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BRC Inc (BRCC) Q3 2024 Earnings Call Transcript

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Q3: 2024-11-04 Earnings Summary

[Play Call](#)[Press Release](#)[10-Q](#)EPS of \$0.04 **beats by \$0.10** | Revenue of \$98.20M (-2.32% Y/Y) **beats by \$2.90M**BRC Inc (NYSE:[BRCC](#)) Q3 2024 Results Conference Call November 5, 2024 8:30 AM ET

Company Participants

Matt McGinley - Vice President of Investor Relations

Christopher Mondzelewski - Chief Executive Officer

Stephen Kadenacy - Chief Financial Officer

Conference Call Participants

Michael Baker - D.A. Davidson
Sarang Vora - Telsey Advisory Group
Jon Anderson - William Blair
JP Wallum - ROTH Capital Partners
Joe Altobello - Raymond James
Bill Chappell - Truist Securities

Operator

Greetings, and welcome to the Black Rifle Coffee Company Third Quarter 2024 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Matt McGinley. Thank you. You may begin.

Matt McGinley

Good morning, everyone, and thank you for joining Black Rifle Coffee Company's Third Quarter 2024 Financial Results Conference Call. We released our results yesterday, and they can be found on our website at ir.blackriflecoffee.com. Before we begin, I would like to remind you of the company's safe harbor statement. During today's call, management may make forward-looking statements, including guidance and the underlying assumptions. These statements are based on expectations that involve risks and uncertainties, which could cause actual results to differ materially.

For a further discussion of these risks, please refer to our previous filings with the SEC. Additionally, this call will include non-GAAP financial measures such as adjusted EBITDA and free cash flow. Whenever we refer to EBITDA, we mean adjusted EBITDA, unless otherwise noted. Reconciliations of non-GAAP measures to the most directly comparable GAAP measures are included in our earnings release, which was furnished to the SEC and is available on our Investor Relations website.

Now please refer to the presentation on our Investor Relations website and turn to Slide 4. I would now like to turn the call over to Christopher Mondzelewski, CEO of Black Rifle Coffee Company. Mons?

Christopher Mondzelewski

Thanks, Matt, and good morning, everyone. Joining me today is Evan Hafer, our Founder and Executive Chairman; and Stephen Kadenacy, our Chief Financial Officer. Before we dive into the review of our business, I want to take a moment with Veterans Day approaching to express our heartfelt gratitude.

As a veteran-founded company and with 50% of our employees or their family members connected to the military, we are profoundly grateful to those currently serving and to all who have served. Your courage and your sacrifice inspire everything we do. Supporting the veteran community is at the heart of who we are, and we are honored to uphold that commitment, not just on Veterans' Day, but every day.

Turning to our quarterly results. We have made substantial progress this year in building a solid foundation that strengthens the core of our business and establishes a scalable model to support the long-term growth and value creation we expect. Our investments in operational excellence, spanning our supply chain, forecasting capabilities and overall business management continue to drive meaningful improvements.

To that end, I'm pleased with our performance this quarter, including an 18-point sequential increase in ACV at grocery, a year-over-year improvement in gross margin of more than 8 points and 15% growth in adjusted EBITDA compared to the third quarter of last year. On last quarter's call, we announced the launch of Black Rifle Energy. And during this quarter, we announced our energy distribution partnership with Keurig Dr. Pepper, which builds on the K-Cup partnership we established with KDP earlier this year. KDP shares a deep commitment to our mission of supporting veterans' causes, and we are proud to have them as a partner.

According to Nielsen, the energy drink category generates over \$20 billion in retail sales across tracked channels, significantly outpacing the 2 categories where we currently compete, coffee at over \$11 billion and ready-to-drink coffee is \$4 billion. Most importantly, this is a category that aligns well with our fans, especially among younger audiences. While our soul will always be in coffee, we are proud to soon offer energy products in a format that broadens both our audience and the occasions for consumption.

KDP's direct store delivery network, DSD, currently reaches 80% of the U.S. population and will provide us with access to over 180,000 retail outlets nationwide. This partnership allows us to scale nationally with efficiency and at a speed that would have been difficult to replicate on our own. We are particularly encouraged by KDP's commitment to capturing market share in the energy category through a portfolio-based strategy.

With the addition of Black Rifle Energy, KDP is assembling a lineup of 4 distinct brands, each tailored to different flavors, occasions and consumer demographics. As more volume flows through KDP's manufacturing and distribution network, we believe every brand in the portfolio will benefit. We expect this approach to collectively maximize efficiency, reach and market penetration across the energy category. We will dive deeper into our energy strategy shortly. But before we do, it's important to reinforce the principles that have defined Black Rifle from day 1.

Our company was founded by special operations veterans who are experts in guerrilla warfare, and we apply that mindset across every facet of Black Rifle. We are a substantially smaller organization with fewer resources than many of the companies we compete against. This requires us to deploy small, agile teams, adapt quickly to market changes and act with speed, much like a guerrilla force in the field.

Resourcefulness is our DNA. We rely on lean operations and unconventional tactics to maximize our impact while keeping costs low. Our people and our culture drive this. Many of our leaders bring this same thinking from their respective military experiences, but all Black Rifle associates share this mindset. Our loyal customer base forms the backbone of our success, a community driven by shared values, much like the morale and identity that fuel elite military units.

We will continue to innovate our product offerings and expand into new categories like energy. If it makes sense to partner, as it does in energy, we will align with large, well-capitalized operators to magnify our impact. If it makes sense to develop internal resources such as roasting our own coffee or using our own sales force to grow distribution in FDM channels, we will pursue that route. We have a strong team, strong brand identity and a loyal customer base that understands our mission-driven business model. As an upstart, we fight hard. We have the ability to capitalize on market opportunities and punch well above our weight.

Returning to the quarter's results, I'll now discuss our channel highlights, beginning with Slide 6. According to Nielsen consumption data in the food, drug and mass channel, we achieved 15% growth in the third quarter, outperforming a flat category. Year-to-date, we have grown nearly 26%, while the category declined by 1%. Category trends have been challenging, but September marked the first month in over a year where ground coffee sales for the category had positive dollar growth.

In the grocery channel, our ACV increased 32 points year-over-year and 18 points quarter-over-quarter to 41%, and we expect continued distribution growth throughout 2025. With Black Rifle products becoming more widely available at retail, we are excited about the opportunity to expand our reach and better meet consumer demand.

Moving to Slide 7. We gained share and grew distribution in ready-to-drink in the third quarter. We ended the quarter with 47% ACV, a 5-point increase from the prior year. On a year-to-date basis, the ready-to-drink category has slowed, declining 5.1% compared to the prior year time period, but Black Rifle continues to outperform the category by 460 basis points.

Slide 8. We were able to showcase Black Rifle Energy at the National Association of Convenience Store Conference in Las Vegas last month and received positive feedback on the taste and distinctive packaging. We remain on track for shipments to commence late in the fourth quarter with broader distribution growth expected next year.

As we highlighted last quarter, our research suggests that 58% of our consumers are already energy drinkers and about 90% of our consumers are interested in energy drinks derived from natural sources. Many of the fans of our brand are looking for a more refreshing profile for their energy consumption outside of coffee, and we believe this category will be a natural extension of the brand.

Just as we source the best beans for our coffee, we're using top quality ingredients in our energy drinks. We've crafted a clean energy system with green coffee extract and other natural caffeine sources and all 4 launch flavors scored highly with consumers. Our can design embodies Black Rifle's mission-driven ethos, and we believe it will deliver visibility on shelf or in the coolers, setting us apart from the competition.

Turning to Slide 9. Our direct-to-consumer or DTC business continues to be impacted by broader market trends with consumers shifting away from DTC channels and returning to retail purchasing patterns in the post-pandemic period. This is one of the reasons we started building our wholesale coffee business in FDM a little over a year ago.

We've aligned our sales and marketing efforts to prioritize growth in the wholesale channel. We anticipate that some of our DTC customers will continue shifting their purchases from online to in-store. Our subscription business is the largest revenue contributor to our DTC segment. We continue to see stabilization in our subscription counts in the third quarter with positive subscriber growth in September. We've enhanced our website to include simpler subscription bundling options and average order volume of new subscriptions in the third quarter was 10% higher than with existing subscribers.

Finally, in our Outposts, we focused on execution with the plan implemented in the third quarter gaining momentum in October. Stronger promotions have driven ticket growth and improved inventory management has enhanced efficiency. While progress is emerging, we expect more consistent results as these efforts solidify. We continue to see significant potential in the Outpost business, but have prioritized investments in wholesale distribution and brand awareness. We are refining our store template and evaluating the optimal balance between company-owned and franchise-operated units with a full strategy for this segment expected next year.

Steve will now provide a review of our financial results. Steve?

Stephen Kadenacy

Thank you, Mondz. Please turn to Slide 11. Third quarter revenue declined 2% year-over-year, primarily due to cycling of barter transactions from the prior year, shifting consumer preferences away from direct-to-consumer channels and a slower pace of growth in the coffee and ready-to-drink categories. While the barter transaction was necessary to address excess RTD inventory last year, it is not a revenue stream we aim to replicate in ongoing operations.

As Mondz mentioned earlier, we reallocated resources towards growing our wholesale business as consumer behavior shifted away from DTC channels post pandemic and our brand became more accessible in retail. The good news is that our strategy is paying off. Year-to-date sales in our wholesale segment have grown 17% compared to the same period last year, and we achieved a 3% revenue growth this quarter in wholesale. Sales to our largest customer were steady this quarter compared with the same period last year, and sales to other FDM retailers are 3x larger than they were in the third quarter of last year, driven primarily by our products now being carried in more retailers.

Looking ahead, we expect continued distribution growth in coffee and increased sales of Black Rifle Energy to be key growth drivers in both 2025 and 2026. Our earnings and free cash flow metrics continued to improve in the third quarter. EBITDA rose from 6.2% to 7.2% of sales as gross margin gains outpaced our investments in marketing and advertising. Our focus on driving efficiencies across the business and directing resources towards the highest return initiatives is clearly impacting both margin rate and cash flow generation.

On a year-to-date basis, we've seen a \$60 million improvement in free cash flow generation compared to the same period in 2023. This improvement is primarily driven by better margins and reduced working capital investment. Inventory grew sequentially in the third quarter due to K-Cup purchases, which pulled a launch fee forward into this year and provided per cup cost savings to lower COGS as the product sells. This program accounted for most of the inventory build this quarter, and we expect its depletion to generate cash through year-end.

Moving to Slide 12. Our focus on productivity improvements has resulted in gross margins exceeding our 40% target for the third consecutive quarters, and we anticipate staying above that threshold for the year. Supply chain enhancements have driven productivity gains, adding 400 basis points to our third quarter gross margin. Additionally, favorable product mix provided a 160 basis point lift, supported by distribution growth in the coffee aisle at FDM retailers. While we actively mitigate margin volatility through forward purchase contracts for green coffee, higher green coffee prices exerted modest pressure on gross margins in the quarter. Overall, we are very pleased with the progress we have made in improving profitability this year.

Slide 13. Adjusted EBITDA for the quarter was \$7.1 million, up from 15% from the same period in the prior year as gross margin improvement more than offset planned investment in marketing as well as normalization of payroll accruals compared to the prior year. Year-to-date, we have generated nearly \$30 million in EBITDA, a significant improvement from just above breakeven in the same period last year and with our EBITDA margin rising over 10 points to 10.4%. We remain committed to optimizing administrative resources and external expenses to support growth and are confident that this strategy will deliver economies of scale as revenue builds.

Turning to Slide 15. We narrowed our revenue guidance from the prior range with variability primarily driven by the timing of shipments later in the quarter and the ramp in seasonal volume. We remain confident in the trajectory of our top line growth and expect to gain market share in both coffee and ready-to-drink categories.

Year-to-date, our gross margin has improved by over 8 points to 42.3%, driven by productivity improvements, favorable mix and lapping RTD headwinds. We raised our full year gross margin guidance to 42% and expect fourth quarter gross margin to be in the high 30s range, reflecting normal seasonality in promotions and the absence of smaller onetime benefits.

We also narrowed our EBITDA guidance to \$35 million to \$40 million for the year, which represents an increase at the midpoint from our prior range. We adjusted our free cash flow conversion expectations as a percentage of EBITDA and now expect to be free cash flow positive for the year. This year, we have been laser-focused on improving profitability and reducing working capital, which resulted in an impressive inflection in free cash flow generation year-to-date compared to the same period in 2023. Our initial cash flow guidance was based on different assumptions around revenue and product mix.

Additionally, we now expect to carry higher inventory than originally planned to support growth in the FDM channel. Overall, we have been gaining market share across bag coffee, K-Cups and RTD coffee, and we expect Black Rifle Energy to deliver similar success in 2025. The positive trends in our business are enhancing our ability to further our mission of supporting the veteran community while generating long-term value for shareholders.

Before we open the call for Q&A, I'd like to mention that we will be hosting an investor event on January 14 at the ICR Conference in Orlando, where we will share more detail on our longer-term goals. We hope you will join us either in person or via webcast. With that, I'll turn the call over to the operator for the Q&A session.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Michael Baker with D.A. Davidson.

Michael Baker

Okay. Great. I wanted to talk about some of the -- last quarter, we had a little bit of delay in timing of some new retail partners. And instead of that expected to come in 2024, I think you were expecting early 2025 from those retailers. Any update on that, how that's progressing, if we still expect to be in those retailers in early 2025?

Christopher Mondzelewski

Michael, it's Chris. Thanks for the question. So yes, it continues to progress exactly the way that we had talked about it last quarter. All of the conversations with every major retailer in the country continue to go very well. This last quarter, we were able to add Food Lion and Harris Teeter. That has continued to move our distribution north. We're at 47% ACV right now. If you look at the top 5 brands in the category, they all exist kind of in that 70%, 75% ACV range. We continue to believe that, that is the right target for us as a business. So as we add the other accounts next year on the timings that we talked about previously, largely in Q2, we will see the distribution continue to increase. And ultimately, that will be the objective for our business.

Michael Baker

Okay. So it seems like the guide down from last quarter was more of a timing thing, and we should get that next year, which I think is helpful. One more follow-up, and then I'll turn it to others or a clarification. The free cash flow guide, I'm a little -- so presumably, I suppose going from 80% flow-through to now just positive. What I'm hearing is that the free cash flow guidance will be a little bit lower because you're adding -- because of higher inventory. Is that the right interpretation? It's just a little unclear.

Stephen Kadenacy

That's right. This is Steve. Good question. We still expect very good cash flow for the year. We've already improved our cash flow year-over-year by \$60 million. We expect very robust cash flow in Q4, but we did have acceleration of K-Cup purchases in the quarter. We did that strategically because we received a \$0.03 per cup, and it was 26 million cups discount going forward. And as you know, in the gross margin, all the little things that you do really add up. So we are focused on the pennies to drive the profit. But we still expect robust cash flow. But given the inventory changes, we did change the way we were looking at it.

Operator

Our next question comes from the line of Sarang Vora with Telsey Advisory Group.

Sarang Vora

So 2 questions here. First, on the fourth quarter guidance, it does seem like when you exclude the barter transaction from last year, which was, I think, about \$28 million to sales, you are seeing a sequential improvement in the sales and a return to a positive sales growth trajectory. So curious to know like what's driving that sequential change? Are you seeing a bit of more of a normalization, account wins coming back? Just curious to know like how we should think about fourth quarter relative to third quarter and turning positive trend on the sales, excluding the barter.

Stephen Kadenacy

It's a good question. Obviously, we had some headwinds in the quarter relative to our DTC business and our Outpost business, which we expected to be down, and we let you all know that. But we had enough tailwinds to make up for also cycling that KBS transaction. If you look ex KBS revenue overall was up 2%. FBM ex our largest customer was up 200% or 3x and wholesale ex the barter transaction was up 12%. So in the markets that we're focused on, we are succeeding, and that's coming out in our ACV and it's coming out in our underlying growth rates.

Christopher Mondzelewski

And I think just to build on that, Sarang, we talked a little bit last quarter about wanting to put the right level of promotional activity in the market in order to ensure that as we hit the coffee season, we can continue to be a key winner. And we're pleased with the results on that. If you look at the latest period, we were among the fastest growers at 28% in grocery growth.

And as Steve said, we will continue to sharpen our ability to understand exactly where we want to have our promotional level in the markets with any of our key customers, and that will continue as we look at Q4. So we hope that this momentum that we have right now is going to push forward into Q4, and that largely is the driver. Even in RTD, I want to mention, we've got the category declining throughout the year. But in the latest period, we're at 1.3% growth, which is well above where the category plays. So again, in any of the segments we're playing in, we expect that growth above market to play out in Q4.

Sarang Vora

That's great. And a more exciting one is the energy drinks. I mean we can't wait to try what comes out in December. Just curious if you can share, I know there's an Analyst Day coming up to the extent you can share like how we should think about the ramp into '25 or any color you can give us on the margin structure of the energy business? Is it still like 40% gross margin and above? Or how do you plan to distribute it like roll out nationwide in '25? Any color or thoughts, early thoughts would be helpful on energy drinks.

Christopher Mondzelewski

Great. Well, let me start, and Steve will probably build on a few of my comments. We're extremely excited. So I talked a little bit in my opening remarks about for us as a business, we're very lean. We're going to remain lean, and it's really important in our business model that we find partners who are well aligned with what we do from a value standpoint, focusing our mission on the military.

But likewise, we need to work with partners that really multiply our capabilities. And KDP has been a fantastic example of that. We've talked already about the partnership in pods, and we're seeing success with that already. We're extremely excited about this partnership in energy with KDP. So they will play a key role clearly in the rollout of this. We've been designing the product with them together. We're designing the rollout plan with them.

That rollout will happen efficiently, and we're going to do it in a smart manner. We're going to focus very much on on-demand channels such as C-store in the early going to ensure that we can get strong trial of the product. Clearly, we'll have a lot of promotion and advertising behind that as well. So we can ensure we're very, very proud of the product quality. It's a no-sugar item. The flavor profile is fantastic. You will get to try it hopefully here soon. And we want to make sure we get those cans in folks' hands. As far as guidance on the distribution, we're not going to give exact numbers. Ultimately, we believe that we can get to 80% ACV on this product.

That's a big part of the reason why we're working with KDP is the muscle that they have in the DSD arena. That won't be something that will happen in the first year. That happens over a period of years. So I think the ramp-up next year will be, again, focused on those high, what I'd like to call immediate demand channels like C-store, other areas, gas stations, et cetera. And then as we build that scale, we'll go into larger customers as we move into '26. So again, we're not going to talk to the specifics of that, but we're very excited about the plan we have in place. We think it's going to be successful.

Stephen Kadenacy

And Sarang, relative to your question on energy margins, over time, energy margins are going to be very strong. The first year, they will be less strong. It will be under 40%, largely because of the slotting and the trade expenses related to rolling out the product. So just something to keep in mind there, strong but growing significantly over time.

And maybe just to expand that to how you should think about 2025, and we're not giving guidance now, but we will have stronger growth, but we still have some headwinds. So on the strong growth side, we'll have energy, we'll continue to expand in FDM. But we will still be cycling the partner transactions of \$15 million that we have year-to-date. Coffee prices are rising. We're seeing that impact, although we're fairly successful at mitigating it. And I've already mentioned the slotting and trade. So you've got a bundle, and we expect stronger growth, but we'll still be fighting some headwinds.

Christopher Mondzelewski

One final point just to reinforce is that we've talked a lot about building our margin this year, through the expansion of our center store coffee business. That really gives us a good amount of firepower as we go into next year. As you think about the advertising plan and the working capital plan, the combination of the partnership with KDP, where they take on a lot of that resource through their sales force through management of the inventory, coupled with the strong margin we have in our business, gives us the room to go out there and do the most important thing. At the end of the day, at Black Rifle, our brand is first and foremost. So the majority of the investment that we will be putting into this is going to be out there building that brand.

Operator

[Operator Instructions] Our next question comes from the line of Jon Anderson with William Blair.

Jon Andersen

I wanted to ask on FDM. You made solid progress sequentially on ACV. I think sitting at 41% right now. You may have referred to this earlier, but I want to just a clarification. Are you still expecting to get towards kind of your full distribution target by the end of 2025? And what level do you anticipate reaching at that point in time? Is it 75%? Is it 85%? What's kind of the underlying goal there?

Christopher Mondzelewski

Jon, thanks for the question. Yes, just to reiterate, so no, we had a number of our major customers shift into next year. So, we do not expect to get to our final goal on ACV this year. With those customers shifting into next year, I'll reinforce kind of what I said before. We feel every one of those conversations has gone exceptionally well. So yes, we do believe that by the end of '26, we're going to be in what we would consider to be "full distribution" which is going -- again, if I look at the top 5 brands in the category, they tend to play in that 70% to 75% range. That ultimately would be the goal for the business as we look at the end of '26.

Jon Andersen

And you referred to your largest customer and the business being stable year-over-year. Any more color you might be able to provide on your business with that largest customer, how its -- velocities are performing, what you're thinking from maybe an item level distribution opportunity going forward?

Christopher Mondzelewski

Sure. Yes. We feel great about our business in our largest customer. We sit at a four share currently. We went through a period in the summer where we really had to work our portfolio in a manner where we believe we had the right SKUs across the right stores. We did see some of our TDPs come down or total distribution points come down during that period. That is very common when you're looking at your third year of distribution that you're going into with a customer. We continue to be a leading growth player there. We have strong growth in the current period.

We've really sharpened our promotional strategy to ensure that our prices are exactly where we want to have them. And that has resulted actually in velocity increases that are up substantially behind those promotions. Where we've been able to get those promotions executed, we're actually seeing double-digit increases in velocity. And the bottom line is that we remain well above the category average, 50% plus above the category average when it comes to units per store per week in any of our customers that we have distribution, but certainly in our largest. So, we'll continue that plan going forward.

As far as how we manage that next year, yes, we're not ready to talk specifics on that, but we do have some exciting innovation ideas. We talk a lot about energy. Clearly, we put a lot of resource into building that. But as you would imagine, having a strong center of store coffee business with the margins that it has, our innovation teams have been working hard there as well to ensure that as you look at our existing lines of business that we have in our largest customer and as we're expanding into new customers, we will have new items to be able to cut into the shelves there as those resets happen next year.

Jon Andersen

I did want to ask on energy. The research that you've done around this sounds very encouraging with respect to the receptivity of your users. Do you think there's a real opportunity for energy to be highly incremental? Or is there some risk that it could be cannibalistic to the customers in terms of looking for that kind of energy boost? I'm trying to get a sense that based on the research that you've done, how incremental you think this will be in terms of bringing new users to the franchise and perhaps serving existing users across more occasions, so heightening the buy rate for the brand overall.

Christopher Mondzelewski

Yes, that's a fantastic question. We put a lot of research into that. And we feel actually great about the incrementality. There's never a situation where you have zero overlap, but it's going to be very low. The reality is that when we look at the consumer dynamics of the Black Rifle fan or of the total market, either way, energy plays a very different role than coffee does. There are certainly consumers who drink both. We find that the consumers that drink both will tend to do it during different usage occasions.

So, coffee tends to skew towards the morning. Energy will tend to skew more towards the afternoon. There are a lot of consumers, however, that really do have preferences in one arena or the other. They're either coffee drinkers and they want to be able to add an RTD coffee to their existing routine, which may involve hot coffee already. And the growing demographic is really those consumers that are drinking purely cold, more refreshing flavor profile beverages.

These tend to be the younger demographics. And as we look at the Black Rifle fan base, I would remind everyone, we have a huge fan base already, right? I mean, across all of our media sources, we have up to 13 million folks who are following Black Rifle. As we access that fan base, we find that a huge percentage of them are already energy drinkers and open to energy as a brand.

The other thing we feel good about is that even within the energy category, we believe that we will be highly incremental. There are certainly brands out there that we will compete with. It's a crowded category as far as the number of brands, but it's a giant category at \$20 billion. So, there's plenty of room to come in. And we believe that with our lifestyle positioning, our focus on mission and then the product profile that we put together, again, clean ingredients, zero sugar, we really believe that, again, not only are we going to be incremental to our coffee business, we think we could be quite incremental to the energy category as a whole.

Jon Andersen

The last one, if I can just squeeze one more in. I think in the prepared comments, you mentioned that the subscriber base actually inflected positive in September or at a minimum, you were seeing slowing declines. What are your expectations on that going forward? And how should we think about that into '25?

Christopher Mondzelewski

So yes, just to give you a little bit of context on where it is now, we are happy with what we're calling the stabilization. That element of our business has continued to decline. We've talked about that. That is driven entirely by the consumer dynamic as consumers have changed their shopping patterns post pandemic. The reality is that we are seeing a good number of our consumers, as we have more data available, we're seeing a reasonable number of our consumers flowing into grocery. So that's good. We're very happy about that. As long as we can maintain them as consumers, our goal is obviously to ensure that we are putting our products wherever they want to be able to buy it.

What we continue to be most focused on in our subscription business are the subscribers themselves. Again, we're always very happy to sell someone a onetime purchase off of one of our sites. Again, we want to meet their needs where they want to buy at. But the subscribers are very valuable to us. And to the point you made, we have seen -- actually, in this latest period, we've seen an increase in our subscriber base.

We still have churn where we'll lose subscribers every period, but that churn is actually reducing to the point where we're starting to see those cancel each other out, and we've even had weeks where we're seeing a net positive. So that will continue to be our goal. I'm not going to give specific guidance on that element of our business for '25 right now. I would tell you, it's not where we believe we're going to get strong growth simply because that consumer dynamic continues to shift back in store. But our focus will be on the subscribers themselves, ensuring that we see stabilization. And then I'd like to believe, over time, growth back in that segment of our overall DTC business.

Operator

Our next question comes from the line of JP Wallum with ROTH Capital Partners.

JP Wallum

If I could maybe just start on the FDM side. I want to kind of dig in a little bit to Albertsons and just sort of understand how it's ramped. I think that's one of your maybe main account or large retailers that you've been in kind of for a year plus at this point. So if you could maybe just share kind of where your market share is at Albertsons and just sort of what that ramp means for your expectations as you roll out on shelves next year at additional retailers?

Christopher Mondzelewski

Sure. Thanks for the question. So yes, as you indicated, we rolled out -- we started the rollout about Q3 of last year. So we are lapping that as we speak. We feel really good about it. We are in 85% distribution across all of Albertsons. So that is normal of any of their top brands. We continue to climb in share. So we're among their top 20 brands across the total. But in many of the segments of Albertsons, we're quite a bit higher than that.

As far as numbers, our RTD business, which was actually in distribution even earlier, is growing 15%, which is a very strong number versus the category. And then overall, we're seeing close to 60% growth. Again, we're lapping the introduction of this a year ago. So very strong growth numbers versus that period.

But even as we then move into that full distribution period, based off of the execution we are seeing, some of the promotion we've put in, which is pushing up velocity similar to the other customers that we're in, we expect to continue to see that share growth as we progress all the way through '25. So overall, we consider it to be a very successful rollout. A lot of room for improvement. The share still hovers between 1 and 2. And as you know, we're a 4 share in our largest customer. So as we look at that, we'll continue to drive and really manage our portfolio in store behind our success to ensure that we can continue to get as much leverage out of those continued share gains as we move into '25.

Stephen Kadenacy

I think that last point is really important. We have massive improvement in front of us. We have a small share as we roll out in new retail outlets and then we expand SKUs over time. So ACV is only one element, then comes the revenue on those SKUs, then comes SKU expansion. And what we're seeing is our velocities are doing quite well. And obviously, we're outperforming the category, and that bodes well for us to improve our SKU count on shelf.

JP Wallum

Great. That's very helpful. And then maybe I just want to make sure that I understand. It sounds like, I think, Chris, you said end of 2026 is now when you expect to see full distribution in the FDM business. And I believe it was maybe by end of 2025 on past calls. So I just want to double check, a, that, that's correct? And then b, if you could just kind of dig in a little bit, have conversations with retailers about resets not gone as planned? Any additional color there would be very helpful.

Christopher Mondzelewski

So just to reiterate, yes, that is correct. So we believe by the end of '26, we're going to be in full distribution. I had quoted that number of 70 to 75 are where the top players are at. As we add every major customer in the U.S., we believe that that's where we can net out. As far as -- yes, we did talk last quarter about shifting of customers. So we did have some customers that shifted from 25 to 26, and this did adjust our expectations a bit. The great news is just building on Steve's point, we continue to have all of the success that we have expected in every customer that we've rolled into.

So while there was some timing changes, largely based off of the calendars and plans of those customers themselves, we continue to feel very good about the rollouts and our ability to gain immediate footholds. And what I mean by that is velocities that are well above the category average. When you're coming in, in your first year and you're seeing velocities that are already above the category average in those grocers, it gives us great hope that over time, we'll be able to add additional SKUs and continue to push our share picture up in each one of them.

Operator

Our next question comes from the line of Joe Altobello with Raymond James.

Joe Altobello

Just first, a quick housekeeping item. The revenue guidance or the implied revenue guide for Q4, what are you guys assuming in terms of initial trade load for energy? I know it's late in the quarter, so it's probably small, but just curious.

Stephen Kadenacy

What do we assume what for energy, sorry, Joe?

Joe Altobello

The initial trade load for energy. Shipments.

Stephen Kadenacy

To be honest, the trade comes when it gets on shelf. So anything that we would guide -- that we would book would be an estimate at this point. So we can't give you exact numbers, but it is immaterial, and it booked as contra revenue.

Joe Altobello

Got you. Okay. And in terms of '25, I know you're not giving guidance today, but you did mention some margin headwinds next year, higher green coffee prices, the energy launch, et cetera. So at least directionally, can you kind of help us think about how we should think about EBITDA margins next year after the big improvement this year?

Stephen Kadenacy

Yes. I mean we're very focused on continuing operational excellence. So we're driving cost currently out of the business, as you can see in our current margins, and we'll continue to do that. But there's no question that our trade and slotting fees are going to be higher next year. Our coffee prices are going to be higher, but we're also focused on other productivity improvements within the supply chain to drive gross margin.

And as I mentioned, I kind of gave guidance that energy will be below 40%. So that is going to be the primary driver in addition to the marketing expense around the energy launch. So I can't give you exact numbers, but I wouldn't expect significant growth on -- from a percentage standpoint on the bottom line.

Operator

Our next question comes from the line of Bill Chappell with Truist Securities.

Bill Chappell

First question on the -- just kind of the coffee outlook. Obviously, the overall category has been weak for the past few months on a volume basis. And as you look to next year, do you expect distribution and market share to primarily be the drivers? Or do you think the category bounces back to some extent?

Christopher Mondzelewski

Bill, thanks for the question. So I think let me break it apart. I think each category we have a different perspective on. When you look at center store coffee, we actually saw an increase in the latest period. It did have a weak year overall so far, but there's 3% growth in the latest period. And we believe that, that will continue to recover over the seasons, so to speak.

And as far as how we go into next year, -- our belief is that coffee is a category that has been around a long time in the U.S. It has gone through dips at times. We believe it's here to stay. I don't think that center store coffee is going to be an explosive category necessarily, the way that we see some of the RTD segments. But at the same time, we do believe that we will see that category return to growth.

That being said, the vast majority of our growth will continue to come from, as you said, distribution gains and then our ability to continue to drive share. That's the nice thing that is even if we had a year where the category saw softness again, there's still a great opportunity for Black Rifle to drive strong growth through those two elements.

When it comes to RTD, it has been weaker. And I think there's a number of factors that play into that. RTD coffee tends to be a bit more of an expensive RTD segment given the ingredients than other segments that are out there. So as wallets have tightened, that is certainly a factor that has played out. And I think some of it is the category itself, ensuring that any category has to innovate itself to continue to meet consumer demands. And that's something that we're working very hard on behind the scenes.

So while we don't necessarily expect explosive growth on RTD coffee specifically, we do believe that we can still grow rather explosively versus that category given our ability to continue to meet consumer demands where they are at. I'm not going to talk in specifics about this. But just like any other segment of our business, we're going to continue to evolve our portfolio. We believe that we can do that at a greater speed and exactness than our competition, given how we're constructed as a business, and we will take advantage of that as we go into '25.

Bill Chappell

Okay. And then switching to energy, maybe a little more color on why -- I mean KDP is certainly a great distribution partner, and I'm sure it's going to give you a lift up. But I'm just trying to understand why you're -- why them having a diversified approach with C4 and now company-owned Ghost is a good thing for you because I just don't see all three of those brands as completely mutually exclusive in terms of target audience. KDP doesn't have kind of unlimited shelf space to put your brands and other brands. And so I'm just trying to understand how this is incrementally beneficial versus just having a distributor where you're kind of the primary focus.

Christopher Mondzelewski

Yes, that's a great question. I'm going to start by saying KDP is a business that we have been strategically aligned with since the beginning of the year. We've been talking and they've been extremely transparent with us. One of the things we're most excited about is their overall ambition to be winners in the energy space. They talked a lot about this in their recent call. And the reality is that you're never going to win with one brand. You need to have multiple brands in a category of that size. So we knew from day one that, that would be the case.

The reality is that the portfolio of brands they put together are winning brands. And you're right, there's never a complete exclusivity between brands that compete in the same category. But I would tell you that it is a very carefully constructed portfolio. When you look at each of those brands, they really do play in completely different segments of the energy market.

I'll use Ghost as an example, that obviously being the most recent element that they added. When you look at simply the flavor profiles of a Black Rifle versus a Ghost, you have Ghost with sour patch kids with Swedish fish. You have Black Rifle with Freedom Punch and Ranger Berry. So just thinking about how the flavors themselves are even positioned, you can see it's vastly different.

So we feel great about us being an overall net positive within that. I think the bottom line -- the other piece I want to call out is that their DSD muscle in each one of these accounts will win based on how those brands themselves win, right? You're competing with these brands one way or the other at the end of the day.

The brands that are able to win the choice among consumers are the brands ultimately that are going to get distributed. So while it gives you a very strong route to market, it gives us efficiency and it allows us to build distribution much faster than if we were to do that on our own. The brand ultimately will be what dictates whether or not you stick over time. And that's where we have a very, very high level of confidence in our brand. Again, every segment, every category we have gone into, we have been able to be a share winner. We continue to be a share winner in any of those segments. So we believe it will be the same in energy.

Operator

Our next question comes from the line of Daniel [indiscernible]

Unidentified Analyst

I wanted to ask about your marketing spend plans, what we saw in Q3. Is that an investment spend ahead of next year's distribution gains? Or is 10% of sales what I should be modeling going forward?

Stephen Kadenacy

You said marketing spend?

Unidentified Analyst

Yes.

Stephen Kadenacy

Yes. Well, we definitely ramped on the promotion side during the quarter and ads, agencies and shopper marketing. And so there's the promo aspects of what we did in the quarter. I would expect that to continue into Q4 given the seasonality and the holidays that are coming. But it is a little spiky. Typically through the year, energy will likely change that because we're on a rollout phase even in Q1 and Q2 of '25.

Unidentified Analyst

Okay. And then I just wanted to follow up on a previous question. Did you -- when you decided to go after energy drinks with a no sugar profile, did your research show that was really targeting a different customer than the RTDs? Because it would for me, and that is where the growth of the category is. I just wanted to get a sense of what your research said about that as well.

Christopher Mondzelewski

Yes. That's exactly right. So it was a reasonably easy decision for us for a number of reasons. One is that Black Rifle, again, our brand is everything to us. That brand positioned in the way that it does where we support both mission as well as very strong product quality has been one that has allowed us to deliver super premium products across the market.

So any of the categories that we compete in, we put together a flavor or I should say, an ingredient profile that is #1 in the market. We've talked a lot about the quality of beans that we buy for all of our distribution. So we knew the same would be true in energy. We wanted to use the best ingredients. This is why we put together an energy blend that is completely naturally sourced using green coffee beans, other natural extracts.

And the no sugar piece, to your point, that is what our consumers demand right now. They are looking for a product. It's a double-digit growth segment of the category. So again, that was an easy decision. We believe that, that segment will continue to grow. And again, from a flavor standpoint, we've talked about this. That's a much more subjective item. But when we've done testing, each one of our flavors has tested extremely well versus what we would consider to be like products in the rest of the category. So we feel quite confident in the product delivery.

Operator

And we have reached the end of the question-and-answer session. I'll now turn the call over to Chris Monzlowvski for closing remarks.

Christopher Mondzelewski

Awesome. So thanks, everyone, for joining us today. Big day, make sure everyone gets out there and boots. We're very encouraged by the momentum in our business, the wholesale business, our efficiency gains. We're particularly excited about our new partnership, our growing partnership with KDP as we gear up for the energy launch. And we're very much looking forward to being able to share some more detail on this at our ICR event in January. So hopefully, we'll get a chance to see all of you down there. Thanks for the continued support. Everyone, have a great day.

Operator

Thank you. This does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time.

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