

Cal-Maine Foods (Q1 2027 Earnings)

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Corporate Speakers:

- Sherman Miller; Cal-Maine Foods; President and Chief Executive Officer
- Max Bowman; Cal-Maine Foods; Vice President and Chief Financial Officer
- Johnathan Zoeller; Cal-Maine Foods; Chief Financial Officer, Prepared Foods
- Keira Lombardo; Cal-Maine Foods; Chief Strategy Officer

Participants:

- Heather Jones; Heather Jones Research; Analyst
- Les Jordan; Goldman Sachs; Analyst
- Pooran Sharma; Stephens; Analyst
- Benjamin Mayhew; BMO Capital Markets; Analyst
- Benjamin Klieve; StoneX; Analyst

PRESENTATION

Operator^ Good morning everyone. And welcome to the Cal-Maine Foods, Inc. First Quarter Fiscal Year 2027 Earnings Conference Call and Webcast. Joining us today are Sherman Miller, President and CEO; Max Bowman, VP and CFO; Keira Lombardo, Chief Strategy Officer; and John Zoeller, CFO, Prepared Foods. (Operator Instructions) Please note, this call is being recorded. I will now turn the call over to Sherman. Please go ahead.

Sherman Miller^ Good morning. Thank you for joining us today. I want to remind everyone that today's remarks may include forward-looking statements. These are based on management's current expectations and are subject to risks and uncertainties described in our SEC filings.

I'd like to begin with a question we believe is most important as we look at Cal-Maine from this point in the cycle, how does the earnings power of the company evolve from here.

There are really two timing questions underneath that. The first is when the conventional shale lake market begins to rebalance.

The second is when the investments we are making in prepared foods translate into greater earnings contribution. Third in conventional [legs], the market remains over-supply which continues to put downward pressure on wholesale prices. The key question is the timing of rebalancing.

There are some early indicators worth watching. According to the American Egg Board September supply commentary based on assessments collected through June, AEB

estimates the U.S. layer flock at approximately \$336 million to \$343 million birds, roughly \$4 million below its previous estimate.

AEB also reports that August Hatch numbers are down approximately 12% year-over-year, and the cancellations are becoming more common. From a production standpoint, AEB estimates an average of approximately 19.9 million cases per month over the last three months, a slight reduction from its prior report.

These indicators did not establish that the market will turn, but they provide important context on the potential direction of supply. (Inaudible) could also affect the timing of when supply rebalances with demand.

As shown on Slide 9 of our earnings presentation, activity has historically increased with fall wild bird migration. Although time and in severity vary by year, we're approaching the period when the historical curve is typically turned upward.

While a meaningful layer of very could tighten supply and support egg prices because relatively small changes in supply can have an outsized market impact. The healthier, more sustainable outcome is for normal industry economics to work. Our focus remains on rigorous biosecurity protect our plots and reduce exposure.

Importantly, we do not see structural weakness in egg demand. The data remains constructive across retail, foodservice and exports. According to NielsenIQ calendar year-to-date through August, measured retail egg volume increased approximately 4%.

More recently, in the four weeks ended August 29, 2026, national retail dozens remain slightly positive year-over-year even as average price per dozen declined approximately 27%. Affordability and greater promotional activity should provide additional support to consumption as we move into the seasonally stronger fall baking and holiday periods.

The demand trends within specialty shale legs are particularly constructive. NielsenIQ data show that calendar year-to-date find U.S. cage free organic free range and pastas dozens sold at retail increased approximately 6%, outpacing the approximately 4% growth of the overall ad category.

We are also seeing healthy demand beyond retail. According to the American Egg Board citing [Serkan] data, QSR egg service increased approximately 2.4% year-to-date through July, representing approximately \$69 million in incremental ex servings.

And American Egg Board data showed that USA export volume increased approximately 29% year-to-date with July representing the highest monthly export volumes May 2023. More fundamentally, eggs remain exceptionally well positioned against durable consumer trends around protein, nutrition, convenience, simple ingredients and value. Taken together, this gives us confidence in the long-term demand foundation even as supply and demand work back toward balance.

That brings us to the more important point for Cal-Maine. The current cycle needs to be viewed in the context of how much the company has already changed. The transformation is not prospective. It's already visible in our mix. What comes next is scaling the earnings contribution.

During the first quarter, Specialty shell eggs and Prepared Foods represented approximately 54% of net sales including approximately 12% for Prepared Foods. Conventional shale leagues remain foundational at Cal-Maine.

Our scale, vertically integrated operating model, customer relationships and national distribution capabilities are significant competitive advantages in the business has demonstrated substantial cash-generating capacity through the cycle in the past.

Specialty shell eggs broaden that foundation, our ability to serve consumers across conventional, cage-free, nutritionally enhanced organic, brown, pass to raise and free-range eggs is an important competitive advantage. It allows us to participate across price points and consumer preferences rather than relying on any single segment of the category.

Specialty shell eggs and our cost plus and hybrid pricing structures also create a more diversified economic profile. They did not eliminate commodity exposure, but we believe they reduce the extent to which daily commission wholesale leg prices alone impact Cal-Maine's earnings potential.

Prepared Foods takes that diversification further and brings us to the second major timing question. When will the investments we're making translate into greater earnings contribution. This is a multiyear capacity and commercialization build, investment, commissioning and start-up costs necessarily perceive full utilization and earnings contribution.

The question is not simply when capacity comes online, it's how quickly we convert that capacity into customer demand, utilization, fixed cost absorption and profitable growth. We expect Prepared Foods production capacity to increase by more than 60% by the first half of fiscal 2028 compared to the end of fiscal 2026.

Our high-speed pancake line is expected to add approximately 12 million pounds of annual production capacity through early fiscal 2027. Our network optimization and expansion project is expected to add approximately 17 million pounds of annual scrambled egg production capacity through fiscal 2027.

In Crepini, our investment is expected to add approximately 180 million pounds of additional production capacity progressively through fiscal 2028. Those projects are complemented by the additional \$54 million of prepared foods capacity investments we announced last quarter.

The Echo Lake, Crepini, Creighton Brothers and Van's acquisitions have broadened our capabilities customer base and routes to market. The next phase is increasingly about scaling those platforms and converting the increased production capacity we're building into profitable growth.

Importantly, the addressable opportunity extends well beyond breakfast. The measured prepared breakfast category alone represents approximately \$8.4 billion in annual U.S. retail sales but our broader opportunity is egg-based prepared foods across multiple occasions and dayparts including breakfast on the go, snacking, after school and convenient meals.

Our strategy is to leverage our capabilities in eggs and protein across a larger set of products, customers, channels and consumer occasions.

Capacity comes first, commercialization and customer demand follow-up, earnings contribution bills as volume scales, utilization increases, fixed costs are absorbed in operational material. That progression is important to understanding both where our earnings are today and the earnings power we're building. With that, I'll turn the call over to Max to review our first quarter financial results.

Max Bowman^ Thanks, Sherman. And good morning, everyone. Earlier this morning, we issued our quarterly earnings release and filed our Form 10-Q for the first quarter of fiscal 2027. We also posted a supplemental first quarter earnings presentation to our website that provides additional details on our performance.

For the first quarter, consolidated net sales were \$539.6 million, down 41.5% compared with the prior year period. Gross profit was \$403,000 compared with \$311.3 million in the prior year period.

Operating loss was \$82.2 million compared to operating income of \$249.2 million in the prior year period, and operating margin was negative 15.2%. Net loss attributable to Cal-Maine was \$58.6 million compared to net income attributable to Cal-Maine of \$199.3 million in the prior year period, resulting in diluted loss per share were \$1.26 compared to diluted earnings per share of \$4.12.

Turning to our segment results. For conventional and specialty shell eggs combined, our percent produced to sold was 98.2%. Conventional shell egg generated net sales of \$201.7 million, down 59.5% compared with the prior year period.

Segment operating loss was \$71 million with an operating margin of negative 35.2%. Price realization for external customers which we define as our average conventional shell egg selling price relative to the daily average Urner-Barry Southeast market price was 99% in FY '27 quarter one compared with 101% in FY '26 quarter four.

The primary driver of the change was market timing. Much of our conventional business is priced back of the market and our selling prices move with a lag.

In Q4, the Urner-Barry market declined rapidly which benefited realization as our selling prices lagged the market down. Towards the end of Q1, the market rose rapidly in late August, creating the opposite effect as our selling prices lag the market.

Our pricing approach has not changed the direction and timing of the market did. Customer pricing arrangements including cost plus and hybrid structures remain intact and realization remains historically strong.

Sales mix and ag donations during the quarter also contributed to the slight sequential decline in price realization.

Despite the slight sequential decline, price realization remained above historical levels achieved before the pricing structure changes, demonstrating that our strategy continues to work as intended. Specialty shell eggs generated net sales of \$236.9 million, down 14% compared with the prior year period.

Segment operating income was \$14.9 million, with an operating margin of 6.3%. The year-over-year decline reflects an unusually strong prior year period when we strategically stepped in to supply customers during industry-wide shortages. That decision reinforced our position as a reliable supplier of choice and kept our brands on shelf when supply was constrained.

As the comparison normalizes, we expect growth to more closely align with the broader market. Prepared Foods generated net sales of \$63 million, down 13% compared with the prior year period.

Segment operating income was \$7.8 million with an operating margin of 12.4%. SG&A expense for the quarter was \$81.7 million compared with \$69.5 million in the prior year period.

Interest income net of expenses was \$8 million compared with \$12.9 million in the prior year period. Our effective tax rate for the quarter was 24.2% compared with 24.4% in the prior year period.

Turning to cash flow and the balance sheet. Net cash used in operating activities during the quarter was \$101.4 million compared to net cash provided by operating activities of \$278.6 million in the prior year period.

Capital expenditures were \$26.6 million, and we acquired additional EB franchise territory in the Northeast U.S. for \$25 million during the quarter. We ended the quarter with cash and temporary cash investments of \$767.6 million and remain virtually debt free.

During the quarter, we repurchased 66,601 shares of our common stock under our share repurchase program for approximately \$5 million. Under our current \$500 million

repurchase authorization, approximately \$315.7 million remained available at quarter end.

Subsequent to the end of the first quarter, Cal-Maine Foods repurchased 204,888 shares on the repurchase program for \$14.9 million.

Pursuant to our variable dividend policy, we will not pay a cash dividend until we are profitable on a cumulative basis. The cumulative loss to be recovered at the end of the first quarter is \$94.5 million. With that, I'll turn the call back to Sherman for closing remarks before we begin the Q&A session.

Sherman Miller^ Thanks, Max. As we look ahead, I want to come back to those two timing questions because they are central to understanding both our near-term results and the longer-term opportunity. The first is the shell egg cycle.

As outlined in Slide 8, near-term results will continue to reflect low conventional wholesale egg prices, higher input costs in the current supply imbalance. Market timing also affects how changes in conventional pricing flow through our results.

Much of our conventional business is priced back of the market, meaning changes in the daily average Urner-Barry market price flowed through our realized selling prices with a lag. When the market falls rapidly, our realized prices can temporarily remain above the current market.

When the market rises rapidly, our realized prices can temporarily lag the market. Our pricing approach has not changed the direction and timing of the market has. We are not attempting to call the precise bottom in the conventional egg cycle.

While we do see our early supply indicators worth watching against the demand backdrop that remains healthy. Retail volume is growing, especially shell egg sales are outpacing the broader category QSR servings are up and exports have strengthened significantly. AEB reported earlier this month that U.S. egg exports increased 25% during the first half of 2026, consistent with the strengthening export trend reflected in the more recent data.

The issue today is that supply remains greater than even that healthy demand can absorb. That distinction is important.

The second time in question is different because it is much more directly connected to our own execution. In Prepared Foods, we have considerably greater visibility in the investments we're making, the capacity being added and the commercial opportunities we're pursuing.

Our focus now is increasingly on commercialization, customer demand utilization and converting that additional capacity and profitable growth. That means current earnings

reflect two things happening simultaneously. A difficult point in the conventional leg cycle, an investment ahead of the full earnings contribution from Prepared Foods.

Neither viewed in isolation, fully describe the longer-term earnings power we're building. That is why the strength of our balance sheet is particularly important at this point in the cycle. We ended the quarter with cash and temporary cash investments of approximately \$768 million and remained virtually debt free.

That financial strength allows us to continue to invest in organically, execute our Prepared Foods capacity roadmap and pursue strategically aligned M&A without depending on near-term recovery in conventional egg prices. Rather than retrenching when commodity economics are weak, we have the financial capacity to invest through the cycle.

That gives us the opportunity to merge from this part of the cycle with greater capacity, a broader portfolio and more diversified earnings model. There is also an important point about how Cal-Maine's earnings power should be evaluated at this stage in the cycle.

When conventional lag economics were exceptionally strong and our earnings were near the high end of the cycle, our results were normalized. Peak commodity earnings were not assumed to represent the permanent earnings level of the business. We believe the same 3-cycle framework is relevant today. Conventional egg economics are now at the other end of the cycle.

At the same time we're investing ahead of growth in Prepared Foods and a majority of the capacity we're building has not yet reached its full utilization of our earnings potential. Just as peak cycle earnings were not viewed as normalized earnings power.

We do not believe trough cycle earnings should be viewed that way either, particularly while we are simultaneously investing to expand the future earnings capacity of the business.

The more relevant question is, what Cal-Maine's through-cycle earnings profile can become as these two dynamics evolve. On one side, we have a foundational shell egg business positioned to participate as supply and demand normalize.

On the other, we are building specialty and Prepared Foods businesses designed to contribute a greater share of earnings through the cycle, and our balance sheet allows us to invest through the period between those two.

Current results, therefore reflect both commodity pressure and investment ahead of growth that do not yet fully reflect the potential earnings contribution from the capacity and portfolio we're building. Together with our earnings benefit that would accompany normalization in the shell egg market.

Ultimately, there are two clocks. The first is normalization in the shell egg cycle, we cannot precisely predict when that occurs. The second is earnings contribution from the investment we're making in specialty shell eggs and Prepared Foods.

We have considerably greater visibility and control over that progression. Our strategy desire that over time the second increasingly matters more than the first. We cannot control high path AI industry block size or daily commodity ag prices.

We can't control how we allocate capital, execute our Prepared Foods expansion, commercialize the capacity we're building drive utilization, grow specialty shell eggs, serve our customers and pursue strategically aligned opportunities. And our balance sheet gives us the ability to do those things through the cycle. That is the opportunity at this point in the cycle.

We have a foundational shell egg business positioned to participate when market conditions normalize. Significant specialty and Prepared Foods growth underway and the financial capacity to continue to invest in through the trough rather than managing around it.

Our objective is not to eliminate the ag cycle. It is to build at Cal-Maine, whose earnings becomes progressively more diversified and durable through that cycle. With that, Operator, we're ready to take questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Heather Jones with Heather Jones Research.

Heather Jones^ Thank you for the additional details. I'll rather this quarter. I really -- I wanted to ask first on corporate expense. It was corporate expense and other. These were the biggest drivers of the disparity with our estimate.

And I think corporate was like \$8 million or \$9 million higher than last year. And I want to say in the Q, you talked about insurance and professional fees. So how should we be thinking about that line item in the rest -- for the rest of '27?

Sherman Miller^ Thank you for that question. Max, do you want to lead off with that?

Max Bowman^ Yes. Thanks, Heather. Yes. You're talking about our unallocated corporate G&A. It was up about \$8.5 million over the previous period. You mentioned we had a couple of things.

We had some insurance expenses in the previous period that were a credit that lowered the cost. And then we did have the higher costs that you mentioned legal and professional fees that brought it up.

It was also a little bit of an offset from the contingent consideration fee for the Fazio acquisition which will settle out in this next quarter.

And in terms of a run rate, I mean I think the number that you're looking at there, given the give and take in it for the quarter, as our business begins to grow and scale is where I expect us to be. The other things were additions of we had Creighton that came on and clean egg that also came on in the year.

So our operations were growing and expense. Volume was down, but delivery expense was up quite a bit across all of our segments, over 16%. So that would be one thing that might go the other way, depending on when things settle down in the Middle East, and we see sort of hopefully a normalization of prices.

Heather Jones^ Okay. And then as a follow-up on conventional pricing, you had that slide that shows the market-based pieces trending close to \$0.90 quarter-to-date. Going to the cost plus fee of the piece, fee costs have gone up pretty dramatically over the last few months. And so Wondering if you could help us think about that lag. Should we start to see that in Q2? Or is that cost plus piece going to show up more in Q3?

Sherman Miller^ Heather, great question and feed costs for us during the quarter was up 4.3% versus Q1 of 2026, the egg industry center using USDA data they projected it could be up as high as 8% with corn carrying about 16% heavier weight.

So it's definitely a factor. And as we continue to watch grain, we use all the tools that we traditionally have basis locks farm storage important to fill up and harvest hedging, but it's a very small piece for us and then you mentioned the grain-based agreements at as a natural hedge. -- overall, the crop harvest is kind of on track, but there's a lot of weather happening in the Midwest right now that could put some pressure and delay that.

We are here in Rutland that soybeans are type six states either have slowed or idle crushers, waiting on beans. So we'll continue to watch that and then corn the stocks to use there. somewhere between 9.5% and 10.5%, depending USDA versus consultant opinions on that.

So there is definitely some tightness going on there. we'll continue to evaluate and, of course, the Iran war, the Russia-Ukraine war, all causing global disruption and then China waiting to see exactly how their commitments play out.

So we do expect that feed will continue to be up, but we continue to manage with our hard work that happens in the chicken houses every day to make sure that we're getting the best of cost.

Max Bowman^ Sherman, if I could add one thing ahead of your question about how that kind of unfolds through the year. As you probably remember from prior years, our strategy generally is to fill our bins in facilities where we have extra storage at harvest.

So we've been doing that this year, and that cost will kind of follow through. It takes somewhere depending on the facility. -- probably as little as a month to consume that to as much as almost six months. So it will have some impact as we go through the balance of the year.

Heather Jones^ My apologies. I think I wasn't clear in how I asked it. I'm more interested in what is the lag for when that higher fee cost is going to show up in your cost plus pricing? Is it a quarter? Is it two quarters?

Because the market-based piece is clearly lower sequentially, but I would think the cost-plus piece would be higher sequentially given what's happened with feed costs. But if you could just give us a sense of the timing lag for how that pricing piece points flow through?

Sherman Miller^ It has already showed up, Heather, and we'll continue to do so. But generally, within two weeks to one month most updates happened. There are a few that stretch out to a quarter type look back -- but at harvest, we try to have empty bin so that we can capture that new crop grain that Max is talking about. So the effect is happening now.

Operator^ Our next question comes from Les Jordan with Goldman Sachs.

Les Jordan^ You talked about strong specialty volume growth across the industry, but your volumes in that segment declined during the quarter.

So then if you could talk about your market share trends across the category. What's really been impacting that? How did it trend throughout the quarter? And maybe just when do you expect to get back to volume growth within specialty?

Sherman Miller^ Great question. It all starts with a really tough comp compared to last year. We outperformed the overall market last year and did the best job we possibly could, making sure our customers' headaches on the shift of (inaudible).

And we expect as time goes on, we'll trend more with what the market is doing, but it's just a really tough comp. And just speaking of eggs and sales eggs continue to be a tremendous value in the shopping card between \$60, \$90 basket difference if eggs are in there or not.

So we do believe that there is extremely positive trends behind the eggs overall, strong household penetration still at 97% and eggs are extremely hard to replace and carry a huge advantage on a cost per serving basis. So we do expect for that to look a lot more like the overall trends, but it's really a tough quarter to come.

Les Jordan^ Understood. Maybe just a follow-up, sticking with specialty on the profitability. I think historically, this has always been viewed as relatively more resilient,

but we saw a sequential decline. Again, I think volumes likely pressured but also calling out feed costs which I know you talked about in Heather's question.

But just trying to get more color on this segment specifically around how you think about mid-cycle earnings, what's the range and variability we should keep in mind?

And then specifically on the feed costs that have come up this first quarter that you called out, maybe more specifically the timing recovery for this segment, how we should think about that?

Sherman Miller^ Yes. Great question again. The piece of our specialty this side of the market that is low double-digit-type percentage is seeing the influence here. But compared to last quarter, very, very stable pricing in the California markets still sits at \$0.97 a day.

So it's that piece of it, that continues to put pressure on it. Longer term, those type prices are just not sustainable. So there will have to be adjustments, we can't predict the timing of that. But there definitely will be. Max, what would you add?

Max Bowman^ No. I mean I think that's kind of it, Sherman, especially pricing is always influenced and we've never run away from that. It's always influenced by conventional pricing.

And as Sherman was mentioning those comps, not only the volumes that we shipped last year in specialty, a lot of that was because specialty had that lower price point or near price point to conventional. And as that recovers, you're going to see some pressure on specialty volumes. And that goes across industry-wide, I believe. So that's the only other thing I would add there.

Operator^ Our next question comes from Pooran Sharma with Stephens.

Pooran Sharma^ I wanted to get your sense of -- I know you're saying hard to kind of predict the supply demand rebalancing. But you noted there are early supply indicators I think USDA data doesn't show that the pallets that see the breeder flock have been in decline over the past few months.

I wanted to get a sense of what would give you more confidence in terms of data that rationalization is taking place? And just secondly, -- do you think that the increase in feed cost accelerates this dynamic?

Sherman Miller^ Thank you for that question. their American Egg Boards calling the flock between \$336 million to \$343 million for June, and that's down \$4 million versus May, and also mentioning a USDA number that Hatch is down 12% in August which is significant.

So that is telling us something. And also, I think this week, the inventory that came out on Monday is down 128,000 cases or about 7% less than last year.

I think that is also telling us something. And then also that chart that we have in our deck that shows the price movement within the quarter that bell curve was the exports mostly to South Korea.

And if you look at the overall magnitude of that export, if the U.S. had got all of the 750 loads they were looking for, it's relatively small and had a substantial impact. So it could be indicating more tightness than what the Urner-Barry market today is showing us.

Max Bowman^ Yes. I mean to answer the last part of your question, Pooran, or attempt to what impact the tea costs have on the market? I mean again, we can only speak for Cal-Maine and we can observe history.

But historically speaking, when you see margin compression like we're seeing now sort of both ends, we got a lower price point on sales price and we've got higher input costs, particularly with feed and delivery and some of the things that we've already called out. And historically, that does -- as Sherman said earlier about the specialty pricing, the price is not sustainable. The product is still in demand.

So we would expect that there would be an adjustment in that going forward. But it's just really difficult to put a timeline on when that happens. But I think all of it does work together to -- people have to understand their cost and the cost is certainly an important part of that.

Sherman Miller^ And then one follow-up, Pooran, is just about high path AI impossible to predict timing or magnitude of impact. But if you look at the indicators just the epi curve that we have on Slide 9 that shows the seasonal pattern. The fall generally comes under pressure that time of the year.

And then other early indicators are just the number of states that have some type of poultry mostly turkeys, that number is seven now with Indiana being added this week in commercial DUCs and also up North in Canada, Manitoba and Alberta, both are indicating there is poultry affected to our knowledge, there's not any layers in that, but it's just showing the overall presence of the virus that the wild birds are carrying.

Operator^ Our next question comes from Benjamin Mayhew with BMO Capital Markets.

Benjamin Mayhew^ I'd like to start on -- so your 10-K notes, your breeder and layer flock actually grew about low single digit from the end of May to the end of August. So this would imply the industry is cutting back, but that Cal-Maine is not at least on a net basis.

So my questions are, are you comfortable with your current in-house supply of breeders and layer flock at this point in the cycle and given your financial strength on understanding there could be more nuance here? So like how are you thinking about this dynamic, especially in the face of mounting industry losses?

Sherman Miller^ Well Great question. And as you know our flock planning happens two years out at all times. So we're planning a little advance. And our goal is to supply 100% of our customer needs. So that's how our blocks play out. And no question over the last few years, it's been very difficult to stay in normal flock rotations.

But thankfully, we've had an opportunity to catch up on some of those. So we continue to plan the absolute best we possibly can to make sure 100% of our customer orders are feel cannot speak for the industry. Max, anything to add there?

Max Bowman^ No. I think you covered it.

Benjamin Mayhew^ Got it. And then I wanted to ask a question on Prepared Foods. So first quarter, pleasantly surprised with the profitability there.

Obviously I understand that you have a lot of investments in motion that are impacting volumes -- but I guess my question is on an annual basis for this year, is there a chance you could actually grow profit year-over-year in the Prepared Foods business? And how are you thinking about the second half of the year, particularly?

Like are you expecting a strong acceleration in Prepared Foods profitability and could the margin profile quickly approach mid-teens from an operating margin perspective? And I'll leave it there.

Sherman Miller^ John, can you?

Johnathan Zoeller^ Yes. Thanks for the question. So as Herman mentioned in his remarks, the first wave of this capital expansion that we've previously announced is being put in right now the pancake line that you mentioned as well as the scrambled deadline.

And then the gradual kind of over the course of this year and next year, the incremental capacity for our Crepini Pancake brand. From the top line, that we'll start to see that in the second half of this year.

As that comes online and we commercialize it, obviously that lags our operating costs to commission and to get the lines installed and up and running. So from an earnings perspective, not providing any guidance on where to be thinking about in terms of margins for the full year.

But -- they -- as we get this in and start commercializing it and kind of reach full capacity, that will provide some uplift to certainly our margin profile as we absorb the fixed cost base. So I think that's kind of what you can expect for the rest of this year.

Operator^ Our next question comes from Ben Klieve with StoneX.

Benjamin Klieve^ Most of mine have already been addressed, but I did have one question on your kind of M&A strategy here going forward in the context of the egg market now having both the supply dynamics that have been there for some time but also the input cost dynamics that have come up, especially over the past several months.

Does this environment change how you look at M&A from the perspective of being able to potentially acquire to expand your vertical integration capabilities or potentially expand production or branding of shell eggs, either on the conventional or specialty side, at a particularly attractive valuation given that a lot of operators in the space are financially stressed these days? Or is your M&A philosophy not really changed at all here over the past several quarters?

Sherman Miller^ Ben, thank you for that question. And first out of the gate, always be confident that our goal is to remain eccentric. When talking about M&A bolt-on, tuck-in type M&A is what we look for, but as you mentioned a few of them, but we have more ways to grow than ever before from conventional eggs, specialty eggs, prepared foods, ingredients and brands, we have more opportunity than ever.

So we continue to evaluate opportunities, relying heavily upon our model to tell us if it's the right opportunity or not, but also considering the organic opportunities like the ones that John mentioned a few minutes ago, is also a tremendous way of growing.

Keira Lombardo^ Yes, Ben, what I would add to that is that we have a meaningful opportunity for both organic investment and M&A. And that pacing is very strategically important.

We're building the foundation of a Prepared Foods platform that we expect to support growth for many years to come. and that foundation needs to be very well fortified and that's commercially, operationally and organizationally as well.

And we've added capabilities, as you know through Echo Lake and Crepini and Creighton advance -- and at the same time we're investing organically in significant new capacity as both Sherman and John outlined.

So the priority now is really integrate those capabilities to commercialize the capacity and to build the customer pipeline and prove that the platform can execute consistently -- that does not mean that we stop looking at M&A, right?

It means that we evaluate every opportunity against what the organization can absorb and execute really well. We need to digest and build out a pace that supports long-term

success, not maximize the number of transactions or the speed of expansion in the near term.

So is M&A can accelerate the strategy without compromising execution, we have the capacity to act for organic growth, integration and commercialization are equally important parts of creating value.

Benjamin Klieve^ Got it. Got it. Very helpful. Best luck here going into the seasonally strong period here. I'll get back in queue.

Operator^ Our next question comes from Heather Jones with Heather Jones Research. Heather, your line is open. You can ask your question.

Heather Jones^ Sorry about that, I was on mute. Two follow-ups. I know you're not giving guidance on Prepared Foods. But just wondering, just more qualitatively, as you roll out this additional capacity I would assume the upfront expense piece is going to increase. So should we expect Prepared Foods EBIT to decline sequentially? Or how should we think about that?

Johnathan Zoeller^ Yes, Heather, thanks for the follow-up. This is John. Yes. Look, in Q2, we're going to have some upfront costs for the capacity that we're bringing online this quarter. And so we saw that in the first from the initial capacity we brought online late in the first quarter, and you can expect to see that in Q2.

And then that should kind of moderate a little bit in the back half of this year while getting the top line growth from commercializing those pounds that we bring online. So I think that's kind of the sequence you can think about.

Heather Jones^ Okay. And then Sherman, going back to comments you made in the prepared remarks about the valuation of your stock. So it's setting new lows on a price-to-book basis, going back at least 20 years.

And then when you think about the valuation on a price per and, et cetera, basis, it seems to be setting new lows there, too. So -- given the cash the company is sitting on, I know you have to fund losses and you're having to find these prepared foods investments, both.

Is there any reason to think that you would not get more aggressive? And I know you all bought the 200-and-some thousand shares post quarter end. But is there any reason to think you won't get even more aggressive than that given just to stop setting the lows?

Sherman Miller^ Heather, great question. The share repurchases are a great addition to our capital allocation that we added a little over a year ago. And as we noticed the subsequent events that you mentioned, it shows that we see a big value at these levels of stock.

And the overhang right now is the things that we've mentioned today. But the assurances that we've been here before and it's why we manage the company the way that we do from our balance sheet forward.

And the current situation is just not mid-cycle normal or sustainable. So you pointed out the right metrics. The stock value is very low compared to historical. And we see a lot of value there.

Operator^ I'm not showing any further questions. I'd like to turn the call back over to Sherman for any further remarks.

Sherman Miller^ All right. Well thank you for the thoughtful questions today and for your continued interest in Cal-Maine Foods.

Operator, we're ready to conclude the call.

Operator^ This concludes today's question and answer session. A replay of today's call will be available via webcast approximately two hours after the conclusion of the call and will remain available on demand for a year.

The webcast can be accessed in the Investor Relations section of the Cal-Maine Foods website. A transcript of today's call will also be posted on the Investor Relations section of the company's website. Thank you for joining us today. You may now disconnect.