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BRC Inc. (BRCC) Q2 2024 Earnings Call Transcript

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EPS of \$0.07 **beats by \$0.08** | Revenue of \$89.02M (-3.19% Y/Y) **misses by \$11.90M**BRC Inc. (NYSE:[BRCC](#)) Q2 2024 Earnings Conference Call August 8, 2024 8:30 AM ET

Company Participants

Jason Martini – Investor Relations

Chris Mondzelewski – Chief Executive Officer

Steve Kadenacy – Chief Financial Officer

Conference Call Participants

Michael Baker – D.A. Davidson

Matt McGinley – Needham & Company

George Kelly – ROTH Capital Partners

David Shakno – William Blair

Sarang Vora – Telsey Advisory Group

Operator

Greetings. Welcome to the Black Rifle Coffee Company 2024 Earnings Call. At this time, all participants on a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded.

I will now turn the conference over to your host, Jason Martini. You may begin.

Jason Martini

Good morning everyone. Thank you for joining Black Rifle Coffee Company's conference call to discuss our second quarter 2024 financial results, which were released yesterday and can be found on our website at ir.blackriflecoffee.com.

Before we start, I would like to remind you of the company's Safe Harbor language, which should be familiar to you all. On today's call, management may make forward-looking statements, including guidance and underlying assumptions. Forward-looking statements are based on expectations that involve risks and uncertainties that could cause actual results to differ materially. For a further discussion of risks related to our business, please see our previous filings with the SEC.

This call will also contain non-GAAP financial measures such as adjusted EBITDA and free cash flow. Whenever we refer to EBITDA in our comments, we are referring to adjusted EBITDA unless otherwise noted. Reconciliations of these non-GAAP measures to the most comparable GAAP measures are included in the earnings release furnished to the SEC and are also available on our investor website.

Now if you could please refer to the presentation we have provided on our Investor Relations website and turn to Slide 4.

I would now like to turn the call over to Chris Mondzelewski, CEO of Black Rifle Coffee Company. Mondz?

Chris Mondzelewski

Thanks, Jason, and good morning everyone. Joining me today is Evan Hafer, our Founder and Executive Chairman; and Steve Kadenacy, our Chief Financial Officer.

On our last earnings call, we highlighted the value of building a better business before building a bigger one, and we continue to make progress on building that foundation on, which to drive outsized category growth. Our priorities remain number one, establishing a model that sustainably creates value, and two, driving the categories in which we choose to compete, in other words, outgrowing our peers and the category.

With this, I am pleased with our progress in Q2, delivering gross margins above our initial expectations of 40% and our continued growth of 8% in the wholesale channel, which was well above the category. While we have much work to do, the progress the team has driven is exceptional. Only one year ago, we found ourselves with negative free cash flow of more than \$30 million for the quarter. This year, we are producing a positive \$1 million in free cash flow while showing substantial improvements in gross margin and adjusted EBITDA.

This turnaround is fueled by an ever increasing culture of operational excellence, investments in forecasting, strong leadership in owned and partner production, and an improving supply chain. We have built a strong foundation and business model that will support the long term growth we expect in the business.

With that said, I am disappointed that our wholesale rollouts are taking longer than our initial expectations, and as a result, our growth this quarter and for the year is lower than our initial forecast. Our products are continuing to perform incredibly well with strong sell-through at our existing retailers, which I will discuss shortly. But some of the distribution we expected in 2024 is now going to come in 2025, which has resulted in a lower sales forecast for this year.

This team is steadfast in meeting or exceeding our commitments and I expect our additional investments in sales staff, analytics and forecasting will pay off as we execute on our strategic plan. Before I provide some more color on the quarter, I wanted to share some exciting news with you.

At Black Rifle, we will always stand for veterans and first responders first and foremost, and in doing so, we are constantly looking for ways to expand our mission. When we sell more, we do more. It is in that spirit we announce the release of Black Rifle Energy. While we are exceptionally proud of our origins as a premium coffee company, we also realize that traditional coffee products alone do not meet the needs of all of our consumers.

The energy drink market is over a \$20 billion category and we are entering the category with a great tasting proprietary clean energy blend, which derives energy from natural caffeine sources, including green coffee beans. It has been fun to watch our high energy team work to develop four varieties completely different from anything we've launched before. While the roots of the product tie back to our origins, these refreshing natural fruit flavor profiles will deliver to a different drinking occasion and in many cases, bring new consumers to Black Rifle. I'll dive in more on the huge opportunity with Black Rifle Energy shortly.

Returning to the quarter's results. Q2 revenue was relatively flat year-over-year. As I mentioned, this was below our expectations. Sales growth was lower than we expected for two reasons. First, we cut investment in our direct-to-consumer or DTC business. Post the pandemic, consumer behaviors have shifted, as we look across the entire industry fewer consumers are choosing to buy products directly from DTC sites. As this occurs, we find that our dollars spent in driving DTC awareness are less effective and so we have chosen to allocate these dollars where we get a higher ROI.

I'm proud of our team's discipline in creating clear principles around when to pull back on this spending and as our growth shifts to other channels and other products, we will see the benefit of this. The good news is that consumers are continuing to seek out our products. Their shopping behavior is shifting back to either traditional or online retail. This takes me to my second point.

While we continue to expect consumers to be able to find our products in almost every major grocery retailer in the U.S. by the end of 2025, the rollout will be a bit slower. While commitments and discussions are going as planned, some retailer shelf resets that we expected to happen in 2024 are shifting to 2025. Given our strong performance on shelf, we continue to have very effective conversations with every major retailer in the country.

Once customers try our products, we find that repeat purchase is strong. You can see this in the performance of our largest and first retail partner where we grew plus 19% in the quarter. We are also seeing strong on shelf performance from our new retail partners who began their rollouts of Black Rifle through the first two quarters of this year.

At this point, we have committed launch windows for the largest five grocery chains between now and Q2 2025. Rounding out the quarter's highlights, our earnings and free cash flow measures were a tremendous success story for the second quarter, as we saw a 42% gross margin, a nearly 700 basis point improvement over Q2 2023.

Adjusted EBITDA improved from breakeven in the prior year to \$8.5 million this quarter and we posted our third consecutive quarter of positive free cash flow, up \$31 million from the second quarter of 2023.

Now please turn to Slide 6, as I talk about our channel highlights. Based on Nielsen consumption data, we grew 28% in the second quarter and 35% year-to-date, compared to a category decline of 2.5% in 1.7% respectively. Based on this strong consumption, we expect wholesale replenishment to strengthen in the following quarters. In fact, we are now the number seven brand in 12-ounce bagged coffee across the grocery channel and still have significant runway with an ACV of only 40%.

Moving to Slide 7. Similar to center store coffee, we continue to drive distribution gains in Ready-to-Drink or RTD. At the end of Q2, our distribution stands at 46.8% ACV, a 500 basis point increase versus a year ago. Through the first half of 2024, the RTD coffee category has slowed with a decline of 6.7% versus year ago, but similar to the rest of the business, Black Rifle has exceeded the market by over 500 basis points.

Slide 8. Beyond the gains we will continue to drive in RTD coffee we're excited about the future of our RTD innovation with the introduction of Black Rifle Energy. Black Rifle Energy answers our consumers desire for clean, low sugar energy delivered in a refreshing flavor profile. From our research, 58% of our customers have already purchased energy products and about 90% of our consumers are interested in energy derived from natural sources. And while we love coffee at Black Rifle, we find that many of the fans of our brand are looking for a more refreshing profile for their energy consumption.

When designing Black Rifle Energy, we focused on three key areas. First, quality of ingredients and taste. As we have talked about in the past, we buy the very best coffee beans for our coffees. So similarly, we are sourcing the very best ingredients for our energy drinks. Our four flavors, Freedom Punch, Project Mango, Ranger Berry and Wild Frost [ph], scored exceptionally well with consumers.

Second, we focused on energy delivery. As mentioned earlier, we spent a lot of time developing a clean energy delivery system from our green coffee extract and other natural caffeine sources. Finally, we developed design that brings forward our brand with an emphasis on our aggressive, mission driven ethos. We believe it works well in tying existing elements of Black Rifle to a unique graphics architecture that will drive visibility from the shelf.

Moving to Slide 9. As mentioned, DTC top line was challenged by shifting consumer behavior and with that, a pullback on investment. As we have said many times, the consumer determines their buying preference, and we need to make sure we align our marketing and sales strategies to their needs. Across the industry, consumers find themselves relying less on the DTC channel. And on top of this, not all of our DTC business is seeing the same declines.

Our subscription business, serving those consumers most loyal to the brand is stabilizing. Given the value of this segment of consumers, we will continue our investment in growing subscriptions and increasing our presence as the largest coffee subscription business in the US.

Finally, I will reiterate what we've said previously about our Outpost business. While the potential is unlimited in what our outposts can do to build our brand and revenue streams, now is not the right time for investment. We will continue to invest our capital in building our brand and wholesale distribution. We expect to share the full strategy for our Outpost or coffee shop channel sometime in the next year.

Now turning to our financial results, Steve.

Steve Kadenacy

Thank you, Mondz. Please turn to Slide 11. Our continued efforts towards productivity improvements have resulted in our second consecutive quarter of gross margins in excess of our 40% target. Supply chain efficiencies, driven primarily by improvements in our distribution and logistics costs, added 420 basis points to our Q2 gross margin as compared to Q2 2023. The efforts to simplify our supply chain in both the number of partners used for manufacturing and distribution as well as our internal cost management are continuing to enable dramatically improved gross margins.

In addition, our hedging efforts have mitigated the short term increase in the market price of green coffee, reducing the spikes in our input costs for that important commodity. We also realized a favorable impact as our business shifts towards the high margin FDM business which benefits from more efficient logistics model, adding another 140 basis points.

Finally, we did realize a \$1.8 million one-time impact in the quarter as we continue to align our loyalty reserve to the most recent trends.

Slide 12. Adjusted EBITDA for the quarter was \$8.5 million, up from breakeven in the prior year. This is our third consecutive quarter of adjusted EBITDA exceeding 9% of revenue, which brings our year-to-date adjusted EBITDA to \$22.6 million, a \$27.7 million improvement over the last year-to-date. Our disciplined approach to managing administrative resources and external expenses has proven to be effective. This approach will become more impactful as revenue grows, providing additional economies of scale.

Turning to Slide 13. Our Q2 revenue was challenged by the consumer driven movement away from DTC and the timing of new wholesale partner load-ins. We believe this is a timing difference with respect to the revenue expansion in FDM, as new partners continue to come online, albeit at a slower pace than we presumed in the beginning of the year.

In fact, our initial estimates are that FY 2025, our business as a whole will show an inflection in revenue buoyed by accelerating FDM growth as ACV expansion and SKU enhancement on shelves gains feed as well as sales of our new energy drinks as we ramp ACV there. As Mondz pointed out in his comments, we just posted our third consecutive quarter of positive free cash flow. We are proud of the dramatic inflection there as we delivered a \$31 million improvement over the year ago period.

Additionally, we have seen a marked improvement in our working capital, including a sequential \$6 million decrease in inventory and a \$75 million year-on-year total working capital reduction.

Please turn to Slide 15. Before I provide color on our revised guidance for 2024, I wanted to share why our confidence in the top line trajectory is still so strong despite some of the delays in customer load-ins that are impacting our near term numbers. We are winning in the markets that we currently serve, bagged in K-Cup coffee and retail and RTD coffee. We are outpacing the market in both categories as we take share and the result will be increased revenue over the next few years. The markets we serve have significant TAMs and we are just beginning to penetrate.

To dimension the opportunity we entered the FDM coffee category in only one retailer a little more than 18 months ago. We are now rolling out to almost all retailers in the channel. FDM coffee is an \$11 billion market and as we broaden our exposure, we expect to achieve 6% share. In RTD, which has a TAM of \$4 billion and given our improving distribution and product innovation on the horizon, we think we can at least double our share over the next few years.

And last, but certainly not least, the RTD Energy category is roughly a \$20 billion market and we believe we will achieve similar share in this market. This gives us confidence in our long term outlook. For the reasons we've discussed, we are adjusting our 2024 revenue guidance down to \$385 million to \$415 million. However, we are moving our gross margin up to 39% to 42% and reiterating our adjusted EBITDA of \$32 million to \$42 million. Finally, we reiterate our Q1 guidance of 80% free cash flow conversion.

In summary, we are developing a trend of profitable quarterly results and expect to continue this trend in the quarters to come, which will ultimately enable us to provide maximum service to the veteran and first responder communities and long term value to our shareholders.

With that, I'll pass the call to the operator for the Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And our first question comes from the line of Michael Baker with D.A. Davidson. Please proceed with your question.

Michael Baker

Thank you. So my question is going to be on the timing of these delays. So, first of all, you said a few retailers, any more color on that. How many retailers are you in now? Where are you seeing the delays? I don't know if you want to name names or not. You said you expect to be in, I think you said top five grocery partners. I think you said by 2Q 2025. How many of those are you in now? Just any more color on where and why we're seeing these delays and I guess you've expressed some confidence. But maybe just why should we be confident that it's just delays and not a pushback on the product or some other reason why you won't be on the shelves? Thanks.

Chris Mondzelewski

Yes. Thanks for the question, Michael. So let me elaborate a little bit. I mean, as I said, in the kickoff, obviously, we're disappointed that there's any delay at all. But at the end of the day, as we look to build a business like this, we understand that not everything's going to play out the way that we initially expect. So, I hold my team accountable to make sure we've got plans in place to be able to adjust to things like this, and that's exactly kind of what we're imparting.

So I'm not going to go into the specifics of the timing of any particular retailer we stay away from that. Those are confidential conversations we have with each one. But let me give you a little bit of color on where we stand right now. We are, as we speak, in the largest three retailers in the country. One of the largest three just shipped very, very recently. So that's new distribution for us that's kind of going in as we speak. And we talked publicly, obviously, last year about the launch in Albertsons, which, of course, follows our initial customer, Walmart, where we still continue to perform very well with results up 15%.

So, again, I think with the retailers that we've been able to move into, we've been able to have, good success. We feel good. We have ongoing conversations with those retailers about how we continue to build that business. And as I've talked about in previous calls, getting the distribution on shelf is step one. But then from there, you've got to build the business. It took us some time to get above a four share in Walmart. And with all of these other retailers, the same will be true as well.

To specifically answer your question, we're in 36 retailers right now. Obviously, there's a wide variety of sizes in that, but as I said, we have the three largest. And I'll continue to reiterate what I've said every call, which is that we are having positive conversations with quite literally every retailer in the country at this point.

Michael Baker

Thank you for that color. So if I could ask one follow up? Do you want to – what kind of ramp should we look for in 2025? I don't know if it's too early to talk about that, but maybe if you don't want to give a number, is that plan different than what it was? If this is just a delay 2025. By the time we get to mid 2026, your top line expectation should have not changed. So I wonder if you can give us any color on what kind of ramp we can expect in the coming, year, year and a half?

Steve Kadenacy

Yes, Michael, this is Steve. We haven't given color on 2025 yet, but the way we look at it, as Mondz just said, you get the ACV, the revenue follows. We've always looked forward to that in 2025, and we look forward to giving you specific guidance later in the year. But we do anticipate that we'll continue to ramp and wholesale as we roll out. And Mondz talked about some of the delays and we didn't say specific names, but there's significant grocery retailers that got pushed into Q1 and Q2 that are also very consistent with our geographies, where we do very well. So between those FDM ramps, the stabilization of DTC, and then Black Rifle Energy, we anticipate a significant inflection in our revenue for next year.

Michael Baker

Great. I'll turn it over to someone else. Thank you.

Operator

Thank you. Our next question comes from the line of Matt McGinley with Needham & Company. Please proceed with your question.

Matt McGinley

Thank you. On the Black Rifle Energy drink, do you expect that to use the same supply chain in distributors as the Ready-to-Drink coffee product? And do you think there'll be a lot of expense around that as you launch that product? Or are you pretty much locked and loaded with what you already have in place with the distribution and how your coffee product is produced currently?

Chris Mondzelewski

Hey, Matt, let me give some color on that. So I think I'll start by saying we're very proud of what we've been able to do to build and then evolve our RTD coffee business. RTD category is a tough category. As you recall, even a year ago, we were really struggling with profitability of that business. And a big part of our margin recovery has been our outstanding operations team really rolling their sleeves up and understanding how to produce that product at what I'll call market levels. Coffee products are expensive to produce. The ingredients tend to be some of the most expensive in the category. And so those tend to be lower than some of our center store products.

In Energy, the margins overall tend to be a bit higher. And as such, we've continued to push our production team to say we want to be at market. We're not ready to announce exactly how we're going to be producing or distributing, but our expectation is going to be the same, which is two things. One, that as you kind of question on the cost side, are we going to be able to maintain the market? The answer to that is yes. We'll continue to hold our teams accountable to that, because we believe that's quite achievable.

And then two is, how do we really get the most out of this? And I'll go to a point that I made previous quarters, which is we're constantly evaluating, what is the right distribution system for us. We're very proud of our team. They've done an incredible job of building our coffee business to a \$100 million plus. But at the end of the day, there are, there are many different ways and avenues to expanding distribution in that category. And we're going to constantly be assessing, what are those right partnerships for us as we go forward. But nothing specific that we're in a position to talk about yet for Energy.

Matt McGinley

And on the gross margin, your first half gross margin was above the high end of your 39% to 42% guidance for the full year. Is there anything different with the outlook in the back half around inflation in the supply chain or mix or promotion that would push the gross margin down for the rest of the year?

Chris Mondzelewski

No, there's nothing specific, Matt. I think one thing we're always cautious about is that to the extent that there are promotions in stores, some of that does hit above the line, but we have great confidence that we'll be able to continue our margin run.

Matt McGinley

Thank you very much.

Chris Mondzelewski

Thanks, Matt.

Operator

Thank you. Our next question comes from the line of George Kelly with ROTH Capital Partners. Please proceed with your question.

George Kelly

Hey everybody, thank you. First, I guess, a couple more questions on the Energy business. I'm curious, when do you plan on launching it? Do you have those initial retail partners secured? And then you mentioned in your prepared remarks about clean energy delivery, and I was hoping you could just sort of expand on how you're achieving that?

Chris Mondzelewski

Yes, sure, George. So I'll break it out into the two questions you asked. So in the first piece, yes, we're having conversations as we speak with retailers. That process has just begun. We want to be in a position to be ready to launch as retailers open up their windows next year. So essentially, we'll be ready to go in January as some of the earlier resets might go in place. Obviously, for something like the North American Convenience store show later this year, we'll clearly be having a large presence there to have the right conversations with partners in that setting. So, yes, we feel confident.

Again, one of our advantages, our core strategic advantage in Black Rifle is our authenticity and how we hold true to everything we stand for in our communities. But I think our second is really our speed and our ability to be able to evolve to what we see as tailwind markets. And I think we can do that much faster than our competition and we're demonstrating that here. So we are going to be absolutely ready to go as we go into the year. We had to move on a very quick timeline to do that.

I will tell you though, getting to the second part of your question, there was no compromise on quality whatsoever. We are extremely proud of this product, not only the flavor profile, but the ingredients that we're using to do that. We are a super-premium business, and so I'm not going to talk specifically about the ingredients themselves. We're putting in the energy blend, but it is all natural. And we are taking advantage of the fact that we have very strong roots into procurement of coffee-based products. And so I'm not going to get into the science of this, but if you think about the fruit, the cherries that come from coffee, that actually is a great natural, sustainable source of caffeine. So that is a core part of it. And we ensured that we built, a suite of ingredients around that that delivers a great final profile.

George Kelly

Okay, thank you. And then just one quick follow up. On Walmart you shared in the past your share there, how did that trend in the quarter and anything you can announce as far as plans to, I don't know if it's promotions or anything else, to continue taking share at Walmart?

Chris Mondzelewski

Yes. So the share at Walmart continues to hold at, above four. Yes, we are in a position now. Walmart is of course, our first fully established retailer. They've been a great partner. We added a lot of new items last year with a full suite of distribution within Walmart. We're very much focused on how we continue to build the velocity of that business. So, yes, you're actually right. I think as we look at the back half of the year, that's exactly what we're going to do. As we move back into the seasonality of coffee and center store coffee.

We want to make sure that we continue to help Walmart to be at the head of that category. I think they've had great category growth versus the rest of the market. And so we're going to go and push hard with any of our partners, obviously not only Walmart, but any of the partners that we work with to enable their category growth as we move back into the high seasonality periods for coffee. So, I won't talk about the specific programs we're doing, but we've got some great stuff for the back half.

Steve Kadenacy

And I would add George, this is Steve. I think the same is true for FDM in general. If you look at the sell-through numbers, you can tell that we're dramatically outpacing the industry or the category. We grew at 28% while coffee as a whole was slightly down. So we're seeing that same performance as we ramp. And the same is true when you look at our revenue for the second half. I think it's important. We've talked about the barter transaction previously. If you recall, the barter transaction in the second half of last year was pretty significant to our revenue. It's not in our revenue for the second half at all. So if you look at the midpoint of our range, we actually have pretty significant growth in the second half, core to core. And all of that is driven by the FDM market.

George Kelly

Okay, thank you.

Operator

Thank you. [Operator Instructions] Our next question comes from the line of David Shakno with William Blair. Please proceed with your question.

David Shakno

Hi, David Shakno stepping in for John Anderson. Can you guys highlight early reads you're seeing with Black Rifle pods on keurig.com and the partnership with KDP thus far?

Chris Mondzelewski

Yes, sure, David. I think we're delighted with the partnerships so far. I think, one of the core elements of this partnership was really quality and consistently of quality. We wanted to make sure, again, as a super-premium business, that we had the highest and most consistent quality on our pods business. And as we've said before, Keurig is the best in the business. And we've been delighted, early feedback from our consumers is that they really like liking the product itself.

So, of course, that's in all channels, not just their own channels. As far as sales for them, I'm not going to quote their numbers, I think. But, yes, it's doing quite well. It's a brand that is focused, that they have focused on. We, of course, are working directly with them to make sure that we continue to educate their sales force so that they can really open that up in the channels that they want to be able to do that with. Again, it's a great route for expansion for us.

Steve Kadenacy

Yes. And we're delighted by the early performance as well. We are starting to accrue royalty from their sales on their DTC, and they're also expecting significant uptick from Black Rifle, as mentioned on their earnings call. They view that potential as quite significant for them.

David Shakno

Great. Thank you. And if I just one other thing, following up on somebody had asked about gross margin before. I think the discussion was more about the second half of the year. But just talking about the second quarter specifically, could you provide more color on the drivers there? You guys had a nice quarter on gross margin and also any color on where things stand with the operational initiatives? That'd be great.

Steve Kadenacy

The operational initiatives continue to go quite well. I mean, we had a number of positive impacts to our margin. Productivity was the most important. And that just goes to our supply chain. The narrowing of our manufacturing partners and, the hedging that we do around green coffee. There's a favorable mix shift as we ramp into FDM that will continue. Those are the main drivers. Really. It's just good, solid, continued execution and ramping into markets that are more profitable to us from a shipping and logistics standpoint.

Chris Mondzelewski

I would just emphasize, we had talked about this almost a year ago now that this was going to be the core focus for Steve, myself, the rest of the team, knowing that a healthy gross margin is really the fuel that will continue to be needed to drive the growth in the business. And obviously, we're pleased with the results. But even more so, I think the system that has been developed that is delivering what Steve's talking about so that we feel confident that it's not just, one time hit, but there's a continuous line of productivity and optimization of the business as we move forward into the out years. That is one of the things that gives us a great deal of confidence, because as we do that again, we increase our firepower to spend back on the market.

David Shakno

Great. That's all from me. Thank you.

Operator

Thank you. Our next question comes from the line of Joe Altobello with Raymond James. Please proceed with your question.

Unidentified Analyst

Good morning. This is Martin on for Joe. I just want to touch on the guide real quick. You lowered your revenue guide by about \$45 million midpoint. We only missed 2Q by about a third of that. So it implies that there's some sort of impact in 2H. Is that all those delays, or is there something else kind of going on there?

Steve Kadenacy

Well, there's nothing else going on. I did just mention on the previous question, there's a lot of shipments last year in the second half around that barter transaction. So that's part of it. But most of it is what we talked about is the movement to the right, a delay in timing issue relative to the FDM load ins. It's taken a bit longer than expected.

Unidentified Analyst

Okay, great. And just really quickly touching gross margins as well. You didn't lower that top line outlook in what is a margin accretive channel, but you did raise your gross margin guidance. So just trying to get some color back. What's driving that?

Steve Kadenacy

We just talked about that in the last question. It's really about that supply chain productivity element. It's execution day-in, day-out. We are very pleased by the execution within the business. It's broader than just gross margin. It's also EBITDA margin. We're managing our expenses from top to bottom much better. And that's just about execution, it's about following up and maintaining discipline throughout the business. And that to us, means just what Mondz said is it gives us the ability to have positive, free cash flow for the first half while we burned 40 million last year, which allows us to fuel our mission one and also reinvest in the business. And Black Rifle Energy is an example of that.

Unidentified Analyst

Great. Appreciate it. Best of luck.

Steve Kadenacy

Thank you.

Chris Mondzelewski

Thank you.

Operator

Thank you. [Operator Instructions] Our next question comes from the line of Bill Chappell with Truist Securities. Please proceed with your question.

Unidentified Analyst

Hi, good morning. This is Davis [indiscernible] on for Bill Chappell. Just wanted to ask kind of a higher level strategic question on the Energy. With the category having slowed so much recently and it being so unexpected, there's a lot of concern that the category is kind of reaching maturity. And we were just kind of wanting to get a little bit more color on what was driving this decision and why now.

Chris Mondzelewski

Yes, thanks. Great question. As I've said a number of times, and I'll continue to double down on it because I just think this is sort of a mantra for us, is we need to continue to navigate the term I like to use into tailwind categories. And what that means ultimately, is the categories that consumers are choosing to buy. This is one of the key elements that I've learned over 20 plus years in CPG. You've got to be moving your business to where consumer demand is.

And I think we're very proud of the fact that we're anchored in coffee. And coffee is a category that will always have strength in the U.S. We believe that, but particularly with younger generations. We've alluded to this a bit in the past. Preferences are changing and they're broadening. There's a desire to have different types of more refreshing profiles tied to energy consumption. And that is ultimately what built the \$20 billion energy category.

I think my opinion is when you look at it as a whole, it can be a bit misleading. You're right, it is a very large category, which means there's a lot of players in there and there's a lot of different types of products. When you sub segment that, I think what you find is that there are elements of it that are still growing at very, very high levels. And that's really what we're focused on. So when you look at the formulation of our product and how we're going to market that product and the demographic that we're going to go after and how we're going to generate awareness. We feel very confident that is going to be an area that we believe that we could source exceptionally high growth.

Unidentified Analyst

Got it. Thank you. And also just wanted to ask about some additional color on inputs, specifically green coffee costs are up 50% in the last year. Another like 30% or so in the last six months. You guys said you have a hedging program in place that kind of smooths out the short term pricing for you. Also, just wanted to see how those price rises are going to be affecting you all going forward. What kind of hedging schedule you all have? Like how far out are you all hedged?

Chris Mondzelewski

We hedge pretty far out, but the bulk of our hedging is about a year out. We're super proud of our buyer program. We monitor it very closely. The real significant increases in coffee beans, quite frankly, is much more impacting Robusta than it is Arabica.

And obviously our coffees are on the higher end and higher quality beans. So there's been less of an impact there. But we still are taking advantage of those forward pricings and we're also taking advantage of differentials between markets. Our group there is quite sophisticated and quite frankly, they're keeping it where it's not a material impact to our near term or 2025 forecast.

Unidentified Analyst

Excellent. Appreciate it. I'll pass it on.

Chris Mondzelewski

Thanks.

Operator

Thank you. And our next question comes from the line of Sarang Vora with Telsey Advisory Group. Please proceed with your question.

Sarang Vora

Great, thank you, guys. So I have a question. It's a little bit of philosophical question. You guys are doing a great job in managing the profitability, but at the big picture, how do you think of balancing, sales were down, a bit of a softer in the second half as well. So how do you think about balancing sales and profitability? A lot of brands are investing back in pricing. They're stepping a promotion to boost volume marketing as well.

So I'm just curious to hear your thought on how you are thinking to revamp the sales unit volume while profits are stronger right now. So just trying to understand the balance, how you're trying to do that? Thank you.

Chris Mondzelewski

Yes, thanks, Sarang. I'll start on that and Steve can build if you'd like. I think. Look, that's a great question. Ultimately, let me be very clear. This is a growth business. We are doing this ultimately to set up a mission that we all believe in. And that mission only comes to life as we grow this business significantly from where it is right now. So our ambitions remain exceptionally high. At the same time, we have a very experienced, disciplined team and I would tell you that we're going to have patience in doing that. We're going to do it at the rate that we believe is right for us as a business.

And yes, I mean that obviously has changed a bit per the announcement that we made this quarter, but it doesn't take anything away from the amount of growth that we ultimately believe we can deliver with this business. So again, I'm not going to go through all the factors that we've elaborated on in this call, but I think going forward, what you call out is exactly what we are going to do. We've talked a lot about the fact that by building the gross margin that we've built, that does give us additional firepower.

And so as we move into the back part of the year, and as we expose our business to more and more tailwind areas of the market where we know consumers are voting with their wallets, we will be well prepared to ensure that we can make the investments, whether those are at the retailer level or whether those are more macro-based marketing programs, to continue to build our overall equity. We'll continue to obviously do both. But again, when you hear us talking about profitability, don't ever let that take away from ultimately our belief that this is a growth business. The two things just have to go together. Without building that strong core to the business and the ability to have a high gross margin, we know the growth won't come. So again, it's a both.

Steve Kadenacy

And I agree with that 100% Sarang. And if you look back on my prepared comments towards the end of my discussion, I kind of gave you the tools on how we think about this philosophically into the future as well. We've got FDM where we've only been in FDM for 18 months, really, with one retailer. We're going to expand ACV capture there. We have line of sight and we have said over and over again that we want to be fully deployed into FDM, that ACV capture by itself.

And in addition, SKU enhance them. We've got over 30 SKUs at Walmart. We've got four at Albertsons. That will change over time. Between those two markets, between those two enhancements. There's significant upside on FDM, just on coffee. RTD coffee, we've got significant ACV enhancement to come there. We believe that we can match the share that we have in core coffee and RTD coffee. There's no reason we can't. And then you look at energy, it's a very significant – significantly greater size, TAM, and we believe that we can take share there. So between those, you can kind of do the math yourself. That leads to a very significant revenue company as we grow into our goals there.

Sarang Vora

No, that makes sense. There's a lot, just a housekeeping question, Steve, for you. You guys have done a good job in bringing the inventory levels down. Just curious, is it the level you expect now or there's more room to go down from here?

Steve Kadenacy

Well, I think we're at the level now where we're quite happy, but we will not rest. I think that from here, managing our margin, our inventory is part of that program. It's about the margins of the margin. The pennies will lead to the dollar, so to speak. And so we're always refining that. It's a source and potential cash for us during the year if we do it better. So I'm not committing to significantly lower, but there's always opportunities.

Sarang Vora

That's great. Thank you, guys.

Steve Kadenacy

Thanks, Sarang.

Operator

Thank you. We have reached the end of the question-and-answer session. I'll now turn the call over to Mondz for closing remarks.

Chris Mondzelewski

Yes, thank you. Fantastic questions. It was good to be able to have a chance to talk about the business. I'm going to reiterate just a couple of things in closing. Yes, we faced into some things that were unexpected for us, as every business does. It's been a great chance for me, as the leader of this business, alongside the founders, to see how the team reacts to that and how we evolve with it. And I'm very, very proud of what we've seen.

I think we're going to continue to stay very focused on what our long term mission is. One of the things I've emphasized many times, and I always like to bring into our closing, is what this business ultimately was created for and what we exist for, which is to stand as an authentic representation of the military and first responder community, and in doing so, creating a distinctive position in the market that we believe will resonate with the very, very high percentage of Americans and probably even beyond Americans. But we're focused on America right now.

With that, I think what you'll see us continue to do is evolve. You're never going to hear us change on, kind of the core fundamentals that we talk about on growth or on profitability, but we will continue to push our business to be most relevant to consumer needs. And that's what you're seeing on some of the news that we announced this quarter, so will continue to drive with that kind of flexibility.

Likewise, we're continuing to invest in our mission because we know that our mission gives back. In fact, one of our founders, Matt, is up in New York this week. He's working with the Special Operation Warriors Fund.

We're going to be supporting a program that works very closely with fallen Heroes families, particularly families that have disabled children, making sure that they still have and have access to the right kinds of education and needs as they grow up without their parent, who, sadly, had lost their life. So these are the types of things that we are doing on an ongoing basis, that it's why we're here, candidly, it's why everybody on the leadership team and everyone else in the business is here. And that authenticity, we believe, will continue to give us that differentiation with our consumers in the market as well.

That being said, we have to be nimble to be able to then evolve with that and make sure we're putting products out there that are of the highest quality and are in segments of the market that we know are going to drive high growth. So those two things will continue to work hand in hand. And ultimately, like I said, as we evolve this business, the one thing that will never waiver will be our authenticity. So I'll close with that and thank you all very much.

Operator

And this concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.

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