Operator

Good Afternoon and welcome to the Innovative Food Holdings First Quarter 2024 Earnings Conference Call. My name is Ronit Wallerstein and I'll be moderating today's call. With me on today's call for Innovative Food Holdings is Bill Bennett, our CEO; Brady Smallwood, our COO; and Gary Schubert, our CFO. Throughout the conference, we will be presenting both GAAP and non-GAAP financial measures including, among others, historical and estimated EPS, adjusted EBITDA, which is net income before costs associated with amortization, depreciation, interest and taxes, and excluding certain one-time expenses; and adjusted fully diluted earnings per share, using the weighted average shares outstanding for the quarter ended 3.31.24.

These measures are not calculated in accordance with GAAP. Quantitative reconciliation of certain of our non-GAAP financial measures to their most directly comparable GAAP financial measures appear in today's press release.

I would also like to remind everyone that today's call will contain forward-looking statements from our management made within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, concerning future events.

Words such as "aim", "may", "could", "should", "projects," "expects", "intends", "plans", "believes", "anticipates", "hopes", "estimates", "goal" and variations of such words and similar expressions are intended to identify forward-looking statements. These statements involve significant known and unknown risks and are based upon a number of assumptions and estimates, which are inherently subject to significant risks, uncertainties and contingencies, and many of which are beyond the Company's control.

Actual results, including without limitation, the results of our Company's growth strategies, operational plans, as well as future potential results of operations or operating metrics (and other matters to be addressed by our management in this conference call), may differ materially and adversely from those expressed or implied by such forward-looking statements.

Factors that could cause actual results to differ materially include, but are not limited to, the risk factors described and other disclosures contained in our filings with the Securities and Exchange Commission including the risk factors and other disclosures in our Form 10-K and our other filings with the SEC, all of which are accessible on www.sec.gov. Except to the extent required by law, we assume no obligation to update statements as circumstances change.

With that, I would like to turn the call over to Mr. Bill Bennett. Please go ahead.

Bill Bennett

Hello everyone and good afternoon. I'm happy to welcome you to our Q1 2024 earnings call.

Hopefully you saw the press release this morning with some highlights from the quarter. We will also file our full 10-Q shortly, for your reference.

As I've mentioned several times before, we remain in the "Stabilization" phase of our three-phase plan. And as a reminder, I'm looking for two more milestones before I'll feel that we're out of our first phase: First, our return to strong revenue growth in our Specialty Foodservice business, and second, the sale of our Pennsylvania warehouse. But we're also not sitting still. We have many irons in the fire, with a dedicated strategic growth budget. We're being conservative with headcount, but we're not hesitating to invest where needed to drive sales. With that said, I'm thrilled to report that our foodservice revenue barely peaked into positive territory in Q1. That was a huge reversal from our Q4 declines of 13.6%, and while Q2 will probably be our most challenging of the year, it demonstrates we're on the right track, and are steadily making progress towards our second phase of "Laying the Foundation for Growth", and eventually our third phase of "Build and Scale".

With that introduction, let's jump into the results for the quarter. We're very proud of the strong results we delivered in Q1, with our key metrics all moving in the right direction. Revenue in our core Specialty Foodservice business returned to slight growth at +1.4%. Gross margin improved 174 basis points. SG&A decreased by 114 basis points. Our especially strong net income of $1.4M, compared to a loss of $2.8M last year, benefited from the gain on our real estate sale this year, and comping the executive separation costs from last year. But even after adjustments, our adjusted EBITDA grew from a negative $202K last year to a positive $469K this year, an improvement of $671K year over year. If you look back at our history, we usually lose money in Q1 – in fact, we haven't had an adjusted profit in Q1 since 2019! Gary will go a bit deeper into some of the financials.

As for our broader strategic initiatives, just a reminder that our goal is to sell off unproductive assets and reinvest our resources and efforts into growing our profitable foodservice business. Accordingly, in Q1 we consummated the sale of our subsidiary the Haley Group. At the beginning of Q1 was also when we officially began the ramp down of our direct-to-consumer eCommerce business, which started to benefit the bottom line this quarter as our mix shifted to the foodservice side. While we've largely de-resourced the eCommerce business, we do continue to market it for sale, and given recent interest levels, we are confident we'll be able to sell the business soon. We're also continuing our marketing efforts for the sale of our Pennsylvania building, with a regular stream of inquiries and building tours conducted. Lastly, with our recent announcement of the new contract with Cheney Brothers, our integration efforts continue, and we expect orders to begin flowing in the next few weeks, and beginning to ramp as the year progresses. We're also about to kick off a test with a new potential large customer, and on the cusp of launching a partnership with another large customer. We'll continue to issue press releases as these various relationships come to fruition.

We also continue to make progress on potential M&A, so I wanted to take just a moment to outline how we're thinking about that process. The company hasn't made an acquisition in its foodservice business in over 10 years, so we're building a new muscle. For our first acquisition, we're taking a very conservative approach. We're looking for four key qualities in any business we'd consider buying: 1) a business that's already profitable, 2) a purchase price in the range of 3-5X adjusted EBITDA and 5 year payback period, without considering synergies, 3) significant and obvious synergies that can be quickly addressed to further drive profit and cash generation, and 4) small enough that we can purchase with cash, seller financing, and seller earnouts, without issuing any significant new equity or debt, while still being big enough to be worth our time. This means any potential targets are likely in the revenue range of $5-15M.

It's exciting to see the impacts of our plan beginning to take shape as we are seeing improvements in our capital structure, margins, expenses, profit, and business outlook. As we look forward, improving our near-term profitability and returning to revenue growth continue to be top priorities. We also remain committed to maintaining our new, higher margin levels, and establishing a new lower baseline in SG&A expenses as we optimize our corporate structure. As I said earlier, we want to continue to demonstrate that we are building a sustainable, profitable business model, and I think this quarter was a great example of the progress we're making.

Now I'll turn some time over to Brady to talk through some of the specific actions we've taken in the operation of our business this quarter. Brady?

Brady Smallwood

Thanks Bill and good afternoon everyone. In each of the last two quarters, we have discussed our profit-focused plan for our direct-to-consumer business, including actions we took in January that we said would result in lower sales but improved profitability. These actions drove sales from a YoY decline of 20% in Q4 to a decline of 42% in Q1. These sales trends are in-line with our expectations, and the decrease in expenses, especially marketing and wages, resulted in reduced losses in the direct-to-consumer business. This accounts for approximately half of the company's adjusted EBITDA growth for the quarter, which is a testament to our strategy of reducing losses in this segment that were masking our profitable foodservice results.

We continue to assess our strategic alternatives on this business. Our thorough process, guided by our independent advisors, has yielded multiple compelling options. As Bill mentioned, we're confident that we'll reach a decision soon. This week we halted any new sales through Mouth.com and will redirect customers to igourmet.com so we can focus our streamlined resources on the larger business line through this transitionary period.

On our specialty foodservice business, we are encouraged by the Q1 results on both sales and margin. I wanted to point out two of the largest drivers of the sales improvement that Bill mentioned. First was our airlines distribution business, which accelerated by adding another large airline caterer with whom we believe we have a long runway. We will continue to build on this momentum by attending the upcoming global catering expo in Germany where we will be targeting a broader array of customers. Second was our Artisan Specialty Foods business in

Chicago where we have added to our sales team, allowing us to saturate more of the greater Chicago metro area and add to our customer base.

Also, as discussed on our last call, we have a major sourcing initiative underway which will strengthen key categories, reduce our costs, and reduce prices to chefs. We have 40 new vendors with 500+ items at varying stages of the setup process. This group of suppliers brings excitement to our catalog, which in turn brings inspiration and newness to the menus of our choosy chef customers. Our initial focus on fresh perishable items is making progress. We have new relationships with multiple seafood vendors on both coasts, a small lamb farm in the South, a Midwest farm producing Wagyu beef, and many others that are creating high quality, unique products. In many cases, this is the first time these small suppliers are working with non-local customers, and they are thrilled to have access to a national market. And our customers are pleased when they see how we can ship fresh-never-frozen products directly to the restaurant in an efficient and safe way. The only thing more satisfying than watching a chef unboxing video of our products is witnessing the elevated dining experience it creates in their restaurants. Getting fresh product direct from the original source often necessitates working with small suppliers, and it is hard work to onboard and train them fully. We believe this hard work creates a competitive moat for the future of this business. In our collective experience at Walmart and Kroger, Fresh categories have always been the #1 focus of their merchandising organizations. Fresh gets people in the door with higher frequency and has higher turns than most areas of the store. It's no different in foodservice—the choosy chefs we target build their menus around the proteins and produce they want to stand for, and this is where we will have the most differentiation vs. the status quo. As chefs round out their menu with essentials like grains, spices, oils, and other dry or frozen staples, we also have a quality offering there that helps us drive higher order size and loyalty. With that demand comes an ability to support growth at these suppliers or to diversify our supplier base, either way bringing down our costs of goods and therefore the prices we can sell for. This cycle is what gives this business staying power in the long run.

I look forward to sharing more information as we progress on our refocused professional chef plan.

With that, I'll hand the mic to our CFO Gary.

Gary Schubert

Thank you, Brady.

I am happy to present the financial highlights for the first quarter of 2024, and excited about the progress we are making.

In the first quarter of 2024, revenues decreased by 5.7% to $15.7 million. This was primarily due to a 41.7% decrease in eCommerce revenue as the Company continued to scale back its direct-to-consumer operations. However, Specialty Foodservice revenue grew by 1.4% as the Company returned to growth.

During the first quarter of 2024, the company drove an increase in its gross margin as a percentage of sales, rising to 24.4% from 22.6% in the same period the previous year. This upward trend can be attributed to several strategic decisions, including scaling down direct-to-consumer operations, managing prices in the specialty foodservice business, and ceasing the use of a higher-cost shipping provider.

SG&A expenses were $4.0 million, compared to $4.4 million last year. The $400 thousand decrease was primarily due to a decrease in legal and professional fees of $200 thousand, a decrease in advertising of $200 thousand, and a decrease in payroll and related costs of $100 thousand. These decreases were partially offset by an increase in real estate commissions of $100 thousand related to the sale of our Florida office. SG&A expenses as a percentage of sales decreased from 26.7% of sales during the three months ended March 31, 2023 to 25.5% of sales during the current quarter.

The Company recorded GAAP net income from continuing operations for the first quarter of $1.4 million, compared to a loss of ($2.8 million) in the prior year.

Once we account for the one-time gains from the sale of our Florida office and Haley subsidiary, as well as the restructure, legal, and non-cash stock compensation costs incurred in the first quarter.

Adjusted Net Income, a non-GAAP metric, for the first quarter of 2024 was $155K, or $0.003 per fully diluted share, compared to a loss of ($509K), or ($0.011) per fully diluted share, in the prior year.

Adjusted EBITDA, a non-GAAP metric, for the first quarter of 2024 was $481K compared to ($202K) in the prior year.

Adjusted Free Cash Flow, a non-GAAP metric, for the first quarter of 2024 was $264K compared to a decrease of ($382K), in the prior year.

In conclusion, our focus on scaling back direct-to-consumer operations, managing prices in the specialty foodservice business, and optimizing our operational costs have resulted in an improved gross margin and reduced SG&A expenses. Our GAAP net income, Adjusted Net Income, Adjusted EBITDA, and Adjusted Free Cash Flow all reflect this positive trend. We remain committed to our strategic initiatives and are confident that they will continue to drive our financial performance in the right direction.

Thank you. Back to you, Bill.

Bill Bennett

Thanks, Gary. Hopefully you can get a sense that we're in a great position to stabilize the company this year, cement a much stronger business model, and prepare to begin investing for the future.

With that said, we're happy to take some Q&A, so I'll turn it back to Ronit to moderate the Q&A for us.

Operator

We'll now move to the Q&A section of the call. If you'd like to ask a question, please use the Zoom function to "raise your hand" or dial *9 if you are calling in from a phone. Please limit your comments to one question and one follow up if needed, and keep your comments professional and respectful. We've allocated approximately 20 minutes to this portion of the call.

Our 1st question is from Sebastian. If you can please unmute yourself.

Sebastian Krog

Hi, good day everybody. My question is regarding the potential acquisition. I believe it would probably be in the food distribution, and not in the drop shipping kind of business model. Is that correct?

Bill Bennett

Yeah, so I think we talked about this a little bit on the call last quarter, which is that there just really aren't a lot of competitors doing the dropship of the fresh business the way that we do, and so we don't see there being a lot of opportunities for M&A on the drop ship side of the business. If we ran across one, we definitely would be open to it, but in our search so far we just haven't seen much there.

If you understand the food service industry, you know that like there are literally thousands of small food distributors all around the country that could be potential acquisitions for us, and frankly many other large food service distributors that have built their company through a roll up and acquisition strategy very successfully. So, it's not a rocket science M&A strategy, but it is probably the best space for M&A for us in the short term, and that's definitely where we're searching right now.

Sebastian Krog

Yeah, and, in your letter to shareholders, you mentioned potential synergies between the food distribution business and the drop shipping business. Could you maybe a little bit, elaborate on that part?

Bill Bennett

Yeah, of course. Thanks for the question, Sebastian. So, let me clarify first that, in my comments, I wanted to be specific that we think about valuation, especially in this first round of an acquisition, as needing to be the right price for us before including synergies, right? And that's how we're structuring our thought process, to be conservative in anything that we might go after. So as we look at synergies, those should help us accelerate, the payback period and the EBITDA multiple that we would pay for a company on the front side.

As we think about synergies, it's really part of what we want to test out in this phase 2 where we're looking at Laying the Foundation for Growth. We need to understand how easy it is to take a business that we haven't had a relationship with in the past, and quickly onboard it to our existing sales channels, giving a small local distributor a national footprint overnight. That's really, in my mind, the sales pitch to investors is that if we can take somebody small who competes in categories that we don't have strength in today, take their broad portfolio and immediately get it into a much broader national sales channel, then we could potentially drive significant growth for them that wouldn't otherwise be available to them, and frankly, that we wouldn't be paying for on the front side. So those are the types of synergies that I think, or one type of synergy that we could go after.

A second type might be, think of it as the reverse, right? Could we equip that small-distributor's sales-team with the rest of our dropship catalog as a tool in their tool belt to sell to their existing customers.

So I guess you could think of this synergy sort of going both directions. But again, all of that is what we want to learn with this 1st acquisition. To understand how big the upside could be for us.

Thanks for your question, Sebastian.

Ronit Wallerstein

Our next question is from Christian Schmidt. If you could please unmute yourself.

Christian Schmidt

Hello everybody, thank you for taking my question. In the last press release you indicated that you might win four new large customers and that these potential new contracts will translate into revenues in the back half of the year. When I look at the current press release your wording seems to be a bit more careful and my question is basically am I reading too much into this and maybe you can give us more information in general in connection with the potential new customers. Thank you.

Bill Bennett

Yeah, sure. Thanks for your question, Christian. Maybe my first response is, I don't think I intended that our wording in the press release would suggest that anything is really changed with that pipeline. We continue to aggressively go after those same four customers that I mentioned in the prior press release.

What I intended in today's press release is that we now have Cheney brothers that we had already announced as somebody that we have a contract with and that we're actively working to integrate with. And then today, I tried to give a little bit more specifics about two others. One is moving into a test phase now in one small geography that we will talk about more in the future, and the other we're getting extremely close to a launch with. So if anything I hope your takeaway is just that we're actually making progress with those that we listed, and you can expect to see press releases when we hit certain milestones with those customers.

Thanks for your question, Christian.

Alright, last call. Anyone else?

All right. Thanks, Ronit, for moderating. Thanks, everyone, for your questions today and for your attendance and engagement on the call. It's really inspiring to see the level of interest in Innovative Food Holdings. As always, I'm happy to make myself and my leadership team available to connect with investors who have further questions about publicly available data. Please reach out to Gary Schubert, whose contact info is included in our press release, if you'd like to schedule a touch base. And as a reminder, we do have our Annual Meeting of shareholders tomorrow in New York, and would love see you there. Take care, and we look forward to continuing to update you on the progress of our strategy at our Q2 update later this summer. Thanks all, and have a great day.