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HF Foods Group, Inc. (HFFG)

Q1 2026 Earnings Call

CORPORATE PARTICIPANTS

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Xi Lin
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OTHER PARTICIPANTS

Aaron Grey
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Daniel Harriman
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to HF Foods Group First Quarter 2026 Earnings Call.

At this time, all participants are in a listen-only mode. A brief 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 to turn the call over to Mr. John DeDomenico. Thank you. And over to you, Mr. DeDomenico. You may begin.

Jonathan DeDomenico
Vice President-Investor Relations, ICR

Hello, everyone. Welcome to HF Foods Group's first quarter 2026 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.

Xi Lin

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

Hello, everyone. Welcome to HF Foods' first quarter 2026 earnings call. I'll provide a business update and Paul will speak to our first quarter financial results, then we'll open the line for Q&A.

As we mentioned on our last call, 2025 brought headwinds for the broader foodservice industry in terms of tariff pressure and lower foot traffic. We saw many of these pressures continue, particularly with the added pressure from rising fuel prices. But against this backdrop, we drove meaningful continuous momentum for our business. Net revenue increased 4.5% year-over-year to \$312 million due to higher volume and gross profit decreased slightly to \$50.5 million, driven by higher mix of seafood during the quarter. Also notably, adjusted EBITDA increased 3.8% year-over-year to \$10.1 million.

We made meaningful progress on our long-term transformation plan with respect to sales operations, digital infrastructure and facilities upgrades. We consolidated two sales call center operations into one unified team as of late December 2025. This consolidation provides us better control over the overall sales process and improved customer service while maintaining the distinct connection we have with our customers through our understanding of their business, language and product needs.

Importantly, this unified approach enables us to maintain consistent pricing strategies across our network, while the efficiency gains are already evident with lower DS&A spend on sales commissions as the new team continues to adapt. With the ERP implementation completed, we're now actively working on driving operational efficiencies through system and data optimization. The new system positions us to achieve higher level of purchasing efficiency by consolidating buying across our distribution centers and enables operational improvements through enhanced route optimization capabilities. We re-categorized a significant number of SKUs as part of the system implementation. The next phase of our digital transformation focuses on improving overall customer experience. We're actively developing a customized customer portal that will enable transactional visibility and improve efficiency.

On facilities, we successfully completed the acquisition of our previously leased facility in Chicago and are actively expanding cooler and ambient capacity. This move is part of our broader cross-selling strategy, driving organic growth. The Charlotte facility is largely ready and still pending final permits from local government. We expect Charlotte to be fully operational in late second quarter or early third quarter of 2026, which will shorten our seafood distribution routes in the Southeast. We're also kicking off Phase 2 of Atlanta's freezer expansion plan, which will nearly double our cold storage capacity in the Atlanta market from 10,000 to 20,000 square feet, where we've historically been limited by cold storage capacity. This will likely be operational ready by the end of 2026. We see all three facilities upgrades as a cornerstone of our cross-sell strategy in the Southeast and Midwest in the future.

Between the Southeast and Midwest, there's several hundred million dollars' worth of organic growth opportunity as we continue to invest and expand capacity. 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 do expect some short-term pressure due to increased cost of goods sold and outbound distribution costs related to rising fuel costs, which we're taking actions to mitigate this impact.

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 food service 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 synergies, 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 we're actively evaluating opportunities from potential sellers who understand our unique position. We believe our proven ability 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 are 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 Paul, our CFO, to walk you through more details of the financial performance for the quarter.

Paul E. McGarry

Chief Financial Officer, HF Foods Group, Inc.

Thanks, Felix. I will now review our results for the quarter ended March 31, 2026 versus the same period in 2025.

Net revenue for the quarter increased 4.5% to \$312 million from \$298.4 million in the prior year quarter. The increase was primarily due to volume growth and improved pricing in seafood, followed by volume growth in commodity, partially offset by volume decreases within other categories.

Gross profit slightly decreased by 0.8% to \$50.5 million for the quarter compared to \$51 million in the prior year quarter. The decrease was primarily due to increased sales in lower-margin products like seafood and an uptick in landed costs. Gross profit margin decreased to 16.2% for the quarter compared to 17.1% in the prior year quarter.

Distribution, selling and administrative or DS&A expenses decreased by \$0.3 million to \$49.5 million for the quarter, primarily due to decreases in professional fees and bad debt expense, partially offset by an increase in auto and truck expenses and depreciation. DS&A expenses decreased as a percentage of net revenue to 15.9% for the quarter compared to 16.7% in the prior year quarter.

Adjusted EBITDA increased 3.8% to \$10.1 million for the quarter compared to \$9.8 million in the prior year quarter. Total interest expense increased slightly to \$2.8 million for the quarter compared to \$2.6 million in the prior year quarter.

Net income attributable to HF Foods was \$1.2 million for the quarter compared to a net loss of \$1.6 million in the prior year quarter. The quarter-over-quarter improvement was primarily due to strong revenue growth along with controlled cost oversight and the gain on sale of an asset. Adjusted net income attributable to HF Foods decreased \$0.1 million to \$3.4 million compared to \$3.5 million in the prior year quarter.

Earnings per share improved to \$0.02 compared to a loss per share of \$0.03 in the prior year quarter. Adjusted earnings per share decreased to \$0.06 compared to \$0.07 in the prior year quarter.

Stepping back from the details, the quarter reinforces the business is progressing in a challenging cost environment. Our focus is now on execution, converting the transformation work we've completed into measurable operational gains, including purchasing discipline, route and warehouse efficiency and tighter cost control as fuel and other input costs remain elevated.

As the systems foundation is now in place, we're moving from implementation to optimization while continuing to support organic growth through cross-selling and network capacity investments. We'll stay disciplined on capital deployment and remain selective on strategic tuck-in opportunities that strengthen the platform.

With that, I'll now turn it back over to Felix.

Xi Lin

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

Thanks, Paul.

As we look ahead to the remainder of 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're 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 our Asian cuisine and our unmatched position as a leading nationwide agent 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'll now hand over to the operator for live Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting the question-and-answer session. [Operator Instructions]

The first question comes from the line of Aaron Grey with Alliance Global Partners. Please go ahead.

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners LLC

Q

Hi. Good evening. And thank you very much for the questions. Just first question for me. I just want to think about the gross margin, talk a bit more on it. Obviously, you guys have some headwinds right now given the macro backdrop and rising fuel prices. So how do we think about the near to medium impact of that as we also think about potential offsets in terms of your own efficiency gains, particularly with the implementation of your ERP program? Thank you.

Xi Lin

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

A

Hey, Aaron. Yeah. So I think in the short term, the elevated costs, as Paul had mentioned, is probably continue to persist here for a little bit. If we look at our business specifically, we talked about in the past, we operate very much in the spot market where we buy and sell everything from a spot standpoint versus contracts. So at least on the year-over-year comparisons, as we get into the second quarter, we benefited last year from lower cost inventory as the tariffs were implemented.

So going forward, we saw some of that higher cost coming through in the second half of 2025 that had continued on to Q1 of 2026, which, again, we think that's going to be here for a little while in Q2 and maybe even Q3 of 2026 here. But internally, again, we're doing a lot of things trying to mitigate from an overall cost structure standpoint, so a lot of the programs that we have implemented in place.

One of the things we mentioned is the transaction to convert a lease to – of a facility to something that we own today, which has cut down on our occupancy expense. Professional fees have gone lower and then also the sales operation, these are the things that we're actively working on trying to improve operational efficiency to make sure that overall, there's still going to be this bottom line improvement that we've seen year-over-year.

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners LLC

Q

Appreciate the color there, Felix. Second question for me. As we think about some of the headwinds with fuel prices obviously have an impact on you guys, often, we'll see these types of headwinds have an even bigger impact for smaller operators. So wondering if that's the case that you're seeing here and what impact that might have maybe positively on potential M&A targets who are more inclined to want to partner with a larger operator with you. So just any impact on the broader competitive environment and if that's helping you in terms of potential M&A targets? Thank you.

Xi Lin

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

A

Yeah. We're definitely seeing the amount of inbound M&A costs tick up over the last several months or so. As we talk about a lot of smaller players, they are really being squeezed, whether it's from the elevated inventory costs

or now from an operating cost standpoint with the added few costs. So over time, we do see that as an advantage. Similar to what we saw back in the pandemic days where the operating environment becomes a lot tougher for the smaller players, and you have these family-owned businesses that generally because of the pressure, looking for an exit. So that is a positive for us, and we're actively evaluating an increased level of activities and opportunity behind the scenes for sure.

Aaron Grey

Analyst, A.G.P. / Alliance Global Partners LLC

Q

Okay. Thanks. Appreciate the detail. I'm going to jump back in the queue.

Operator: Thank you. Next question comes from the line of Daniel Harriman with Sidoti & Company LLC. Please go ahead.

Daniel Harriman

Analyst, Sidoti & Co. LLC

Q

Hey, Felix. Hey, Paul. Thanks so much for taking my questions and congrats on the great quarter. Guys, I just kind of wanted to follow up on that prior question about gross margin and give you an opportunity to talk a little bit about Charlotte and what your expectations are longer term for gross margins and also DS&A just as Charlotte comes online and some of your distribution routes shorten, maybe even within seafood. I know the mix there was a cause of the gross margin contraction in the quarter. And then now that you've got Atlanta up and running and kind of like a cornerstone of your cross-selling strategy in the Southeast, I'm curious if you have any proof points you could share with us in terms of new accounts or expanded wallet share or even more SKUs to really help us understand what the long-term impact could be of that facility?

Xi Lin

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

A

Yeah. Look, both the Charlotte facility and the Atlanta expansion facility toward the end of last year from a strategic investment standpoint have very much been a center point of our cross-selling strategy. And I talked about this previously in that in the Southeast, historically, we have not done a whole lot of frozen seafood business. And given our scale, I think today, frozen seafood as a product category is the largest of our mix at just over \$400 million of top line revenue on an annual basis. And with shortened routes with improved distribution efficiency, we do see that as significant leverage where we have over the smaller competitors where we can be a lot more efficient, and that's going to enable us to have better pricing power over those guys as well.

So now we're just a few months into the year with Atlanta specifically, we have opened up a couple of dedicated seafood routes servicing our existing customers. So with Charlotte, again, the construction and the renovation of that facility have largely been complete. We've been just waiting on the permitting from the local government for months now. So the latest on that is we're expecting, again, towards the end of Q2 or beginning of Q3 for the permit to be finally approved and get that up and running, and that should benefit us in the second half of the year.

Daniel Harriman

Analyst, Sidoti & Co. LLC

Q

Okay. Great. That's really helpful, Felix. Thanks so much.

Operator: Thank you. Next question comes from the line of Bill Kirk with ROTH Capital Partners. Please go ahead.

Bill Kirk

Analyst, ROTH Capital Partners LLC

Q

Hey. Good evening, everybody. Felix, on that higher fuel price conversation that you were doing earlier, have you seen any changes in foot traffic as a result, meaning maybe people leaving restaurants in favor of grocery or maybe switching into buffet style customers within restaurants? Are you seeing any foot traffic changes in kind of behavior because of higher fuel prices?

Xi Lin

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

A

Not in a material way. I think the foot traffic that we're seeing in Q1 of 2026 has been pretty consistent with what we've been seeing in the second half of 2025, largely the lower foot traffic is still limited to some of the larger buffet restaurants that we service throughout the country. But again, with elevated fuel price, there are a number of things that we're doing.

Every single market is different. We're in markets where we have a significant market share. For example, our Salt Lake business where we have 80%, 90% of the market share, and it's a lot more rural routes that we're running, we're able to pass along a fairly good bit of the fuel increase. In other locations where there's high competitive pressure, again, over foot traffic play a role in that, and it's very limited opportunity where we can pass on the cost.

Bill Kirk

Analyst, ROTH Capital Partners LLC

Q

Okay. Is it fair to say then that for your customers, April foot traffic would be similar to 1Q?

Xi Lin

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

A

Yeah. I think April, there's a lot of noises, right? April, at least on the year-over-year comparison, I talked about earlier with the tariff impact. Again, we were sitting on a lot of low-cost inventory last April. So we had a significant margin uptick because we're able to sell through that at a higher price.

I think there's a lot of noise from a perspective of both increased fuel price this April and inventory cost at an elevated level. So I think it's still a little bit too early for us to tell specifically through the entire month of April and for the rest of Q2, how much of the impact is going to be due to tariff and how much of it is due to the elevated cost from a fuel perspective.

Bill Kirk

Analyst, ROTH Capital Partners LLC

Q

Got it. Thank you. And then my second question is on the refining of the sales force. Where are we in terms of that process? And when we're on – fully on the other side of that refinement, how does the new sales force help HF and drive better customer acquisition or account penetration? What's on the other side of the sales force refinement?

Xi Lin

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

A

Yeah. I think from a business stabilization standpoint, that has been largely complete going through the Q1 of 2026. I think the rest of the year is really about additional training around new product SKUs that we're trying to introduce to the market. Specifically, when we talk about cross-selling of the seafood product in the Southeast. This is where, again, at the end of the day, we have over 20,000 SKUs, right?

And specifically for the Southeast, there haven't been a significant amount of frozen seafood sales in the past. So that's a bit of a learning curve for the new sales force. But I do expect them getting there in the second half of the year. And a lot of this volume offset is going to come from pushing out seafood here.

Bill Kirk

Analyst, ROTH Capital Partners LLC

Q

Excellent. Thank you. I'll pass it along.

Operator: Thank you. Ladies and gentlemen, we have reached the end of question-and-answer session. I would now like to turn the floor over to Felix Lin for closing comments.

Xi Lin

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

First of all, thank you guys for, again, the continued support and paying attention to HF Foods. We are fully committed to what our long-term strategic plan is here, and we're executing on that plan quarter after quarter. And I look forward to updating you guys on the progress here in the coming quarters ahead. Thank you.

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

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