Corrected Transcript

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HF Foods Group, Inc. (HFFG)

Q2 2026 Earnings Call

CORPORATE PARTICIPANTS

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Paul E. McGarry
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Aaron Grey
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the HF Foods Group Second Quarter 2026 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] Please note this conference is being recorded.

I would now like to turn the conference over to your moderator today, Jon DeDomenico of ICR. Please proceed.

Jonathan DeDomenico

Vice President-Investor Relations, ICR

Hello, everyone. Welcome to HF Foods Group second 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 a number of known and unknown risks and uncertainties, including statements regarding our previously announced agreement to acquire Searay Foods and the timing, terms and anticipated benefits of that transaction. If you refer to HF Foods' earnings release, the Searay acquisition press 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' second quarter 2016 earnings call. I'll provide a business update and Paul will speak to our second quarter financial results. Then, we will open up the line for Q&A.

We continued to build momentum in the second quarter, even as tariff pressure, softer food traffic and rising fuel costs continue to weigh on the industry. Net revenue increased 2.8% year-over-year to $323.8 million, our highest ever quarterly revenue. Gross profit was essentially flat at $55 million for the quarter. Adjusted EBITDA was $13.6 million, down 2% year-over-year, representing a 4.2% margin compared to 4.4% in the prior year quarter. These results are especially impressive on a year-over-year basis, given that last year's second quarter benefited from low-cost inventory positions and better pricing, which lifted margins in the second quarter of 2025.

We continue to make progress on our long-term transformation plan this quarter, including our sales operations, digital infrastructure and facilities upgrades. We remain confident these investments are building a stronger foundation for sustainable growth, even as we continue to navigate some near-term pressure from rising fuel costs, which we're actively managing.

The clearest proof point of our strategy came on July 17, when we entered into a definitive agreement to acquire Searay Foods, a leading Canadian importer and distributor of ethnic and specialty frozen seafood based in Richmond, British Columbia. It's our first transaction outside the United States and extends our M&A playbook into a new geography. Searay brings six proprietary brands, including Searay Foods, Thai Best, Pinoy's Best, Smart Fish, Diamond Shrimp and Gold Label, into our seafood category, which already makes up about 36% of our net revenue.

Searay has grown revenue at roughly 15% a year since 2019, with EBITDA margins in the mid-teens, and approximately 5x Searay's 2025 adjusted EBITDA, we expect the transaction to be accretive to both margins and EPS from close, supporting the consolidated adjusted EBITDA margin target of 4.5% to 5% plus we've laid out for the next three to five years. We expect to close in the third quarter subject to customary conditions and regulatory approval. And Searay's existing management team led by incoming CEO, Derick Ngan, will continue running the business day-to-day. Consideration is a mix of cash and HF Foods stock and we'll disclose the final split at closing.

Once closed, Searay give us a platform to grow in Canada. Searay's business carries a margin profile well above our current company, and it becomes a meaningful part of our growth story in the market for years to come.

Beyond Searay, M&A remains a core pillar of our growth strategy. HF Foods is the only scaled 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 synergies, broadening our customer base, and enhancing our product and service capabilities.

We remain disciplined but optimistic about additional M&A opportunities in 2026 and beyond, and are 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. The $50 billion addressable market we've talked about historically reflects the US alone. And with Searay now giving us a foothold in Canada, our total opportunity is even larger. 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, Paul, our CFO, will walk you through more details of our 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 June 30, 2026 versus the same period in 2025.

Net revenue for the quarter increased 2.8% or $8.9 million to $323.8 million from $314.9 million in the prior year quarter. The increase was primarily due to volume growth, improved pricing in seafood, followed by volume growth in commodity, partially offset by price decrease in meat/poultry. Gross profit was $55 million for the quarter, essentially flat compared to $55.1 million in the prior year quarter. Gross profit margin decreased to 17% for the quarter compared to 17.5% in the prior year quarter. Margin was impacted by incremental tariffs that took effect beginning Q3 of 2025, partially offset by some IEEPA tariff refunds received during the quarter.

Distribution, selling and administrative expense or DS&A increased $1.2 million or 2.4% to $52.2 million for the quarter. The increase was driven primarily by higher auto and truck expense, reflecting elevated incremental fuel costs of approximately $1.4 million year-over-year, together with higher insurance and professional service expense, partially offset by lower personnel expense as a result of our transformation initiatives. DS&A as a percentage of net revenue was 16.1% for the quarter compared to 16.2% in the prior year quarter.

Adjusted EBITDA decreased 2% to $13.6 million for the quarter compared to $13.8 million in the prior year quarter. Adjusted EBITDA margin was 4.2% compared to 4.4% in the prior year quarter. Total interest expense was $2.9 million for the quarter compared to $2.8 million in the prior year quarter. The increase reflects a higher average daily line of credit balance of $12.1 million to $65.7 million, partially offset by lower average term loan balance and modestly lower floating rates.

Net income attributable to HF Foods was $2.6 million for the quarter, compared to $1.2 million in the prior year quarter. The improvement was primarily driven by an employee retention credit of $1.8 million, which includes interest, IEEPA tariff refund of approximately $1.1 million and a $1.4 million favorable year-over-year change in the fair value of our interest rate swap contracts. These items were partially offset by a $1.3 million decrease in income from operations and a $0.7 million year-over-year change in net income attributable to non-controlling interests.

Adjusted net income attributable to HF Foods was $6.4 million for the quarter and essentially flat compared to the prior year quarter. Earnings per share improved to $0.05 compared to $0.02 in the prior year quarter. Adjusted earnings per share was $0.12 for the quarter and flat compared to the prior year quarter.

Now on CapEx, we spent approximately $20.3 million for the first six months ended June 30, 2026, and I want to give a little color on that. The spend is driven principally by the $12.4 million purchase of our previously leased Chicago distribution center, along with $2.8 million of solar investment, which is expected to lower operating costs, $2.1 million of capacity expansion and $1.4 million of fleet upgrades. Recurring maintenance expenditures were approximately $1.7 million. On the solar investment, we will benefit from an investment tax credit refund that will reduce our overall investment by 40%.

Turning to the balance sheet, at the quarter end on July 29, we closed an amendment that refinanced and upsized our credit facility. Our bank group is JPMorgan Chase as administrative agent and the lender together with Fifth Third and TD Bank, which joined the facility in connection with this transaction. We increased our asset-based revolving commitments from $125 million to $140 million and refinanced our existing term loans, which had an outstanding balance of approximately $95 million into term loans totaling $125 million. The revolving facility now matures in July 2031 and the term loan in July 2036.

The transaction gives us meaningful, incremental liquidity to fund our growth initiatives for both the Searay acquisition and our ongoing facilities investments. Because the refinancing closed after the quarter end, it is not reflected in this quarter's financials. Full terms are available in the Form 8-K we filed on July 31. And I want to thank our banking partners for their commitment to helping us drive the growth of HF Foods.

Now to the transaction we announced on July 23. On July 17, we signed a definitive agreement to acquire Searay Foods. This is the first acquisition outside the United States in HF Foods' history, and this is the clearest evidence yet of what we mean when we say we are the acquirer of choice in this category. The transaction is expected to close in August 2026 and is the most consequential thing we have done this year. The aggregate base purchase price is CAD 47.9 million or approximately $35 million with the sellers also eligible for contingent earn-out payments tied to specific EBITDA targets over a two to three-year period following the closing. Consideration is a mix of cash and HF Foods common stock, which can be viewed in the form 8-K we filed announcing the transaction. We expect to close no later than August 31, subject to customary closing conditions and receipt of any required regulatory approvals.

Now, the economics, which are what makes this acquisition compelling. The base purchase price represents approximately 5 times Searay's baseline adjusted EBITDA of roughly CAD 9.6 million or approximately $7 million. Searay runs adjusted EBITDA margins in the mid-teens against our consolidated adjusted EBITDA margin of 4.2% this quarter. So this is a business that is margin accretive to the platform from day one and moves us towards the 4.5% to 5% plus consolidated target we have laid out. We are earning a higher margin business at a mid-single-digit multiple and that is exactly the discipline we told you we would bring to M&A.

Let me close by putting the quarter in a broader context. This is our sixth consecutive quarter of year-over-year net revenue growth and at $323.8 million, it is the highest quarterly net revenue in the company's history. On a trailing 12-month basis, we are now at approximately $1.25 billion and all of that growth has been driven by organic volume increase and better pricing.

So, we entered the second half with three things in place we did not have a year ago. First, a refinanced and upsized credit facility with revolving commitments at $140 million, term loans turned out to 2036 and materially more liquidity to deploy. Second, a signed definitive agreement for our first acquisition outside the United States at an attractive multiple with a margin profile well above our own. And third, the transformation program that is now largely built rather than under construction, which lets us shift from implementation to optimization with purchasing discipline, route and warehouse efficiency, cross-selling opportunities and tighter cost control as fuel and other input costs remain elevated. We will stay disciplined on capital deployment and selective on the tuck-in opportunities that strengthen the platform. The balance sheet capacity we just created is there to support that, and Searay is the first demonstration of what we intend to do with it.

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

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

Thanks, Paul.

Before we move to Q&A, I want to spend a moment and why Searay is such a significant milestone for us. Searay has spent 25 years building its business in Canada and we're proud to have them join HF Foods. Just as Searay gives us a platform to grow in Canada, Searay has recently established its own operations in the US, including a planned direct import operation in Los Angeles. And we believe our distribution network, sourcing scale and West Coast infrastructure can help accelerate that.

Searay also brings a customer base that includes retail, wholesale and restaurants. We talked for a long time about expanding our platform beyond the United States, and Searay is a first step in that long-stated strategy.

Now, our focus turned to executing well, working closely with the Searay team on a smooth transition and beginning to act on the cross-selling and supply chain opportunities as the deal moves toward closing in the third quarter. Alongside that, we'll keep advancing the facilities and system work already underway and will stay discipline as we evaluate further opportunities that strengthen the platform.

Thank you for your continued support. We look forward to updating you on our progress next quarter.

I'll now turn it over to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now conduct a question-and-answer session. [Operator Instructions] The first question comes from Aaron Grey with Alliance Global Partners. Please proceed.

Aaron Grey
Analyst, Alliance Global Partners LLC

Q

Hi. Good evening. Thank you very much for the question and congrats on the quarter here. I guess first question from me just in terms of the Searay acquisition, obviously, adding the geography with Canada, but would love to hear more in terms of some of the depth or scale specifically within seafood category and what opportunities the acquisition will bring for you guys? Thank you.

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

A

Yeah. Hi, Aaron, it's Felix. Yeah. Specifically, from a customer mix standpoint, we see Searay as a great platform to potentially open up new channels here for us. Historically for the US market, HF, our business has been focused on independent restaurants. For Searay, independent restaurants in the Vancouver and the western part of Canadian market is actually a smaller part of their mix. They have a pretty healthy mix of retail and also wholesale business channels that goes into Asian specialty grocery stores. And with the margin that we're seeing, we see that as a huge opportunity for us for the future. So that's one thing that addition to the margin profile, that's very exciting to us.

Aaron Grey
Analyst, Alliance Global Partners LLC

Q

Okay, great. Thanks. Appreciate that. Second question from me just on the gross margin profile came above our estimates, even if we strip out some of the tariff refund benefit that you got. So just as we think about the gross margin going forward, particularly as we layer in Searay, where do you see the gross margin profile evolution as you guys look to offset some of these freight headwinds and otherwise? Thanks.

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

A

Yeah. One of the things that we've talked about the last couple of earnings call is, we're focusing on how do we expand our gross profit dollars, especially coming to 2026. The focus has been try to conquer new market shares through our expansion in the Southeast with newer and higher amount of seafood mix that's coming into the business. So I think, obviously, one thing that was not expected in 2026 was the rising fuel costs. So we expect [ph] volumes will (00:18:33) continue to tick up to offset some of the margin and conquest account-related margin concession that will be giving. But with Searay, their gross profit margin is north of 20%. So I think, over time, especially in Q4, that's going to be a nice mix of business coming in for the fourth quarter of the year for us.

Aaron Grey
Analyst, Alliance Global Partners LLC

Q

Okay, great. Thank you very much for the detail. I'm going to jump back in the queue.

Operator: The next question comes from 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 congrats on a great quarter. Just a couple of quick ones from me, kind of following up on the last one there. Just curious if you can update us on some of the cross-selling initiatives across the Southeast and the Midwest and where you are in that ramp and how we should think about the pace from here? And then regarding operating income, just looking to see when we can expect maybe Charlotte and Atlanta to start showing up in some of the numbers? Thanks so much.

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

A

Hi, Daniel. So let's address Southeast first, right? And again, Southeast, yes, we have enjoyed a little bit of additional capacity here in the first half of the year. One thing to note is that, our additional freezer capacity likely won't be ready until later in the year or even into 2027. But we have seen a meaningful volume increase with respect to seafood. So volume has grown in that category.

Charlotte is still going through inspection at the moment, so all the renovation is 100% completed. So hopefully within the next week or two, Charlotte can be operational. And Charlotte itself, specifically, it's more of a efficiency play with us being able to cut our distribution routes for our Great Wall Virginia business, that's currently based out of Richmond, Virginia. So probably going to be in Q4 or so, we'd just see some DS&A improvement coming from Charlotte. With the Midwest, we are doing some minor capacity improvement. So again, likely it's going to be toward the end of 2026 and then 2027 before we see some meaningful capacity expansion opportunity there.

Daniel Harriman
Analyst, Sidoti & Co. LLC
Q

That's really helpful. Thanks so much.

Operator: The next question comes from Bill Kirk with ROTH Capital. Please proceed.

Q

Hey, this is [ph] Nick (00:21:10) on for Bill. Thanks for taking the questions. First from me, just on traffic, you mentioned previously that takeout strength [indiscernible] (00:21:17) dine-in. Has that trend held and were there any notable changes in traffic related to the World Cup in any of your regions or any other drivers of incremental traffic on the quarter? Any color there would be helpful. Thank you.

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

Yeah. I mean, not specifically to World Cup, now there is a seasonality to our business. Right? I mean, Q2 generally is one of our higher kind of food traffic volume quarter. And then as you get into Q3, with kids going out of school and summer vacation happening, then the foot traffic typically kind of slow down a little bit. But we have seen a pretty meaningful kind of improvement on takeout that we've seen historically in Q2, offsetting by some continued foot traffic noise that we're seeing on buffet and dine-in restaurants. So nothing too different versus the prior year. It's kind of normal seasonality that we're seeing in 2026 so far.

Q

I appreciate that. Second from me, on the EBITDA beat, you mentioned recently being more aggressive pricing-wise in some categories to take share, but margins were up sequentially and EBITDA came in higher. Just help us unpack that a little more and where specifically that came from? Thank you.

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

Yeah. We've been actively going on the offense. Right? I mean, historically, we really benefited from business coming to us over nearly three decades in business. So for the first time, we've been running a lot of promotional campaigns with our West Coast business, working with some key vendors to partner kind of expand their brand and their awareness in the market. And then specifically in the Southeast, it is a heavy push on seafood. So I think, specifically in Q2, we've seen some meaningful volume gains on the seafood side, which drove some of the gross profit dollar improvement. That's kind of offsetting some of the pricing pressure that we're seeing, both because of the rising diesel cost and from a conquest standpoint. So I expect, the rest of the year in 2026, we're still going to be in this kind of conquest model before margin and everything else gets normalized probably in 2027 and beyond.

Q

Great. That's it from me. Congrats again on the quarter.

Xi Lin

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

A

Thank you.

Operator: Thank you. At this time, I would like to turn the floor back over to Felix Lin for closing comments.

Xi Lin

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

So again, I want to thank everyone for your continued support of HF Foods. It's an exciting time for us as we continue to execute on our strategy and look forward to closing the Searay acquisition in the coming weeks, which will be a significant milestone for us. We'll update you all on the progress of integration on our next earnings call. Thank you for your time.

Operator: Thank you. This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation. And have a great day.