Company Name: Real Good Foods (RGF)
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<<Bill Chappell, Analyst, Truist Securities>>

Good afternoon. My name is Bill Chapel, I'm the senior consumer analyst at Truist Securities. And welcome for the next session at ICR Conference, today we have senior management of Real Good Foods, who you may or may not be familiar with, but hopefully you will fall in love with this story over the next 30 minutes. Real Good Foods is a leading health and wellness focused company on frozen foods, focused on nutritious comfort foods, such as Bacon Wrapped Stuffed Chicken, Chicken Enchiladas, Breakfast Sandwiches, and a variety of other products sold at places like Costco, Walmart, Publix among other retailers.

It's growing rapidly. The company will generate roughly $84 million in sales this year based on our estimates up 115% year-over-year. Today with me, we have Executive Chairman, Bryan Freeman; CEO, Gerry Law; and CFO Akshay Jagdale.

And with that, we are going to walk through some questions and Bryan, help us since this is a lot of people's first time understanding like one, how do we get here? And just a quick overview of like the vision of starting this company and building this company. And then two, why does the world Real Good Foods? Why, in a market that has plenty of health and wellness products and even frozen foods has plenty of options where does real good fit it in, and what are you bringing to the market?

<<Bryan Freeman, Executive Chairman>>

Yeah, Bill, thanks for the introduction. It's been a pretty quick road and path for us. We started back in 2016, just a very, obviously we started in 2016 small company doing direct-to-consumer probably less than a $1 million in revenue. And in 2017 the company I was part of the SLT with Advanced Pierre Foods sold to Tyson. And it was at that time that I came over to Real Good as its CEO.

And I brought along with me several folks I've worked with in the past at other much larger businesses and within about four years, we grew the business to where you see it today, and took it public. But more importantly is your second question, Bill, why does America or the world need Real Good Foods? And for us, it's really simple. It all comes down to our mission and probably the single reason why I chose to spend all my time on this business. And it's because we're solving a huge problem. And that is of diabetes, obesity, caused by poor nutrition.

And when you walk to frozen food aisle, regardless of whether or not it's claims to be health and wellness or not, the reality is, it's low to a carbohydrates, sugar and very little protein. So in fact, when you look at brands such as Amy's or Call To Power, a Tattooed Chef or Evolve, these are brands that market themselves is better for you. But in reality, when you look at the backside of the package and look at the nutrition back panel, you cannot tell the difference between those products and those such as Stokers or the Junos or Hot Pockets.

And so we knew early on that if we can remove the carbohydrates and sugar and grains and replacement protein, we could have a huge impact on America and the rest of the world eventually. And so when you think about our TAM, Bill compared to say plant-based, okay. What beyond will tell you is that the plant-based community these are folks who are interested in meat reduction is approximately 18% of U.S. adults.

Our diabetic community alone is two to three times its size. I mean, it's an epidemic close to one third of the U.S. population is either pre-diabetic or has diabetes. And the American Diabetic Association recently announced that 40% of those who have died from COVID are afflicted by the disease. 42% of us are obese. And so, at the end of the day, I know that myself included we're not going to stop eating our favorite foods, comfort foods, things like enchiladas, lasagnas pizzas. And so it's our job to change how those foods are made, and fundamentally change food design.

And that's what we're in the very early innings of doing. And it's the – it's probably the only time in my career where I'm able to be a part of something where we're actually doing good, but at the same time, have an opportunity to build a huge business quickly.

<<Bill Chappell, Analyst, Truist Securities>>

Well, and on that, the idea makes a lot of sense, and checking all the boxes where a lot of competitors don't, but having the idea and getting retailers to accept it is, is two different propositions. What's helped you because you add now, Sam's recently, obviously you've had success in Costco and other retailers, what's the – what's the receptivity been like at retail and why? I mean, why do they want to add something new and small in when they've already got a crowded list, and displace other existing partners? And where do you see that going? I mean, have we hit the tipping point or multiple tipping points where it starts to really open up.

<<Bryan Freeman, Executive Chairman>>

Yeah. Two reasons why retailers continue to give us permission to come in and take shelf. The first one is, we don't take share. That's a pretty bold statement, but we have IRI data that shows that in the case of breakfast, as an example, over 92% of everyone who's bought a breakfast sandwich. One of our breakfast sandwiches in one of our retail partners did not purchase from the frozen breakfast category prior for the two weeks. And entree it's 46% and so on and so forth. So, when you can approach a retailer and show them that you're actually not taking share that's a big deal and you're helping them grow their categories.

The second piece is our digital activation model, when you can show retailers that you have the largest social community in all of frozen food in America that tells them that signals to them, that we're helping them connect the digital world with the physical world. In other words, we're bringing new people to their door, to their categories, all of our buyers; by the way, follow us on IG and various platforms. And so they see what we're doing online. That's a tremendous value.

And so Bill, I’ve been in the frozen food business for over 20 years, and this is the first time I’ve ever seen Sam’s Club launch two items at the same time in every Sam’s Club in America. And we’re seeing that playing out.

The other thing I will say to smaller emerging brands is that, that the one thing that we really did well at RGFs, we built consumer demand before we built the distribution. I know in my prior career I’ve been guilty of being solely focused on gaining distribution when I didn’t have a community. And so retailers, they look at this at our social media footprint and they know that we’re going to have, we have pent up demand for our products where we’re not at currently.

<<Bill Chappell, Analyst, Truist Securities>>

Well, and with that, help me understand it’s a different model of you have four SKUs that generate a majority of your business, and a lot of your focus. And the – I guess the tech growth model is come out with 50 products, spend the boatload on advertising and marketing and see what sticks, and then you’ve got that brand. And then you kind of go from there, this seems to be, Hey, we’re just trying to wedge through with these four or five categories and a slower model, maybe more methodical, but why one versus the other?

<<Bryan Freeman, Executive Chairman>>

Well, I look at it as that’s really our opportunity. So, we say fewer, bigger, better. When we go into a category, we’ll start out with just one shelf. But these are huge categories. We win with that first shelf. And then we build out from there. So to give you contextualize the opportunity, I would point to Amy’s. Amy’s is approximately about a $650 million year business. Over 80% of their revenue is from one category. It’s the entree category. Most retailers that they’re in, they have anywhere from 40 to 60 entrees, different SKUs. And yet we’re at like, we’re such early innings here. We may only have four, maybe six.

So there’s an opportunity to build up the SKU count in the categories that we’re winning. But what gets me really excited about Real Good Foods is we participate in multiple – multi-billion dollar categories. So unlike Amy’s, we’re winning in three, four different categories today. Our job is to just build out the SKU count and each of those categories, and then obviously add customers as well, long way. And so if to simplify it, we only need a kind of success in three categories to get to the size of Amy’s rather quickly. That’s the way we think about it, Bill.

<<Bill Chappell, Analyst, Truist Securities>>

Got it. And with that, what are the top opportunities in terms of focusing resources? I mean, is it backfilling existing retail stores? Is it trying to break into new stores? Is it focusing on new tangential categories? I mean, it seems like again for your size, and passenger you can’t do them all at the same time. Maybe you can.

<<Bryan Freeman, Executive Chairman>>

Well, we've got the hot hand right now. Our entrees are typically performing the top quartile of velocities. I don't know if you saw the recent spins data, you see significant velocity increases. So for sure, we have permission to grow our SKU count in entrees in breakfast. And you'll see that us do that in the existing customer set, but look, we're going to go get new distribution as well, along the way, such as we've already done with Sam's Club. And having said that I'm very excited about our upcoming innovation that you heard me talk about on our prior earnings call. We see a big opportunity and breaded poultry in an Asian comfort foods.

When you think about chicken nuggets, you think about chicken strips. That's a big category, high velocity category with very little innovation. The only innovation that's really come along there is just claims about the quality of the chicken protein, antibiotic free, et cetera. We've cracked the code on a grain free, gluten free, high protein, low carbohydrate breading system. And it's delicious. So, we think there's a big opportunity there. And then we take that same system and go into Orange Chicken, General Tso, sweet and sour.

Why does that matter? I mean, you look at a company like innovation. I believe three or four years ago, IRI would show maybe there were $40 million or $50 million brand today. They're over $200 million, but yet over 40 grams of carbohydrates, 22 grams of sugar, it's pure sugar. You go to Panda Express, get that orange chicken. You might as well eat a couple sneaker bars. We've got a – we've got a high protein, low carbohydrate solution there. And I think it's a big opportunity for the brand to go into.

<<Bill Chappell, Analyst, Truist Securities>>

And just help me understand why larger companies, I mean, as you get bigger, don't replicate this. I mean, is it, they're not willing to solve for the, what your product saw for? Is it their brands don't really lend themselves to go into to be authentic into these type of categories? Or is it something else? I mean, what's the real barrier to entry? Is it brand equity or is it more manufacturing an R&D understanding?

<<Bryan Freeman, Executive Chairman>>

Yeah, I think it's two or three things. I mean, number one, these are hard yards. Okay. As an example are enchiladas, those tortillas are made out to chicken and not flour. That's hard. Okay. So they're hard product design yards. Number two, imagine if you're inside a large multibillion dollar multinational company, and you say, Hey, I've got this idea to make a chicken tortilla, people would probably laugh you right out of the room. Okay? And so it's hard to just get these sorts of things green lit. Why is that?

Well, there's been a consolidation in frozen over the last decade, there's four players that really dominate and they're building for immediate mass scale. And so that's why I think it's it, they're slow to move and it's hard to get these sorts of innovations greenlit. And so, and look at the data of health and wellness within frozen and it's well behind other areas of the store. Approximately 16% of revenue in frozen is health and wellness. That's like half of what the rest of the store is. And so we're leading the charge to change that, good news there is, is health and wellness is going faster than the category. And it’s our job to lead the charge and deliver nutrient dense foods to the categories we participate in.

<<Akshay Jagdale, Chief Financial Officer>>

Can I add?

<<Bryan Freeman, Executive Chairman>>

Yeah, sure.

<<Akshay Jagdale, Chief Financial Officer>>

So when you look at the competitive dynamics, as you know, from falling the industry you know, these large companies who dominate frozen do not participate in the zero to $200 million game, right. They let, they basically outsource innovation. So first off the size matters in that sense. Secondly, you look at the margin profile of new products, it takes some time to develop the scale to get to the profile that these companies are at today. And as, they all are striving to innovation to be incremental to margins, right? So that’s another barrier, so that for them to come out and put major capital to use. I mean, it’s better for them to acquire brands or companies like ours once we get to certain scale. And we’ve seen that, play out in a number of times as we’re.

So, I think that’s the story with the large guys. So really, I think if there’s, competition’s going to come from smaller players, and we wake up to do one thing, right? Make nutritious comfort foods, and the way we approach it, nobody else is approaching it, because it’s difficult, high protein, no carbs or low carbs and no sugar. That’s hard to do. We, that’s all we think about daily. So focus matters and our entire strategy is around this focus and this mission. So that’s all we wake up to do every day and that I think matters a lot.

<<Bill Chappell, Analyst, Truist Securities>>

No, that’s helpful. And I guess that it’s a nice segue into kind of manufacturing in terms of your key items are all very different items. And they don’t, you can’t put them all along the same assembly line and make them one after the other, the other. So does that and you’ve said it’s difficult to make some of these things, at least from the get go, do you have, or how does it build out the capacity to match this growth? I mean, if all of a sudden Walmart says we want all force,, every SKU you have and every store you have tomorrow, how quickly, can that happen? And how do you build out if, if it does, we do hit another big tipping point where all of a sudden the brand starts to explode, not really going fast.

<<Bryan Freeman, Executive Chairman>>

Yeah. I think this is great opportunity for Gerry to jump in. You’re have to go off mute Jerry. Yeah, you’re still on mute.

<<Gerard G. Law, Chief Executive Officer>>

Sorry about that. So, I think there's two, two real things there. When you think about the manufacturing, one is a real moat. So, our products are difficult to make, the equipment sets are difficult. They're not normal in manufacturing set up. So, I've been doing this for 30 years, and we have a very, very unique manufacturing footprint to make our products. And the other thing that, that we've done that I think that has us a little bit more leading edge is, we are leaning in, we went into Bolingbrook, we got in there and October. We signed a lease. We're leaning in on capacity. That capacity be up online this quarter. I don't think there's a lot of companies that can go out there and create, manufacturing inside of five or six months.

We found a building, we found the equipment, some use, some new, I think our management team is very unique in the sense that we're able to kind of bump and roll like that. And it that's something that is an attribute to us and that the growth of the business. So, I think we're able to grow. I think we're able to continue to lean in for those sales and that's not something that's normal in a, typical business as far as the growth goes.

<<Akshay Jagdale, Chief Financial Officer>>

Yeah. Just well to put some numbers around that. So with Bolingbrook, the size of the footprint of Bolingbrook is two exercise of City of Industry, which is our existing facility, which as you know, we just got into in January of 2021 fully completed the transaction in March. So, we're moving fast. We're already almost at full capacity, right. But we could produce to plan and what we've guided to in City of Industry. But we're step ahead, because we see demand exceeding, our projections every single month. And so we're building for the future. We have enough capacity to more than double and that will, it's not linear, we'll build up to it, but that's what we'll keep doing. And that was part of why it went public. We see an opportunity to be $0.5 billion in sales organically over the medium term.

We think we can be the next Amy's, what the Amy's is 30 year we think we can do in five, but we think the public market support growth stories like us better than the private markets. And that's part of why we're public. So this growth capital that we raised is going to allow us, to more than double our sales from where we are, right. We've got almost $400 million worth of capacity theoretically now with Bolingbrook. And so we have plenty of runway and if we keep growing, we'll have to fund that growth, but we're good for the next couple years.

<<Bill Chappell, Analyst, Truist Securities>>

Right. With that in mind. I mean, obviously you built it and it's, it's highly automated, but maybe talk a little bit about labor and the ability to find, find labor in this market and wage inflation in this market. And then just to tie it in, because it's everybody's favorite question pricing, your ability to offset the wage inflation, even other cost inflation with pricing. One of the things, I notice is you're the premium of your products versus conventional products is not as great as you would see for other health foods versus traditional. So does that imply you don't have the pricing power or do you feel like you have plenty of pricing power as needed to cover these things and to attract the labor and offset the cost.

<<Bryan Freeman, Executive Chairman>>

Yeah, from a price perspective, Bill we tend to price 10% to 15% premium over conventional. Another way to think about it is we've line price typically with Amy's okay. Or the aims of the category. And so that provides us plenty of room, but with regard to labor, I would think about it in two ways. One is just labor rates. Okay, and two attendance. And for sure, we've seen like every other manufacturer increases in labor rates and those are not, those are structural, but what's, what had a bigger impact on us. And I would argue the industry and say, Q2 and the early part of Q3 was attendance rates. You have these manufacturing lines and if you don't have attendance on there, it's detrimental to obviously you can't run the line.

So, what we've seen is, as we went into Q4 attendance rates getting normalized, and that's what I really I know Gerry really focuses on. And so if you have the folks in the room, then all you really need to do is push or through put speeds to counteract the structural changes in the wages. Good news about going public is the CapEx has been available to us. And that's what Gerry, that's Gerry's playbook is reducing headcount. And while increasing throughput rates and Gerry, you want to add anything to that?

<<Gerard G. Law, Chief Executive Officer>>

Yeah. I mean, thanks Bryan. So, the lines that we're putting into Bolingbrook industry for that fact, we're, we have headcount, that's going to go from some 55 people per line to less than 20 through automation. So, that is a significant reduction in headcount and labor, and it, and once we mechanize these lines, so you get a couple pieces, one we get to is that, that we don't have the head count, two you we, there's a side benefit of yield in that, where we're able to really dial in, our weights and the losses that we have on the lines for scrap. So, we're excited to be able to have the access to capital to be able to execute that plan.

This is a play that I've done, a bunch of times over my career, and it's, I think we're on the early innings of that, of that game both in Bolingbrook, where we're just getting, going with the game and the industry, so it's these are exciting times ahead for us with respect to that yield and efficiency play.

<<Akshay Jagdale, Chief Financial Officer>>

Yeah. And just for some perspective, Bill in our existing plant, we have about 300 people that are employed directly in the, on the line roughly there, here in new plant, we'll have a hundred or less, and we have double the capacity. And so our labor costs, as a percent of sales are around 15% right now, 15%, 16% will be at 5%-ish in the new plant. And that's, you know, function of this data, the, art facility that we're building and the automation that Gerry's putting in.

<<Bill Chappell, Analyst, Truist Securities>>

That's great color. Well, I think we are officially out of time and 3:25 breakout session, for everyone is at 4:00 to 4:50. I was going to tell you, which room it is, but it's a virtual room. So you can click over to that, 4:00, 4:50 and ask for questions there and look forward to it. Thanks so much, congratulations on your success so far, and look forward to follow the story going forward.

<<Bryan Freeman, Executive Chairman>>

Thanks.

<<Gerard G. Law, Chief Executive Officer>>

Thank you, Bill.

<<Akshay Jagdale, Chief Financial Officer>>

Thank you.

<<Bill Chappell, Analyst, Truist Securities>>

Thank you.