

# HF Foods Group 4Q24 Earnings Call

**Jon DeDomenico, ICR**

Hello, everyone.

Welcome to HF Foods Group's fourth quarter and full year 2024 earnings conference call. Joining me on today's call are Felix Lin, President and Chief Executive Officer, and Cindy Yao, Chief Financial Officer.

By now, everyone should have access to the earnings release for the period ended December 31, 2024 that went out Thursday, March 13 at approximately 4:05 PM Eastern time. The press release is accessible on the Company's website at [investors.hffoodsgroup.com](https://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 because 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 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, President and CEO**

Hello, everyone. Welcome to HF Foods fourth quarter earnings call. I will provide an operational update and Cindy will speak to our fourth quarter and full year 2024 financial results.

## **Q4 / FY Results**

First, I like to start by congratulating the entire HF team on a strong finish to 2024 and the results we will share shortly are a testament to all the hard work that's been put into executing our plan. I am as confident as ever in terms of our short- and long-term outlook. I will go over some high-level financial results and a brief business update then Cindy will cover the financials in detail. For the fourth quarter and full year 2024, net revenue increased 8.7% and 4.6%, respectively. Adjusted EBITDA increased 39.4% for the fourth quarter 2024 and 21.6% for the full year 2024.

## **State of the Industry**

I will start with a brief overview of the industry. It is clear that there are a lot of uncertainties in the market due to new tariff policies being enacted and potential higher inflation that will continue to drive consumer spending decisions. We have seen lower foot traffic associated with our restaurant customers as some consumers are increasingly more budget conscious. We are expanding our business portfolio to increase wholesale and retail sales by reaching specialty businesses and consumers directly. This strategy helps us mitigate industry-wide challenges and drive sustainable growth.

Since the pandemic, we have diversified our supply chain network to become a true global sourcing network, with goods sourced domestically, Asia, South America, and Middle East. Leveraging the foundation we've laid in the last several years, we are in a much stronger position to deal with potential supply chain disruptions.

We see a tremendous opportunity in expanding our business into the broader wholesale channel in specialty foods that have historically been underserved by the larger players in the industry. Given our scale, we are well positioned to drive incremental growth through the wholesale channel. Our new oil packaging operation in Kansas City is a great example of this new strategy where HF can sell wholesale products to smaller specialty distributors and grocery businesses with our own private label products.

We are also actively piloting a new eCommerce platform as part of our broader Digital Transformation plan. With over 15,000 independent Asian restaurant accounts, we are

capitalizing on the opportunity to sell specialty retail products to our restaurant customers and their employees for direct consumption.

I look forward to updating our investors on the progress in the coming quarters as we continue to drive investment in our business to deliver sustainable long-term growth.

### **Transformation Update**

Our operational transformation continues to gain momentum. We believe the strategic initiatives we launched will create meaningful value through both revenue growth and operational efficiencies in the long term. I'd like to share several important developments that highlight our progress.

#### **Centralized purchasing**

Our centralized purchasing program continues to make meaningful progress. Building on the successful implementation across our seafood category, we're now expanding the program into other key categories. In the first quarter of 2025, we're executing our plan to consolidate purchasing for produce and key commodities. Regarding our cooking oil initiative, I'm pleased to report that the Kansas City facility is now operational, with 100% of our distribution centers having access to this capability, although we're currently utilizing only about half of the available production capacity as we continue to ramp up operations. This vertical integration initiative, combined with our broader centralized purchasing strategy, helps us to enhance our operational efficiency and improve our margin profile over the long term. Our strengthened purchasing power continues to provide access to broader wholesale channels, helping to partially offset the impact of current market conditions in certain regions.

#### **Fleet and Transportation**

Moving to our transportation and logistics initiatives, we are executing on our comprehensive fleet enhancement program throughout 2025. This program encompasses two key elements: 1.) the continued upgrade of our delivery vehicle fleet and 2,) the implementation of sophisticated route optimization technology. Our upcoming facility improvements will complement these efforts, particularly the Charlotte, North Carolina facility, which is undergoing renovation that is set to be complete at end of Q2 2025. The modernized Charlotte facility will serve as a

cornerstone in our enhanced distribution network, enabling shorter delivery routes and reduced drive times, which we expect will generate meaningful cost efficiencies across our Southeast operations.

### **Digital Transformation**

Our digital transformation initiatives continue to advance. With twelve of our fifteen sites now operating on our modern ERP platform, we are on track to complete the system-wide implementation in 2025. This technological foundation will be instrumental in unlocking the full potential of our centralized purchasing capabilities.

In parallel with our ERP deployment, we're preparing to unveil our new e-commerce platform in conjunction with our East Coast distribution center launches. Early pilot results have been extremely encouraging, and while this digital channel is in its early stages, we believe it represents a significant growth opportunity. This strategic initiative is designed to complement our traditional ordering systems while providing enhanced accessibility and convenience for our customers. The platform will particularly resonate with next-generation restaurant operators and expand our reach to diverse customer segments, leveraging our robust distribution infrastructure to deliver a seamless digital experience. We anticipate this digital transformation will serve as a meaningful catalyst for margin expansion and operational excellence in the coming years.

### **Facility Upgrades**

Our strategic facility enhancement initiatives continue to advance across multiple regions. As previously mentioned, the renovation of our Charlotte distribution center remains on track, with completion targeted for the end of Q2 2025. Together with our new Atlanta facility project, these investments will significantly expand our Southeast presence. The Atlanta facility's phased implementation through 2026 will double our capacity in that region, creating meaningful organic growth opportunities from a cross-selling perspective.

Meanwhile, our operational efficiency efforts in Salt Lake City are progressing well, highlighted by the successful execution of a facility sale agreement and planned capital improvements scheduled for completion in the first half of 2025. These infrastructure

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

## **M&A**

Looking ahead at our growth initiatives, we maintain a disciplined approach to evaluating strategic acquisitions. Our M&A pipeline remains focused on opportunities that would expand our geographic footprint while offering potential for operational integration and meaningful cost synergies. We are expecting to be active on the M&A front in 2025.

## **Revolver Upsize**

We announced in February that we successfully amended our Credit Agreement with JPMorgan Chase Bank and Comerica Bank, welcoming Wells Fargo as an additional lender and increasing our revolver capacity by \$25 million to \$125 million. This enhanced credit facility demonstrates our banking partners' continued and growing confidence in HF Foods and provides us with additional financial flexibility to support our growth strategy and ongoing strategic transformation initiatives. The expansion of our banking relationships and increased revolver capacity position us well to capitalize on the favorable market trends and demographics driving the growing demand for Asian food. As we continue executing our operational transformation plan and pursuing strategic growth opportunities, this increased financial flexibility will be instrumental in supporting our long-term objectives.

Before I hand this over to Cindy, I would like to mention our net income was adversely impacted by a \$46.3 million goodwill impairment charge. This is a function of an accounting requirement and not a reflection of our business performance and overall transformation plan.

Now, over to you Cindy.

## **Cindy Yao**

Thanks Felix. I will now review our results for the fourth quarter and full year ended December 31st, 2024, versus the same period in 2023:

## **Fourth Quarter Results**

Net revenue for the fourth quarter increased 8.7% to \$305.3 million, from \$280.9 million in the prior year quarter. The increase was primarily attributable to volume growth associated with new wholesale accounts, case count growth, product cost inflation and improved pricing in certain categories.

Gross profit was mainly flat, decreasing by only 0.2% to \$52.2 million for the quarter, compared to \$52.3 million in the prior year quarter, and gross profit margin decreased to 17.1% from 18.6%. The decrease was primarily attributable to a write-off of aged trade accounts payable of approximately \$1.4 million due to system implementation data cleansing and a decrease in margins on meat and poultry. It's important to reiterate that gross margins for wholesale sales are generally lower than those on retail sales due to the larger quantities purchased by wholesalers. While we expect wholesale sales to continue to make up less than 5% of our revenue, we continued to see a slight uptick in wholesale mix in Q4 vs the prior year period. We see this trend continuing and that this will benefit the retail business in the long term as retail volume increases.

Distribution, selling, and administrative (DSA) expenses increased to \$48.0 million for the fourth quarter, primarily by increased professional fees, payroll severance expenses and insurance costs. In addition, in 2023, our DSA was reduced by a settlement gain of \$10 million. DSA expenses as a percentage of net sales increased to 15.7% from 14.6%. As mentioned last quarter, we identified strategic cost optimization opportunities across key spending categories. We realized some DS&A cost benefits in Q4 through headcount reduction. We finalized our comprehensive plan to reduce cash DSA expenses by 3-5% by the end of 2025, while preserving our core growth initiatives.

Operating loss for the fourth quarter of 2024 was \$42.2 million, compared to operating income of \$11.2 million in the prior year quarter. The decrease was driven by goodwill impairment charges of \$46.3 million in Q4 2024 and a \$10.0 million settlement gain in Q4 2023 which did not recur in 2024.

Total interest expense decreased slightly to \$2.8 million for the fourth quarter compared to \$3.1 million in the prior year quarter.

Net loss of \$43.9 million decreased compared to net income of \$2.7 million for the prior year quarter. The decrease was driven primarily by the goodwill impairment charges of \$46.3 million recognized during the fourth quarter of 2024.

Adjusted EBITDA increased to \$14.5 million for the fourth quarter, compared to \$10.4 million in the prior year quarter is mainly due to the removal of a settlement gain in 2023 and add back of goodwill impairment in 2024.

### **Full Year 2024 Results**

I'll now turn to our results for the full year ended December 31, 2024 versus the same period in 2023.

Net revenue for the full year increased 4.6% to \$1.2 billion, from \$1.1 billion in the prior year period. This increase was primarily attributable to volume growth associated with new wholesale accounts, case count growth, product cost inflation and improved pricing in certain categories including seafood, and meat & poultry offset by the \$13.3 million loss in revenue from the exit of our chicken processing businesses in 2023.

Gross profit increased by 0.6% to \$205.2 million for the full year, compared to \$204.0 million in the prior year period, and gross profit margins decreased to 17.1% from 17.8% mainly attributable to a write-off of aged trade accounts payable for approximately \$1.4 million due to system implementation data cleansing in 2023

Distribution, selling, and administrative (DSA) expenses increased to \$198.0 million for the full year, driven primarily by payroll severance expenses and insurance costs. In addition, in 2023, our DSA was reduced by a settlement gain of \$10 million. DSA expenses as a percentage of net sales decreased to 16.5% from 17.0%.

The operating loss for the full year was \$39.1 million, compared to income of \$9.0 million in the prior year. The decrease was largely driven by a goodwill impairment charge in 2024.

Total interest expense was \$11.4 million for the full year, in line with the prior year period.

Net loss of \$48.1 million compared to net loss of \$2.7 million for the prior year period. The decrease was driven primarily by the goodwill impairment charges of \$46.3 million recognized during the fourth quarter of 2024. Adjusted EBITDA increased to \$42.0 million for the full year, compared to \$34.6 million in the prior year period when adjusting for goodwill impairment and the settlement gain.

As Felix mentioned, in February we amended our Credit Agreement, increasing our revolver capacity by \$25 million to \$125 million. As of February 12, we had an available capacity of \$36.1 million in additional funds through our line of credit.

Thank you, and back over to you Felix.

### **Felix – Closing Remarks**

As we look ahead to 2025 and beyond, I want to emphasize our commitment to executing the comprehensive transformation initiatives that are reshaping HF Foods. 2025 is a year of strategic investment for HF. The investments we are making in our facilities, digital infrastructure, and operations are in the process of establishing a strong foundation for our next phase of growth.

While the broader market environment presents near-term challenges, we remain focused on our long-term vision, which is investing in capacity and capability to capture cross-selling related organic growth and complement it with strategic M&A. The fundamental drivers of our business, which are the growing demand for authentic Asian cuisine and our unique position as a nationwide specialty distributor, remain strong. We are methodically building the infrastructure, systems, and capabilities needed to fully capitalize on these opportunities. As we move forward, we will 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.