful revenue and profit out of it? How fast can we find new retailers that LoCo Food distribution can sell to? And ultimately how broad is the desire for Colorado made products, right? So those sort of somewhat qualitative and somewhat quantitative KPIs will be important for us to watch to really justify pursuing additional acquisitions in the future.

All right. That's all the questions I have in the chat. I don't see any hands raised. Thanks, Ronit, for moderating. Thanks, everyone, for your questions today and for your attendance and engagement on the call. It's really inspiring to see the level of interest in Innovative Food Holdings. As always, I'm happy to make myself and my leadership team available to connect with investors who have further questions about publicly available data. Please reach out to Gary Schubert, whose contact info is included in our press release, if you'd like to schedule a touch base. Take care, and we look forward to continuing to update you on the progress of our strategy at our Q2 update later this Summer. Thanks all, and have a great day.