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UTZ Brands, Inc. (UTZ)

Q2 2025 Earnings Call - Q&A Session

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Analyst, BofA Securities, Inc.

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Analyst, Piper Sandler & Co.

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Audra, and I will be your conference operator today. At this time, I would like to welcome everyone to the Utz Brands, Inc. Second Quarter 2025 Earnings Conference Call. Today's conference is being recorded. All lines have been placed on mute to prevent any background noise. [Operator Instructions]

At this time, I'd like to turn the conference over to Trevor Martin, Senior Vice President of Investor Relations. Please go ahead.

Trevor Martin

Senior Vice President-Investor Relations, UTZ Brands, Inc.

Thank you, operator, and good morning, everyone. Thank you for joining us today for our live Q&A session and our second quarter 2025 results. With me on today's call are Howard Friedman, CEO; and Bill Kelley, CFO. I hope everyone has had a chance to read our prepared remarks and view our presentation, all of which are available on our Investor Relations website.

Before we begin our Q&A session, I just have a few administrative items to review. Please note that some of our comments today will contain forward-looking statements based on our current view of the business and that actual future results may differ materially. Please see our recent SEC filings, which identify the principal risks and uncertainties that could affect future performance.

Today, we will discuss certain adjusted or non-GAAP financial measures, which are described in more detail in this morning's earnings materials. Reconciliations of non-GAAP financial measures and other associated disclosures are contained in our earnings materials and posted on our website.

Now operator, we are ready to open up the line questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll go first to Andrew Lazar at Barclays.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

Great. Thanks so much. Good morning and welcome Bill and Trevor.

William J. Kelley

Executive Vice President & Chief Financial Officer, UTZ Brands, Inc.

A

Thank you. Good morning, Andrew.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Good morning, Andrew.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

First off, EBITDA was roughly flat in the first half of the year. You're looking for 8.5% growth for the year at the midpoint in the back half. I think it actually looked great 8.5% growth at the midpoint for the full year and implies high-teens growth in the back half. I was hoping you can go through maybe a bit more detail on what gives you the confidence in that outlook, especially in light of just the more muted first half EBITDA performance.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah. Good morning, Andrew. It's Howard. I'll start and then hand it over to Bill for any other color. But look, I think there are couple of things that are going on in the quarter. Obviously, there's a lot of the investments that we have been making to drive our overall top line, which are coming through, required some – required investment as we were – as we build into the year.

When you look specifically to gross margin, first is that it naturally steps up as we build through the year. Q3 is typically a significant step up versus Q2. And as you look at what's coming into the back half of this year, the accelerated CapEx does accelerate productivity savings as we go and we obviously announced a plant closure that also is going to impact the back half of the year.

And then, I think the last thing that you're going to see is there is some benefit to our portfolio mix as well as we are continuing to see top line momentum that also helps the step up as we go into the back half of the year. I think

overall, we feel like it's – we're in a good place on the guide and have some clarity and line of sight to the productivity savings and the margin expansion as we progress through the rest of the year.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

Got it. Okay. Thanks. And then obviously, you've delivered strong top line results in the first half and in an overall category that at least doesn't appear to have improved very much as of yet. I guess, what specifically led to the better top line? Is it frankly, just more distribution gains that you might have expected, better velocities, new products? What's kind of led to the – at least, above what your initial expectation was around top line?

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah. Look, here are a couple of things that are going on in the quarter and we feel really good about where we are on our top line. And as you know, we are not solely dependent on the category in order to be able to drive our growth. The first is, as you suggest, which is obviously we've had a significant increase in expansion market distribution points, you see about as we went into the first half of the year, we are investing in infrastructure, which is allowing us to see a significant growth in the first half in those geographies.

I think the second thing is, as I think for the first time in a couple of quarters, you actually saw volume and value share gains in our core and that's really being driven by bringing Boulder Canyon and On The Border into our core geographies as well as seeing some improvement in our C-store performance as well. We're not where we want to be yet on C-store, but you are seeing an improvement in the trend. And so, we kind of have measured and unmeasured channels all kind of moving together very positively in the first half and certainly in the second quarter distribution gains supporting it. And then we've been making investments to drive that westward expansion and they're also coming through in the top line results.

Andrew Lazar

Analyst, Barclays Capital, Inc.

Q

Great. Thanks so much. I'll pass it on.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Thanks, Andrew.

Operator: We'll move next to Peter Galbo at Bank of America.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Hey. Good morning, guys. Howard, maybe just to start, I'd love to get a little bit more clarity on the revision on the EPS line, specifically, the stock is currently down about 11% at the open. And I think that that – a lot of that has to do with just the mechanics of what changed in the EPS guidance. So, maybe you can talk a little bit more in detail about what below the line is specifically changing. I know there was a comment around interest expense, but also some accelerated depreciation. So just like what was the number before? Where is it going to? No impact to EBITDA, but clarifying comments there would be very helpful.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah. So, let me start and then I'll hand it to BK. Because Peter, obviously, as you know, we've always maintained that EBITDA is obviously the first indicator of the overall health of our business. And we continue to feel very good about the EBITDA plan for the year as we obviously nudged up the low end from 6% to 10% to 7% to 10%. So, we feel pretty good about where we are on the cost savings programs and productivity. All of those things are coming through.

As it relates specifically to EPS, let me turn it back to BK to go – take us through rest of the way.

William J. Kelley

Executive Vice President & Chief Financial Officer, UTZ Brands, Inc.

A

Yeah. Thank you, Howard, and thank you for your question. On the EPS piece, the original guide that we put in place was the EPS growth of 10% to 15%. We revised that in our print yesterday to be – or this morning to be 7% to 10%. As Howard said, EBITDA is the indicator for us in the health of our business, but the impact of our revision [ph] from midpoint (00:06:55) to midpoint is about \$0.03. Half of that is interest, the other half is D&A. On the interest side and [ph] cash interest, will (00:07:03) pick it up a couple pennies there given the impact of the higher CapEx spend that we decided to do to accelerate our productivity programs and to help grow our business. We borrowed a bit more sooner in that line and that's picking up there in terms of more interest.

On the CapEx side, we did confirm a higher spend – at the higher end of our range on CapEx. And we spent more of that quick – more quickly than in the past. Our CapEx is about 70% spent through the first half of the year and that's different than our historical kind of pattern. That did create more amortization and depreciation and that's the other \$0.01 or so that's coming through in our guide. So, we thought that would be the way to think about it.

Looking forward, we think that we are confident that 2025 will be the peak of our CapEx spending. And so, we think we can manage through that. But I thought it was prudent to just confirm the thinking on EPS. I know it's not the most significant metric for us, but I want to make sure that we had the right thinking there going forward.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Got it. Thanks for that, Bill. Helpful. And Howard, maybe just to pivot it back to the business and in relation to Andrew's question, look, there was I think a slide in the deck around potato chips clearly outpacing the category. But then you had two other kind of subcategories in tortilla chips and pretzels that were maybe a bit below trend. So just kind of what needs to be done to get those on the same trajectory or turned around? Maybe there's something in the comps, but additional color there would be helpful as well. Thanks very much.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah. Thanks for the question, Pete. I think there are a couple things going on. Obviously, to your point, potato chips is doing well and it's a little bit of a tale of within the expansion geographies our Power Four Brands are all performing quite well and we're pleased with the performance. Potato chips, obviously from a subcategory perspective, in the quarter was also very strong.

As you look at pretzels, you sort of have the Utz brand, which was actually growing in line with the sub-cat and is performing well. And then the rest of our pretzel portfolio a little bit softer, which kind of pulled the number down.

But our primary power brand in Utz is growing strong in pretzel. And then obviously Zapp's and Bachman and some others were a little bit softer.

And then on tortilla chips, it was a little bit more of an overlap of merchandising. We had some activity in the Club channel as well as in the South Central portion of the United States, where we were lapping some promotions in the prior year, not an issue that we see, but more just a quirk of the calendar.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Great. Thanks very much.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Thanks, Pete.

Operator: We'll move next to Michael Lavery at Piper Sandler.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

you. Good morning.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Hey, Mike.

William J. Kelley

Executive Vice President & Chief Financial Officer, UTZ Brands, Inc.

A

Good morning.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Just wanted to unpack some of the distribution gains a little bit. You've obviously got really good momentum that you called out in the Midwest. Can you give a sense of is that smaller retailers and kind of what the shape of the channels look like there? And how much does that momentum help your selling story to bigger retailers and how well-established is your infrastructure to support a bigger push out there?

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah. So, we actually are seeing – so obviously we're seeing growth in all 30 of the expansion geographies. So, we did actually – we are seeing momentum picking up across the expansion markets and it's a combination of things that are going on, Mike. Obviously, we continue to get very strong retailer support from national chains as they are taking our products westward with us and so that continues to be a good new story. And we're also seeing good progress in channels, whether it's Club, discount, dollar or all, also continuing to see momentum.

And so from a distribution gain perspective, it's a little bit more broad based than sort of a smaller retailer, but it's certainly something that we're pleased with. And that obviously – the thing that we have found historically and

we've seen it in most of our expansion geographies, once we get in and start to execute our playbook around the perimeter, around end caps, and around the distribution, because we are additive and incremental to the category, retail, we tend to get incremental space as we go. And so what we wind up doing is building strength upon strength. And so, you're starting to see distribution gains both in core and expansion markets kind of across the board. And from an infrastructure perspective, that is the benefit of our hybrid model between direct to warehouse and DSD.

We can service a customer based on how their unique preferences are or in some cases start out in a market before we can get to the [ph] round (00:11:54) infrastructure that we need for customers that want to be serviced that way. So hopefully, it answers the question. We're feeling really good about where we are and we believe that that was part of the logic of saying that we would bring the low end of our guide to at least 2.5% moving into the back half of the year.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

No, that's great color. And just a quick follow-up on packaging [ph] both (00:12:18) side with some of the new innovation. It looks good. I know you've got a big portfolio, but does it reflect [ph] really any (00:12:26) even subtle changes to brand architecture that might be applied more broadly?

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah. Well, look, I think at the moment, there are a lot of things going on with our packaging. We obviously introduced a Cheeseball Barrel refresh that we want to do from a structure perspective. The front of pack graphics, at the moment, we continue to obviously look to make sure that the brands are fresh and modern and that the packaging is appealing. So, we'll continue to look at that and tweak as necessary. But for the moment, I think that we're pretty pleased with our architecture overall.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Okay. Thanks so much.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Thank you.

Operator: We'll take our next question from Robert Moskow at TD Cowen. Mr. Moskow, your line is open. You may be on mute.

Robert Moskow

Analyst, TD Cowen

Q

I'm sorry about that. Having trouble with the headphone. Okay. I'm glad you have Trevor there to help explain why the stock is down because I don't think I can. This is – I thought the print was pretty good. Can I ask, the bridge, the EBITDA bridge in the back has the investment spending that you talked about, Howard...

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah.

Robert Moskow

Analyst, TD Cowen

Q

...in SG&A to drive the distribution gains. Can you – I would imagine that that continues in the back half of the year because it's supporting your growth and expansion categories or expansion geographies and also your DSD system. So, is that true? Will that continue in the back half?

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah. I think if you look at SG&A front half versus back half, we do expect that on a percentage basis them to be – that SG&A in the second half will be modestly higher. Some of that is to your point, being able to invest in the sales infrastructure for the westward expansion and obviously marketing spending in Q3 will be a little – will be higher because we're in the peak of the summer selling season. So, I think that that's a fair assumption.

There's also a little bit of cost inflation around healthcare that's in there, but by and large, the investment that you're seeing in SG&A is to continue to drive the top line momentum, which is obviously being supported by gross margin expansion that you saw in the first half of the year and we expect to continue and accelerate.

Robert Moskow

Analyst, TD Cowen

Q

Okay. And is there any way to isolate the margin of Boulder Canyon in relation to the rest of the portfolio? Is this a higher margin brand and will that eventually help your path towards margin expansion as it continues to grow?

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah. I think – so, we haven't disclosed obviously our brand margins historically, but I think it is fair to say that Boulder Canyon is a premium brand and that we expect – that it actually has a margin benefit to the business a little bit. We talked about earlier on why do we believe that there's a mix benefit in the back half of the year to EBITDA on our brand and channel mix. So, we're bringing Boulder Canyon as an example into not only is in our untracked channels in Club and natural and – but we're also bringing into our most profitable channels, which is really food. So, you should see a benefit over time there. And we think that that actually will supports the higher EBITDA guide that we have in the back half of the year.

Robert Moskow

Analyst, TD Cowen

Q

Okay. Thank you.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Thank you.

Operator: We'll move next to Brian Holland at D.A. Davidson.

Brian Holland

Analyst, D. A. Davidson & Co.

Q

Thanks. Good morning.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

Hey Brian.

A

Brian Holland

Analyst, D. A. Davidson & Co.

Just curious within your outlook, what is assumed from a category standpoint? Around this time a year ago, the competitive landscape became a bit more aggressive on promotion. So what's your view of that dynamic as we head into back to school this year?

Q

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

Yeah. So obviously, we had said last quarter that we kind of envisioned a – that the category would get to flattish kind of growing into that as we went through the year, right? And to your point, at this point, the category has been fairly stable in terms of where it's been sitting. And obviously, we are continuing to grow quite a bit more quickly. I think where you'll – what we would expect is you should see some category progress in the third quarter as, to your point, the lapping of last year's merchandising events occurs and the category should start to normalize. But our guide at this point is really predicated on the idea that the category is not going to get a whole lot better from here and that we continue to see the type of performance we saw in the first half of the year, support kind of where we expect to be at least 2.5% or better.

A

Brian Holland

Analyst, D. A. Davidson & Co.

Got it. Thank you. And then you referenced the partnership between Zapp's and Potbelly's. What can you tell us about the pipeline that you have or are developing in foodservice beyond this relationship? And also, what's the current mix of foodservice within your net sales? And then do you have any view on what that could or should ultimately be?

Q

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

Yeah. So look, we – I think many of us who have ever tried Zapp's, the first place that many of us may have tried it was in Potbelly and we're very happy with that relationship. What we have been able to build and introduce that our brand to a lot of consumers that way. And so I think that building brands away from home continues to be an area that we are interested in pursuing more of. Potbelly, obviously, a significant partner for us and we're thrilled to have launched – to be launching the product.

A

I think the foodservice is a relatively small piece of our business overall and remains so. We can get you precise numbers, but it tends to be pretty small and an area where we do think that there is growth potential. We know that most people who [indiscernible] (00:18:33) to who tend to want to buy brands away from home typically experience it in home at first. So kind of feel like driving our geographic expansion and the introduction into kind of traditional channels and grocery then sets up a really strong argument to be able to then be included in single serve away from home. So it'll come over time, but it's still early innings there, I think.

Brian Holland

Analyst, D. A. Davidson & Co.

Q

Appreciate the color. And then if I could just sneak in one quick – and let me echo Rob's comments about the stock at the open this morning. Look, are you still on pace to exceed your 2026 financial goals that you set at the 2023 on the bottom line, mindful of kind of the adjustments that you've made today on EPS?

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah. Look, what we said at Investor Day was that we'd be able to contribute 100 basis points of EBITDA margin expansion year-over-year-over-year and that we would be delivering double-digit EPS growth over that same period of time. If you look at what happened last year, we grew 120 basis points of EBITDA expansion going from 13% to 14.2%, and we grew EPS 35%.

So at least as we look today and as you see our guide where we are, the building blocks, top line expansion or top line growth and expansion markets holding our core, being able to drive productivity at \$135 million, which we revised to \$150 million plus and where we are on EBITDA, we don't – we continue to be very confident that we can meet the bottom line goals that we have, given that we are, I think, executing what we promised in December 2023 and it continues to come through in our results. I think we feel really good about where we are and where we're headed.

Brian Holland

Analyst, D. A. Davidson & Co.

Q

Thanks. I'll hop back in the queue.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Thank you.

Operator: We'll take our next question from John Baumgartner at Mizuho.

John Baumgartner

Analyst, Mizuho Securities USA LLC

Q

Good morning. Thanks for the question.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Hey, John.

John Baumgartner

Analyst, Mizuho Securities USA LLC

Q

Howard, I'd like to ask about the comments on DSD investments. Can you elaborate on what's sort of changing or evolving there? And then looking specifically at the convenience channel that was a focal point...

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah.

John Baumgartner

Analyst, Mizuho Securities USA LLC

Q

...for you coming into the year and you're building some nice momentum in C-stores with good distribution point growth for the first time in a couple of years. How much of that improvement in C-stores is down to new package capabilities and flavors against sort of a static route to market relative to [ph] benefits from (00:21:07) material changes or improvements in the actual routes and selling resources? Not sure if the C-stores and DSD investments related, but just wanted to ask on both.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah. I appreciate the question. Look, I think what is – part of the investments, there are two different investments that we're making in DSD more broadly. In our expansion markets, obviously, we're putting in infrastructure to be able to support the expanded distribution that you see in the – as we're moving westward. And that – part of that effort is actually still underway and we're making infrastructure investments, which you can see in the numbers.

And then the second piece is really in our core geographies, we have been working to kind of evaluate where the routes have been and make sure that our IO partners are getting the support that they need to be able to execute. And in some cases, we are buying back routes and then reselling them to new IOs who want to get into the business. So that is kind of a little bit of standard work, but it stepped up in the quarter, specifically in our core geographies. So I think both of those things, one is laying in new and then the other is acquiring new IOs and making sure that we're providing the services that they require to be able to build their business. Both of those things, I think, are coming through in the top line performance.

I think with respect to C-store, I think there are a couple of things going on. There's no question that when the C-store business starts to improve, that that also makes it a more attractive place for IOs to place product as well. So it gets to be a little bit of a virtuous cycle there. We've also had distribution gains in a couple of the larger banners that is also coming through, and you can see positive trends, which is reversing some of distribution losses that we talked about a couple of quarters ago or probably a year ago at this point.

And then yes, we are introducing better assortment and better assortment management and better product mix into those stores, which is also helping. We do expect C-store to get to flattish by the end of the year, but for the – this has been a long and slow progression back toward where we want to be. Q1 was better than Q4. Q2 was better than Q1, and we expect that momentum to continue.

John Baumgartner

Analyst, Mizuho Securities USA LLC

Q

Great. Thanks, Howard.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Thank you.

Operator: We'll go next to Jim Salera at Stephens, Inc.

Jim Salera

Analyst, Stephens, Inc.

Hey, Howard. Hey, Bill. Good morning. Thanks for taking our question.

Q

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

Hey Jim.

A

William J. Kelley

Executive Vice President & Chief Financial Officer, UTZ Brands, Inc.

Good morning.

A

Jim Salera

Analyst, Stephens, Inc.

Howard, I wanted to ask a little bit, maybe starting off on Boulder and obviously the very strong growth you guys see there in conventional channels. Is that coming from both core and expansion markets? Or just to – maybe if you can kind of give us some detail on what's driving that, if it's being introduced across the footprint, if there's specific areas and kind of what the runway as you see it on a go forward basis?

Q

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

Yeah. So, look, I think Boulder Canyon, we talked at Investor Day that we thought we can get to \$100 million within three years. Obviously, we got past \$100 million this past year at the end of Q4. And that business continues to kind of be riding a perfect combination of things. It's a great product. It has a better-for-you benefit with non-seed oil and it has grown up in the natural organic and better channels.

A

And what you now see us doing is bringing that product into – across our geographies core and expansion as well as some unmeasured and Club. And so, you can see a broad-based distribution gain across channels. There's still quite a bit of room to grow. I think we're still only around 50%, 49% ACV, which obviously is a step up, but still significantly lower than some of our other products.

And then what you're seeing is not only are we continuing as a number one potato chip brand and what you can see in the natural channels but distribution is growing and velocity is growing as well. Those two things are both moving together across channels. So, we're not seeing the cannibalization that you normally may see. And there is a differentiation between the channels, but we're very bullish about that brand. And look, I don't think it's inconceivable to believe that that could be a couple hundred-million-dollar brand in the next few years. But right now, we're very pleased with that business. And mostly what we're pleased about is what that brand stands for to its core shopper, which is beyond just avocado oil or non-seed, but it's a great product that's performing quite well.

Jim Salera

Analyst, Stephens, Inc.

Great. And then maybe pulling on that thread a little bit. You guys talked about household penetration at an all-time high of around [ph] 50% (00:25:49). Do you see in the composition of the new households that there may be non-traditional households compared to where the core kind of Utz brand used to play or plays today and a lot of – are a lot of them coming in through some of the other brands? Or is that balance between expansion,

Q

geographies entering – households entering from those geographies? Just any details you can offer on what that composition looks like as households continue to grow.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah. I'm not sure that we've broken it out the household composition for household penetration. But what I would offer you is it's not surprising that as our Power Four Brands are entering into different geographies, respectively, that – my hypothesis would be that you would be seeing our Power Four Brands driving the top line kind of commensurate with their business size on average. Although I would be surprised if [ph] Boulder (00:26:48) is not a significant contributor given just the sheer momentum of that business kind of where we are right now. But we can get you a better sense of kind of how that growth is coming. But the household penetration, the trial rates and the repeat rates are all very strong and continue to be quarter after quarter, year after year, which continues to make us bullish that our expansion strategy and our growth strategy is working.

Jim Salera

Analyst, Stephens, Inc.

Q

Okay. Great. I appreciate the color. I'll hop back in queue.

Operator: We'll go next to Scott Marks at Jefferies.

Scott Marks

Analyst, Jefferies LLC

Q

Hey. Good morning. Thanks so much for taking the questions.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Hey, Scott.

Scott Marks

Analyst, Jefferies LLC

Q

First one I wanted to ask about. There was certainly some commentary about the supply chain. Obviously, closing the Grand Rapids facility and some other comments about automation, some insourcing. So, question really around how you're feeling about the state of the supply currently and where you see maybe future opportunities for improvements and to make things more efficient?

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah. So, I think the first thing I would say and I'll hand it over to BK as well. Look, I think if you look at what we have been able to accomplish over the last two years, at Investor Day, we basically laid out that on average, our manufacturing facilities had about \$100 million of revenue coming through and that the journey was to get to \$200 million, which obviously implied a plant – a reduction in overall plants.

We are now at that number a couple of years, I think, earlier than we would have expected. So, I think from the perspective of kind of where are we in sort of the optimization, we're getting towards the end of a lot of the manufacturing piece of the work. I think second, you then saw a significant step up to 6% productivity last year

and we expect to be around 6% or 6% this year as well. And I think that that is also kind of an indication you see the gross margin coming through.

I think the thing that we're most pleased about and I think what the supply chain is rightfully proud of is that we've been able to do all of those things while we've been driving expansion of our geographies and supporting a growing business. And service has been outstanding for our retailers throughout the journey, really kind of starting with the middle of last year through to now. So, we're toward the end of a lot of that – a lot of the work that we had to do, this is – to BK's point earlier, this is sort of the peak of the CapEx investment.

Our automation is now in place and is now active [indiscernible] (00:29:23) started up in Q2. Potato chips lines actually started up in Q2. We had a pretzel line that started up in Q1. We've expanded kettle capacity and invested in Kings Mountain and all of those things are moving forward, which allow us to take this last step, which is to finish the shaping of the plant footprint. BK, I don't know if you have anything to add.

William J. Kelley

Executive Vice President & Chief Financial Officer, UTZ Brands, Inc.

A

No, I think that's all well said, Howard. The only thing I would build on is that this does give us capability as we think about our margin profile going forward. These savings will be supportive the balance of this year as we head into next year as well.

Scott Marks

Analyst, Jefferies LLC

Q

Got it. Thanks so much for that. And then last question from me. Obviously, you talked about material step up in marketing spend, obviously plans to maintain kind of higher levels of investment moving forward. Just wondering if you can kind of share a bit of color around maybe some of your marketing strategies in terms of core geographies, expansion geographies and kind of how you're thinking about channels, I guess, to reach consumers. Thanks.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah. Yeah. So what we said at Investor Day was about 40% year-over-year over a year for three years. And depending on how our productivity programs came, if we had more gross margin savings that we would consider to invest. Obviously last year we invested 70% more in [ph] AMC (00:30:41). This year, in the second quarter, we actually invested 44% more than a year ago.

And we have a combination of things that we're doing. So, we do have retail media to support geographic expansion and making sure that shoppers are being introduced to the brand and expansion geographies as they are going. And we have a lot of social and digital media. We had some fun with how you pronounce our name with actual real life consumers, asking them to say the name and having a debate because there are two pronunciations depending on geographically where you're from. So, that's been fun to introduce the Utz Brands, you can guess which team I'm on – the Utz Brands to that.

We've also been investing in Zapp's media as well and we will be rolling toward a – introducing and launching some more consumer pressure on Boulder Canyon as we get into sort of the back half or the year-end. So we tend to try and hit consumers across channels. We try to hit them with a message at the right point where they're trying to think about us and our returns are quite good, but we know we have a lot to do and we have a lot more to learn as we continue to invest more.

Scott Marks

Analyst, Jefferies LLC

Understood. I'll pass it on. Thanks so much.

Q

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

Thanks, Scott.

A

Operator: And next we'll move to Rupesh Parikh at Oppenheimer.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Good morning and thanks for taking my question. So just going back to your comment around quarter-to-date trends and the momentum you're seeing quarter-to-date. Just curious, what's driving that, is that compares, less promotional backdrop? Just curious what do you think is driving [ph] the strength (00:32:16).

Q

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

Yeah. So, well, I mean, I think there are couple things that are going on for us as we look at Q2 and into early Q3. I think if you look at the building blocks of our top line momentum, it has been expanded distribution, increased consumer pressure and support in-store behind our hybrid model. I think all three of those things are working pretty well for us right now. We've definitely enjoyed distribution gains in both in our core markets and our expansion markets of our items.

A

We are investing in the infrastructure. We're getting greater point of sale and greater perimeter support. And all of those things, I think, are driving our top line higher. I think the compares are obviously, we are in a different category environment than last year in terms of sort of the promotional price point environment, which is much more what I consider normal and rational in where we are competitively, which obviously helps some. But I think the building blocks of distribution, [ph] A&C (00:33:15), customer support and IO execution are all the things that are driving this flywheel now backed up by the marketing that we are investing in.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Great. And then maybe one final question. Just on your value proposition. So with bonus packs now winding down, can you just talk about where you are with your key efforts to improve the value proposition for consumers?

Q

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

Yeah. So bonus packs ended in April and had no net sales impact on the quarter, so we're – which I think turned out to be a great trial event driver for us. Look, we compete in value up and down the price ladder, right? And so in Club stores where it's larger packs with more premium items, something like a Boulder, which is the most expensive product in our range, as well as when we think about price pack and assortment through food, through mass, through drug, through dollar and discount.

A

What you can see in performance is we're seeing strength across the board. And some of it is by making sure we have the right price point at the right – and the right package at the right time, and some of it is playing the latter

all the way through. We've got a great range of items. You can see strength in pork and you can see strength in cheese as well. So I think our value proposition remains quite strong. We haven't had to make major tweaks, in my opinion, to it, but rather running the play that we expected at the beginning of the year and driving the results that we have.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Great. Thank you. Best of luck.

Q

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

Thanks, Rupesh.

A

Operator: We'll move to our next question from Peter Grom at UBS.

Peter Grom

Analyst, UBS Securities LLC

Thanks, operator. Good morning, everyone. Hope you're doing well. So, I wanted to follow up on the prior question around underlying category growth. And Howard, I think you mentioned you don't really expect the category to get much better which makes sense given what we're kind of seeing today. But I was hoping to get your perspective longer term. Obviously, a lot of debate in terms of what the current backdrop means for the long-term growth for this industry. So, I was just hoping to get your perspective on how you maybe see category growth evolving beyond 2025. Do you think we can get back to kind of the historical levels of growth we've seen over time? And if so, what's kind of your perspective on a reasonable timeline of getting back to that level?

Q

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

Yeah. So look, I remain bullish on the category long term. I still think it's one of, if not the best category in food. Part of that, I could be biased. But when you look at the underlying panel data and I kind of always start there, which is what does household penetration look like? Is it growing? Is it contracting? And then what do consumers do once they buy at once? And the thing that you do see is this category enjoys good strong repeat, but household penetration continues to grow, which at least says to me that consumers want this category in their – these products in the pantry. I think if you look at over the last couple of years, the category had been, call it, a [ph] 0 to 1 volume and a 3 to 4 (00:36:13) price category.

A

And I think over the last couple of years, that [ph] 3 to 4 (00:36:20) price has been a lot of the driver for it to obviously [ph] not perform (00:36:24). But household penetration continues to hold up. So look, I think as you look outward, I think as the category gets back to brand building, innovation, marketing support and sort of consumers adjust to the pricing levels of where they've been over the last couple of years, I think the category can and will continue to grow and remain what it has always been, which is, I think, the best category in the food.

I do think that part of the way out is innovation and I certainly think that investing in things beyond promotional price points is the way forward and that's certainly what we are interested and focused on doing as we go forward. And I think our programs are working so far. But long term, I'm pretty – I'm very positive on where we are.

Peter Grom

Analyst, UBS Securities LLC

Q

That's super helpful, Howard. I guess and then just maybe on that innovation point you made, I had a question on protein. Obviously, you've done a great job in the organic natural segment, but obviously, a lot of consumer interest in protein. One of your largest competitors even appears to be leaning more into that segment a bit more. So just would love to get your thoughts on kind of protein, protein chips as a segment and maybe how you see this sub-segment evolving within the category over the next several years.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Yeah. Look, I think there are a couple of – I think protein is certainly a place where all of us look. I feel like I've been in the meat and cheese business for a long – for many years ago, and protein snacking was a big driver. And look, I think the consumer interest will remain high in the category and it's really how do you deliver a product that consumers want to buy with the benefits they want without a taste sacrifice. And so it's an area that we'll certainly look at, much like we look at high flavor and spicy in the natural channel or I mean, sorry, in the convenience channel or non-seed oils in the natural channel. Where the consumer wants to travel is a place that we're going to do our best to meet those needs. So more to come, I think, on that. But I think, obviously, it's an area among many that we are – that we look at and that we see a lot of consumer interest in.

Peter Grom

Analyst, UBS Securities LLC

Q

Great. Thank you so much. I'll pass it on.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

A

Thanks, [ph] Peter (00:38:35).

Operator: And that concludes our Q&A session. I would like to turn the conference back over to Howard for closing remarks.

Howard A. Friedman

Chief Executive Officer & Director, UTZ Brands, Inc.

Yeah. First of all, thank you all for joining us in Q2. I think if you went back to where we've been as a company over the last couple of years and the promises that we made at Investor Day, I think that you continue to see those results coming through in our numbers. We had promised productivity, we promised a more efficient network, we promised gross margin and EBITDA expansion, and brand support and westward expansion.

And if you look across what we just produced and what we've done through the first half, I think we are doing what we've set out to do. I appreciate everybody's time and I look forward to seeing you all in Q3.

Operator: And this concludes today's conference call. Thank you for your participation. You may now disconnect.

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