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HF Foods Group, Inc. (HFFG)

Q4 2025 Earnings Call

CORPORATE PARTICIPANTS

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Daniel Harriman
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the HF Foods Group Fourth Quarter 2025 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Jon DeDomenico with ICR. Thank you, Jon. You may begin.

Jonathan DeDomenico
Vice President-Investor Relations, ICR

Hello, everyone. Welcome to HF Foods Group's 2025 earnings conference call. Joining me on today's call are Felix Lin, the company's President and Chief Executive Officer, and Paul McGarry, the company's Chief Financial Officer.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on management's current beliefs and expectations about future events, which are subject to several known and unknown 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 from those expressed or implied by these forward-looking statements. The company undertakes no obligation to update or revise these forward-looking statements in the future.

In these remarks, the company will make several references to non-GAAP financial measures, including Adjusted EBITDA and non-GAAP diluted earnings per share. We believe that these measures provide investors with a 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 Felix.

Felix Lin

Chief Executive Officer, President & Director, HF Foods Group, Inc.

Hello, everyone. Welcome to HF Foods' 2025 earnings call. I'll provide business update and Paul will speak to our 2025 financial results. Then we'll open up the line for Q&A. It's no secret that 2025 brought headwinds for the broader foodservice industry, in terms of tariff pressure and lower foot traffic. But against this backdrop, we drove meaningful continuous momentum for our business.

Net revenue increased 2.2% year-over-year to \$1.23 billion, and gross profit increased 1.2% to \$207.6 million. Also notably, Adjusted EBITDA increased 6.9% year-over-year. We made meaningful progress on our long-term transformation plan with respect to sales operations, digital infrastructure, and facilities upgrades.

On sales operation, we have consolidated two sales call center operations into one as of late December 2025. This consolidation provides us better control over the overall sales process and improve customer service, while maintaining the distinct connection we have with our customers through our understanding of their business, language, and product needs. This will reduce costs, while further strengthening our competitive positioning.

On digital transformation, we completed the full ERP implementation across all of our distribution centers. The new system will enable us to achieve higher levels of purchasing and operational efficiencies over time. I would like to note that as part of this implementation, we re-categorized many of our SKUs, which drives some variability in our year-over-year sales by category. You will see clean comparisons once we lap the implementation in second half of 2026. I'm also happy to announce that with the implementation of the new ERP system, we have fully remediated IT general controls related deficiencies as of year-end 2025. This is a significant milestone.

On facilities, the renovation of our Charlotte location is largely complete with final permits imminent. We expect Charlotte to be operational in Q2 of 2026, which will shorten our Seafood distribution routes in the Southeast. Phase one construction of our new state-of-the-art Atlanta DC has been completed, becoming operational in January 2026. We plan to kick off phase two cold storage capacity expansion in Atlanta to launch in the second half of 2026. Once complete, our cold storage capacity in Atlanta market will have almost doubled, expanding from 10,000 square feet to 20,000 square feet. We see cross-selling as a major organic growth playbook and expect the Atlanta facility to be a cornerstone of our cross-selling strategy in the Southeast in the future.

Between Southeast and Midwest, there's several hundred million dollars' worth of organic growth opportunity as we continue to invest and expand capacity. In September, we announced the acquisition of our Chicago warehouse. This strategic acquisition advances HF Foods' ongoing transformation plan to improve operational efficiency, reduce costs, and strengthen organic growth through cross-selling opportunities. Acquiring the facility enables us to exit the lease agreement early, improve operating expense, and invest to grow additional capacity and drive consolidation opportunities.

These exciting infrastructure investments reflect our ongoing commitment to optimizing our distribution network and creating a stronger foundation for sustainable growth.

Based on current trends, we expect 2026 to be like 2025, with low single-digit growth on the top line as well as the bottom line for both Adjusted EBITDA and gross profit. This also reflects our strategy to ramp up cross-selling opportunities over time, focusing on increasing our share of customers' wallet size and combat competitive pricing pressure in the short-term. While we continue to navigate macro headwinds, including tariff pressures and shift in consumer spending behaviors, our transformation initiatives are paving the way for continued growth and improvement. We remain extremely confident in our long-term growth strategy and are committed to our capital investment plans as we continue our growth momentum in 2026 and beyond.

M&A remains a core pillar of our growth strategy. HF Foods is the only scale foodservice provider in the Asian specialty market in the United States, and we believe we are the strategic acquirer of choice within our space. We're focused on expanding our geographic footprint in high potential markets, capturing operational synergy, broadening our customer base, and enhancing our product and service capabilities. We remain disciplined, but optimistic about M&A opportunities in 2026 and beyond and are actively evaluating opportunities from potential sellers who understand our unique position. We believe our proven abilities to successfully navigate the tariff landscape positions us uniquely to identify and execute attractive tuck-in acquisitions, that will benefit from our operational expertise and scale.

I want to emphasize the significant runway ahead of us. We operate in a \$50 billion addressable market and at just over \$1 billion in net revenue, we're the largest player in the Asian specialty space. No one, whether larger or smaller competitors, is better positioned than HF Foods to capture this opportunity in the coming years.

Now over to you, Paul, our CFO, to walk you through more detail of the financial performance for the year.

Paul E. McGarry

Chief Financial Officer, HF Foods Group, Inc.

Thanks, Felix. I will now review our results for the year ended December 31, 2025 versus 2024. Net revenue for the year increased 2.2% to \$1.23 billion from \$1.2 billion in the prior year. The increase was primarily attributable to volume growth and pricing improvement in Seafood and Meat & Poultry and volume growth in Commodity, partially offset by volume decreases within other categories.

Gross profit increased by 1.2% to \$207.6 million for the year, compared to \$205.2 million in 2024. The increase was attributable to increase in net revenue, partially offset by increased costs. Gross profit margin decreased slightly to 16.9% compared to 17.1% in 2024.

Distribution, selling and administrative, or DS&A expenses, increased by \$3.7 million to \$201.8 million for the year, primarily due to increases in depreciation, occupancy, and non-recurring transformation expenses, partially offset by a decrease in professional fees. DS&A expenses, as a percentage of net revenue, remained relatively consistent at 16.4% in 2025 compared to 16.5% in the prior year.

Adjusted EBITDA increased 6.9% to \$45 million for the year compared to \$42 million in 2024. Total interest expense increased slightly to \$11.5 million in 2025 compared to \$11.4 million in the prior year. Net loss attributable to HF Foods was \$38.8 million compared to a net loss of \$48.5 million in 2024.

The year-over-year improvement was primarily driven by a lower goodwill impairment charge and improved operating results. These favorable items were partially offset by the absence of the prior year gain on lease guarantee liability termination and by the year-over-year change in fair value of interest rate swaps. Importantly, following the 2025 impairment, we have no remaining goodwill, so this item will not affect results going forward.

Adjusted net income, attributable to HF Foods, increased \$2.9 million or 20.9% to \$16.9 million compared to \$14 million in the prior year period. Loss per share improved to \$0.73 compared to a loss of \$0.92 in the prior year period. Adjusted earnings per share increased to \$0.32 compared to \$0.26 in the prior year period.

To summarize, 2025 was a year of steady progress in a challenging operating environment. We delivered year-over-year growth in net revenue, expanded adjusted EBITDA, and continued to invest in the infrastructure and systems that support more scalable, efficient execution going forward. Importantly, we finished the year having

completed our ERP rollout across the network and remediated our IT general control deficiencies, while also advancing key facility initiatives like Atlanta and Charlotte and positioning the business for improved operating leverage.

As we move into 2026, we remain focused on disciplined execution, driving operational efficiency, supporting organic growth through cross-selling and network optimization, and maintaining prudent capital deployment. With the transformation foundation now largely in place, we believe we're well positioned to sustain momentum, while remaining selective and strategic in pursuing tuck-in M&As that strengthens our footprint and capabilities.

I'll now hand it back to Felix for closing remarks.

Felix Lin

Chief Executive Officer, President & Director, HF Foods Group, Inc.

Thanks, Paul. As we look ahead to 2026 and beyond, I want to emphasize our commitment to executing the comprehensive transformation initiatives that are reshaping HF Foods. 2025 was a year of strategic investment for HF, and the investments we are making in our facilities, digital infrastructure, and operations will establish a strong foundation for our next phase of growth. While short-term uncertainties persist, we remain focused on our long-term strategic objectives. Our investments in digital transformation and infrastructure are strategically designed to drive organic growth through cross-selling opportunities, while positioning us to complement this expansion with targeted M&A initiatives.

Our key competitive advantages stem from the growing demand for authentic Asian cuisine and our unmatched position as a leading nationwide Asian specialty distributor. We're methodically building the infrastructure, systems, and capabilities needed to fully capitalize on these strategic advantages.

As we move forward, we'll continue to identify and implement additional efficiency measures, while maintaining our commitment to service excellence and sustainable growth. Thank you for your continued support, as we execute our strategic transformation. We look forward to sharing our progress with you on our next call. I will now hand over to the operator for live Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question comes from the line of Daniel Harriman with Sidoti & Company. Please proceed.

Daniel Harriman

Analyst, Sidoti & Co. LLC

Q

Hey, guys. Good afternoon. Thank you for taking my questions. And Paul, congratulations on the official title. Felix, congrats on great execution for the year, despite, the noticeable headwinds. But I'm just curious to start off, moving beyond 2025, can you talk a little bit about the biggest opportunities you see to drive incremental organic growth, particularly around cross-selling and expanding product availability across the customer base? And then secondly, just curious to hear a little bit more about how the operational initiatives implemented in 2025 are beginning to impact the day-to-day execution across the business.

Felix Lin

Chief Executive Officer, President & Director, HF Foods Group, Inc.

A

Hi, Daniel. Appreciate the question. Yeah, I think the biggest opportunity is going to be around cross-selling [ph] we're expecting (00:14:28) in the Southeast, right? We just move into our new facility that's effectively twice as big as the older facility in Atlanta. And we start to acquire some new accounts within the region. But I think, we're still going through a ramp-up phase here. As I noted earlier, it's going to take a little bit of time to completely ramp-up the volume, and utilize the space. And second phase of our freezer construction is going to start here in the Q2 of 2026. So likely it's going to be second half before we see some meaningful incremental frozen Seafood volume come into play for the Southeast market for us.

And then fast-forward, we also announced the acquisition of our Chicago facility, so the investments and on the go in in 2026 as well, prepping us for meaningful cross-selling, organic growth in the Midwest region in 2027 and beyond.

Operator: Thank you. Our next question comes from the line of Bill Kirk with ROTH Capital Partners. Please proceed.

Q

Hey, this is [ph] Nick (00:15:49) on for Bill. Thanks for taking the questions. First from me on February traffic, it was weaker last year. Just wondering if you could comment on the year-over-year change you saw this year, just lapping that softer comp, and whether you've seen more or less traffic year to date would also be helpful. Thank you.

Felix Lin

Chief Executive Officer, President & Director, HF Foods Group, Inc.

A

Yeah, sure. With respect to February and Q1, obviously we're still in the middle of it, but I do see that again, there's been a lot of good initiatives put in place. Specifically, even starting in late Q3 and Q4 of 2025, we've been working with a handful of strategic vendors to run promotional campaigns where the vendors are the one that's kind of providing initiatives on the table for our customers and our sales team to go out and drive new product

growth or push out additional volume. So that's been very impactful for us in the second half of 2025, and we're seeing that in the first quarter of the year as well.

So I do see perhaps there's going to be some meaningful uptick from a volume standpoint so far in Q1 versus 2025.

Q

Understood. I appreciate that. Second for me on the IEEPA tariffs, do you have an estimate as to what you paid? Are you taking any action to get that money back? And what would you do with that capital if you did manage to get any capital back there? Thank you.

Felix Lin*Chief Executive Officer, President & Director, HF Foods Group, Inc.*

A

Yeah. I think it's still too early to say exactly how much refund is going to be available. As you guys might recall, not all 100% of the tariffs were part of the IEEPA, there were some other tariff measures that the administration had put in place last year. And it's also a reflection of the industry that we're in. Largely, the supplier network, the supply chain itself is made up of brokers. And in the past year, even prior to Liberation Day, we had really effectively negotiated with a large number of our overseas vendors for them to absorb quite a bit of the tariff impact.

So again, we're still assessing the situation and keeping it very, very close. I think in the coming months here, perhaps in the next quarterly earnings call, there might be a little bit more information for us to offer.

Q

Great. That's it for me. I'll pass it on. Thank you.

Operator: Thank you. There are no further questions at this time. I'd like to turn the call back over to Felix for any closing remarks.

Felix Lin*Chief Executive Officer, President & Director, HF Foods Group, Inc.*

Overall, I think 2025, it was a great year of strategic investment for the company, and we made some pretty good strides here in terms of overall three, five year transformation plan. So we look forward to 2026. 2026 is going to be a continuation of the momentum that we have built on 2025 results. And again M&A is going to be a huge part of our business. So that's where we're going to spend a lot of our time on, is thoroughly evaluating all the inbound calls that we've been getting on M&A and making some impact there. And then at the same time, continue to improve our operation efficiency.

So we appreciate everyone continue to follow the HF story and the support and look forward to updating everyone here in the coming quarters.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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