

HF Foods Group 1Q24 Earnings Call

Anna Kate Heller, ICR

Hello, everyone.

Welcome to HF Foods Group's first quarter 2024 earnings conference call. Joining me on today's call are Peter Zhang, HF Foods' Chief Executive Officer, and Felix Lin, the Company's President and Chief Operating Officer. In a moment, we'll hear their prepared remarks. We are excited that Cindy Yao joined HF Foods as Chief Financial Officer on May 1st and she will be joining us for the next earnings call.

By now, everyone should have access to the earnings release for the period ended March 31, 2024 that went out Wednesday, May 8 at approximately 8:00 AM Eastern time. The press release is accessible on the Company's website at investors.hffoodsgroup.com.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment as the company currently sees it, and as such, does include risks and uncertainties. If you refer to HF Foods' earnings release, as well as the Company's most recent SEC filings, you will see a discussion of factors that could cause the Company's actual results to differ materially as a result of these forward-looking statements. Please remember the Company undertakes no obligation to update or revise these forward-looking statements in the future.

In these remarks, the Company will make a number of references to non-GAAP financial measures. We believe that these measures provide investors with useful perspective on the underlying growth trends of the business and have included in the earnings release a full reconciliation of non-GAAP financial measures to the most comparable GAAP measures.

Now, I will turn the call over to Peter.

Peter Zhang, CEO

Hello, everyone. I would like to welcome Cindy Yao as our Chief Financial Officer. Cindy has over 30 years of finance and accounting leadership, her experience will be

invaluable to our team. We are excited to have her join us. Felix Lin will speak about our 2024 first quarter financial results and the operational update.

Now over to you, Felix.

Felix Lin, President and COO

Thanks, Peter, and I'd like to extend a warm welcome to Cindy as well.

I am pleased to be speaking with you after we achieved our highest ever recorded net revenue during a first quarter at HF Foods, alongside year over year improvements in gross profit, net loss, and Adjusted EBITDA.

It is notable that we achieved net revenue growth even though we exited our chicken processing businesses in the second and third quarters of 2023, demonstrating signs of strength within our core business. Our operational transformation plan is well underway, and I will speak more about our progress on these key financial metrics which are positive indicators of success.

Q1 Results

I'll start with our results for the first quarter ended March 31st, 2024, versus the same period in 2023:

Net revenue for the first quarter increased 0.6% to \$295.7 million, from \$293.9 million in the prior year quarter. This increase was primarily driven by product cost inflation and improved pricing in certain categories, partially offset by the \$2.7 million loss in revenue resulting from the exit of our chicken processing businesses.

Gross profit increased by 0.5% to \$50.4 million for the quarter, compared to \$50.2 million in the prior year quarter and gross profit margins were approximately flat at 17.1%. The increase in gross profit was driven by improvement in the Seafood category due to successful execution of a centralized purchasing plan.

Distribution, selling, and administrative expenses decreased approximately 4.6% to \$50.5 million for the first quarter of 2024 from \$52.9 million for the first quarter of 2023. The reduced expenses were due primarily to lower professional fees and were partially offset by higher payroll and related labor costs. Distribution, selling and administrative expenses as a percentage of net revenue decreased to 17.1% from 18.0%

in the prior year period primarily due to lower professional fees and increased net revenue and was partially offset by increased headcount.

Operating income for the first quarter of 2024 was a loss of \$0.1 million compared to a loss of \$2.8 million for the first quarter of 2023. The improvement was driven by the lower distribution, selling, and administrative expenses.

Total interest expense slightly decreased to \$2.8 million for the first quarter compared to \$2.9 million in the prior year quarter.

Net loss improved to \$0.6 million for the first quarter, compared to net loss of \$5.8 million for the prior year quarter. The improvement was driven by lower distribution, selling and administrative costs, and higher gross profit and was partially offset by the \$4.7 million change in the fair value of interest rate swaps.

Adjusted EBITDA increased approximately 51.4% to \$8.7 million for the first quarter, compared to \$5.7 million for the prior year quarter. The increase in adjusted EBITDA was primarily due to lower distribution, selling and administrative expenses.

At the end of the first quarter, we had available capacity of \$40.9 million in additional funds through our line of credit. We feel good about our current liquidity position.

Transformation Update

As a reminder, we've implemented a comprehensive operational transformation plan to achieve our growth targets and ensure our business is primed for success. I will give you a few updates on our progress, and I look forward to continuing to share more in the coming quarters.

Centralized purchasing

Our centralized purchasing initiative is focused on formalizing national category purchases, and we are bringing in new vendors into our ecosystem in order to harness our buying power. We continue to make progress in our seafood margin expansion plan and have now expanded the program to select meat and poultry products.

Fleet and Transportation

We said previously that we implemented a national fuel savings program to maximize efficiency and reduce fuel costs. We launched our national fuel savings program in March 2024. As part of our focus on efficiency and lower operating costs, we have initiated the first phase of our replacement program by placing orders for roughly 25% of our existing fleet. We expect the new trucks to be in service by the end of 2024.

Digital Transformation

We are also really excited about where our digital transformation stands, as we are well underway with the implementation of our modern ERP solution. This modernization effort not only enhances our operational efficiency but also strengthens our ability to adapt swiftly to market dynamics. We continue to expect to complete implementation by the end of 2024.

Facility Upgrades

We have recently completed a network and facility optimization study for our distribution network. We have now moved into phase one of our facility upgrade initiatives as well. Phase one includes two new state of the art facilities in the Southeast region, where we see the highest potential for cross-selling and maximizing efficiency opportunities. Our goal with both facilities is to drive down distribution costs for our existing customers in the region as well as substantial organic growth opportunities.

I'm encouraged by the solid groundwork we have made on our transformation plan, as we are on track for all of our key focus areas to have the impact of significant growth or cost reduction for years to come. We remain committed to meticulously executing our plan in 2024.

M&A

Regarding our M&A growth strategy: we are actively exploring M&A opportunities for geographic expansion of our business, and our M&A strategy is focused on targets that will allow us to realize meaningful synergies.

Closing Remarks

In closing, we offer very strong value as a leader in Asian food distribution, and have positioned HF Foods as an indispensable partner in delivering premium specialty

products that are essential for authentic experiences that customers expect. Our primary focus remains on executing our comprehensive transformation plan aimed at enhancing operational efficiencies to deliver sustainable long-term growth. So far, we've successfully established HF Foods as an enterprise generating over \$1.1 billion in annual net revenue, but we are just getting started.

We look forward to providing further updates on our next call. Thank you.