Cal-Maine Foods, Inc.(Q2 2026 Earnings)

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Corporate Speakers:

- Sherman Miller; Cal-Maine Foods, Inc.; President and Chief Executive Officer
- Max Bowman; Cal-Maine Foods, Inc.; Chief Financial Officer, Vice-President and Director

Participants:

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

PRESENTATION

Operator^ Good morning everyone. And welcome to the Cal-Maine Foods Second Quarter Fiscal 2026 Earnings Conference Call. (Operator Instructions) Please note that this call is being recorded. I will now turn the call over to Sherman Miller, President and Chief Executive Officer of Cal-Maine Foods. Please go ahead, sir.

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.

Looking at our performance in the second quarter and first half of the year, the story is clear. We built real momentum. We delivered solid results even against a tough comparison to last year which is marked by supply-demand imbalances and historically high prices.

With lower egg prices, our increasingly diversified business model, combined with effective execution has proven to be a source of resilience and that positions us uniquely today, a rare combination of both value and growth with the potential to strengthen even further over time.

Our specialty egg business maintained strong prices and volumes despite challenging comparisons and delivered growth in the first half of the fiscal year.

At the same time our recently announced expansions are positioning our Prepared Foods business to deliver sustained double-digit volume growth. Another key trend we're seeing is the ongoing shift in our sales mix across the portfolio.

This shift was visible throughout the second quarter and first half of the fiscal year, and we expect it will steadily enhance the durability and predictability of our earnings.

It's a direct reflection of the deliberate execution of our long-term strategy, and we believe our results continue to reinforce just how effective that approach will be in pursuit of operational and financial excellence.

Let me share a few strategic highlights from the second quarter and first half of the year that show how we're driving continued sales diversification and favorable mix shifts. In the second quarter of fiscal 2026, shell egg sales represented 84.4% of total net sales compared to 94.7%.

Specialty eggs drove a greater portion of shell egg sales accounting for 44% of total shell egg sales compared to 31.7%, and specialty eggs and prepared foods combined accounted for 46.4% of net sales compared to 31.2%.

In the first half of fiscal 2026, shell egg sales represented 85% of total net sales compared to 94.5% in the first half of fiscal 2025.

Specialty eggs drove a greater portion of shell egg sales accounting for 39.6% of total shell egg sales compared to 33% and specialty eggs and prepared foods combined accounted for 42.8% net sales compared to 32.4%. None of this happens without our people.

I want to sincerely thank our teams across the organization whose disciplined focus and commitment to excellence drive the operational and financial performance that underpins everything we do. Their hard work and dedication continue to set us apart, and these results are a direct reflection of their efforts.

Before Max walks you through our results in detail and provides additional color on our financial performance, I'd like to take a few minutes to focus on the long-term strategic direction of the company, how we're positioning our sales for sustainable growth and where we see the most compelling opportunities ahead. Cal-Maine enters this moment from a position of strength.

Our core shell egg platform is durable, proven and built through decades of effective execution. That foundation gives us something rare in today's market, structural integrity at the base of our business paired with powerful avenues for growth.

What makes this platform particularly compelling is how the category and consumer behavior are evolving. Across the U.S., eggs remain an affordable protein source. Consumers are seeking complete high-quality proteins.

GLP-1 users are gravitating towards satisfying nutrient-dense foods; younger consumers and families are treating eggs as an everyday staple. And across the board, convenience is a major tailwind with rising interest in ready-to-eat and ready-to-heat formats. We see consumers trading up.

Specialty and premium segments are showing stronger repeat usage and alignment with the attributes people care about: wellness, taste, simplicity, and clean labels. Put simply, eggs are leading on health, convenience and quality, and that combination is reshaping category growth in a way that we believe plays directly to our strengths.

This is why we're intentionally evolving Cal-Maine into a more resilient, strategically diversified portfolio, growing specialty eggs and accelerating value-added prepared foods. It's not a pivot. It's a progression.

We're taking a well-established business and expanded into multiple growth engines that we believe would deliver high-quality earnings, deeper customer partnerships, and a stronger alignment with the long-term consumer trends.

A major part of that progression is our prepared foods platform. Sitting on the acquisition of Echo Lake Foods, we're investing to meaningfully expand our prepared foods capabilities.

We've launched a $15 million network optimization and capacity expansion project that is expected to add 17 million pounds of annual scrambled egg production by mid-fiscal 2027. This project consolidates all scrambled egg manufacturing into a single modernized facility, eliminating redundancy across sites, streamlining workflows, and strengthening supply reliability.

It also adds a new production line and upgraded automation that will improve yields, reduce labor requirements, and increase throughput.

In short, we believe it positions Echo Lake Foods to support both near-term customer demand and long-term organic growth with greater efficiency and precision. This builds on our previously announced $14.8 million high-speed pancake line which is expected to add another 12 million pounds of capacity through early fiscal 2027.

As these projects ramp, Echo Lake Foods has and will experience temporary lower volumes and higher costs which began late in the second quarter of fiscal 2026 and are expected to continue through the remainder of the fiscal year.

But we believe the short-term impact will be outweighed by the long-term benefits, higher output, improved efficiency, and a more agile modernized platform.

We're also scaling our joint venture Crepini Foods which is investing $7 million through the fiscal 2028 to add 18 million pounds of capacity expanding production more than sevenfold. When you combine Echo Lake and Crepini, we expect total prepared foods capacity to increase more than 30% over the next 18 to 24 months.

We believe this will position us to meet accelerating demand for high-protein, ready-to-eat, convenience forward formats that are aligned with changing consumer preferences. In addition to accelerating value-added prepared foods, we're growing specialty eggs.

In the second quarter, we acquired certain production assets Clean Egg LLC in Texas which expands our specialty cage-free and free-range egg capacity and supports local sourcing, captures accelerating market growth, and optimizes our supply chain. These investments are expected to have strengthened our mid-cycle earnings profile and build a more resilient business over time. They also reinforce what makes Cal-Maine unique among agriculture producers.

We're a pure-play leader in one essential category, settling roughly one out of every six eggs consumed in the U.S. with full vertical integration from feed and flock to processing, distribution, and customer delivery. And we're using that scale strategically designing solutions that make egg consumption easier, more valuable, and more accessible across all channels.

This is a long-term investment story, not a short-term trade. The egg industry has always been cyclical, supply-driven, and headline sensitive. The object has never been to avoid cycles, is to manage through them effectively, and that is where we have consistently differentiated ourselves.

We have been in environments like this many times before periods of supply disruption and price volatility are not new to this industry. And each time we have navigated them, we have emerged stronger.

Importantly, the supply challenges related to High Path AI are not behind us. The current epi curve closely resembles prior years include 2022. Global outbreaks continue and recovery remains uneven and unpredictable rather than linear.

This is not a short-term dislocation. It's a structural reality that reinforces the importance of scale and operational execution.

Looking long-term, one of the most compelling opportunities in eggs is increasing USA consumption, and that growth does not occur without reliable supply. Reliability builds trust with retailers, food service partners and consumers. Increasing hen numbers over time is not a negative.

It's a prerequisite for sustainable growth. Customers consistently value consistency over spot pricing and in an environment where volatility is the norm, reliability becomes a durable competitive advantage. Our strategy is intentionally designed to perform across cycles.

We maintained a strong balance sheet to preserve flexibility in all environments, pursue accretive growth with disciplined capital allocation, and continue expanding our portfolio across egg types and adjacent categories.

We remain relentlessly focused on cost drivers and efficiency to protect margins through cycles or earning trust by doing the right thing with customers, employees, and partners. This is not a strategy for a single cycle. It's a strategy built for durability. Demand in this category is real, but it is also complex.

What is often labeled as demand reflects a wide range of dynamic variables including the timing and geography of bird gains or losses, shifts in where consumers shop, media-driven panic buying, weather patterns, wholesale market movements, promotional activity and holiday timing, navigating that complexity effectively is a core operational capability.

Finally, this is a fundamentally different company than the last time we experienced similar market conditions.

Today, we have a stronger balance sheet, meaningful growth, both organically and through acquisitions, greater diversification into specialty eggs and prepared foods, deeper bench strength across the organization, and reduced exposure to pure commodity pricing through specialty mix, hybrid pricing models, and value-added products.

We are more diversified and more resilient and better positioned to compound value over the long term. With that, let me turn the call over to Max to drill down into our financial results and discuss our capital allocation framework. Max?

Max Bowman^ Thanks, Sherman. And good morning, everyone. As a reminder, we published our earnings release and 10-Q this morning.

Additionally, we published a brief earnings presentation on our website. These documents contain detailed information on our financial results. I'll touch on the highlights for the second quarter and first half of fiscal 2026. Unless otherwise indicated, all comparisons are to the comparable period of fiscal 2025.

For the second quarter of fiscal 2026, net sales were $769.5 million compared to $954.7 million, down 19.4%. Total shell egg sales were $649.6 million compared to $903.9 million, down 28.1% with 26.5% lower selling prices and 2.2% lower sales volumes. Conventional egg sales were $363.9 million compared to $616.9 million, down 41% with 38.8% lower selling prices and 3.6% lower sales volumes.

Specialty egg sales were $285.7 million compared to $287 million down 0.4% with relatively flat sales volume and selling prices.

Breeder flocks grew 12.7%. Total chicks hatched rose 65.1% and the average number of layer hens expanded 2.6%. Prepared food sales were $71.7 million compared to $10.4 million in the second quarter of fiscal 2025 of 586.4% and compared to $83.9 million in the first quarter of fiscal 2026, down 14.5%.

Echo Lake's Foods contributed $56.6 million of the sales in the second quarter of fiscal 2026 compared to $70.5 million in sales in the first quarter of fiscal 2026. As Sherman mentioned, the announced expansion initiatives had an impact on second quarter fiscal 2026.

Gross profit was $207.4 million compared to $356 million, down 41.8%, primarily driven by 26.5% lower shell egg selling prices and 2.2% lower shell egg sales volumes, partially offset by lower egg prices for outside purchases and a 3% increase in percent of sold as well as contributions from prepared foods.

Operating income was $123.9 million compared to $278.1 million, down 55.5% with an operating income margin of 16.1%. Net income attributable to Cal-Maine Foods was $102.8 million compared to $219.1 million, down 53.1%.

Diluted earnings per share were $2.13 compared to $4.47, down 52.3%. Cost of sales decreased 6.1%, lower costs associated with egg purchases and egg products more than offset the increase in prepared food costs due to the acquisition of Echo Lake Foods as well as the increase in our farm production and processing, packaging, and warehousing costs.

SG&A expenses increased 6.8% due to the addition of Echo Lake Foods and increased professional and legal fees. This was partially offset by a reduced charge in change in earnout liability recorded in the prior year period and lower employee-related costs.

Net cash flows from operation was $94.8 million compared to $122.7 million down 22.8%. We ended the quarter with cash and temporary cash investments of $1.1 billion, down 18.2%. We remain virtually debt free.

We purchased 846,037 shares of our common stock during the quarter for a total of $74.8 million. These transactions were completed under our current share repurchase authorization which permits the repurchase of up to $500 million, of which $375.2 million remains available.

For the second quarter of fiscal 2026, we will pay a cash dividend of approximately $0.72 per share to holders of our common stock pursuant to our variable dividend policy. The dividend is payable on February 12, 2026 to holders of record on January 28, 2026.

The final amount paid per share will be based on the number of outstanding shares on the record date. Our capital allocation strategy is designed to balance disciplined stewardship with long-term value creation.

We maintain a strong cash position and an unlevered balance sheet, giving us the flexibility to execute targeted and accretive acquisitions, reinvest through CapEx and return capital to shareholders. Recent operating cash flows have funded strong dividends under our longstanding policy of paying a third of net income and have also supported share repurchases to further enhance returns.

At the same time reinvestment is focused on expanding specialty eggs and prepared foods for mix shift, scale efficiencies and vertical integration drive margin enhancement and higher quality earnings. Together, these actions are expected to create total shareholder return in which dividends, buybacks, earnings per share growth, improved mix and long-term multiple expansion all work together to compound value over time.

Turning to the first half of fiscal 2026. Net sales were $1.7 billion, down 2.8% or $48.4 million. Total shell egg sales were $1.4 billion compared to $1.6 billion, down 12.5% with 12.6% lower selling prices as volumes remained relatively flat.

Conventional egg sales were $869.8 million compared to $1.1 billion, down 21% with 19.4% lower selling prices and 2% lower sales volumes. Specialty egg sales were $569.2 million compared to $543.7 million, up 4.7% with 3.8% higher sales volumes and 0.8% higher selling prices.

Breeder flocks grew 21.6%. Total chicks hatched rose 71% and the average number of layer hens expanded 6%. Prepared food sales were $155.6 million compared to $19.4 million, up 702.9%.

Echo Lake Foods contributed $127.1 million in sales. Gross profit was $518.7 million compared to $603.3 million, down 14%, primarily driven by 12.6% lower shell egg selling prices and partially offset by a decrease in the price and volume of outside egg purchases as dozens produced increased 3.1% as well as contributions from prepared foods.

Operating income was $373.1 million compared to $465 million, down 19.8% with an operating income margin of 22.1%. Net income attributable to Cal-Maine Foods was $302.1 million compared to $369 million, down 18.1%. Diluted earnings per share was $6.26 compared to $7.54, down 17%. Cost of sales increased 3.2% as our dozens produced increased 3.1% and our farm production cost per dozen increased 2.1%.

Our prepared foods cost increased due to the acquisition of Echo Lake Foods. These costs were partially offset by lower costs associated with outside egg purchases and egg products.

SG&A expenses increased 9.2%, due to the addition of Echo Lake Foods and increased professional and legal fees. This was partially offset by a reduced charge in the change in earnout liability recorded in the prior year period. Net cash flow from operations was $373.4 million compared to $240.2 million, up 55.5%. That concludes my review of the financial results. I will now turn the call back over to Sherman.

Sherman Miller^ Thanks, Max. Looking ahead, our priorities remain centered on execution as we expand specialty eggs and prepared foods we’re integrating new assets, scaling new capabilities and continuing to focus on the quality and consistency customers expect.

We're pursuing innovation and selective acquisitions that are expected to expand consumer choice, strengthen channel reach, and build a more reliable growth profile. Ultimately, our opportunity is to demonstrate where Cal-Maine is going, not just where it's been.

We're building a business with strong base returns and multiple growth engines, one that compounds value over time by serving consumers across every preference at every wrong of the egg value ladder.

That's the Cal-Maine we're creating, durable, diversified, and positioned to lead the category's next decade of growth. With that, I'll turn the call back over to the operator to begin the Q&A portion of today's call.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question is going to come from the line of Heather Jones with Heather Jones Research.

Heather Jones^ Congratulations on a solid quarter. I wanted to ask about -- so given where current spot prices are for eggs, in the past, that would have translated to Cal-Maine generating losses at the EPS line.

I was just talking about the changes that you all have made in the portfolio over the last few years to push into prepared foods and the higher percentage on cost-plus type models. Just wondering if you could walk through how you think about the earnings power or the earnings trajectory in depressed egg markets like this?

Sherman Miller^ This is Sherman. And thank you for that question. And as you know we don't give specific guidance, but I'll touch on each of those, specialty something that we've been working on for a long time and we've had double-digit growth, and we believe that will continue. Prepared foods is exciting for us, and it's performing.

We've committed to already a 30% growth over the next 18 to 24 months, and we're excited about also additional growth there, whether it's organic or M&A in the future. And also the hybrid pricing, we talked about it last quarter that there's trade-offs on the higher side, but the real benefit happens in lower markets.

So the point that you hit on is valid. And the real key there is us supporting our customers' go-to-market strategy and being a trusted supplier for the long term, and we believe that each of these will continue to improve our mid-cycle performance. Max, do you want to add anything there?

Max Bowman^ Sherman, I think you covered it, but what you said in your remarks about we're a different company than where we were the last time the market was at these levels, and you highlight those things just the growth we've had, even stronger balance sheet, more diversification, the growth of prepared foods, the continued emergence of specialty. All of those things, I think, make us a stronger, more durable company going forward.

Heather Jones^ Okay. And just to follow up on that, and I know there are always tail risk and things that could happen. But given these changes, do you think Cal-Maine is in a position that it can weather down markets like this, without generating losses given these changes?

Sherman Miller^ Once again, Heather, we don't give guidance, but Max just hit on the real strengths that make us completely different than what we was at last time we saw these market conditions, our balance sheet certainly is positioned better than it's ever been.

And the growth that we've had, we've been very strategic to focus that growth in specialty eggs and also prepared foods which carry a lot of weight in these lower market conditions. And then on top of that, the hybrid pricing, we think, is going to be very beneficial to us.

So in a much better position than we've ever been, Heather. And those (Multiple Speakers) prepared foods, and Heather, as we said before prepared foods runs a little bit countercyclical. They're going to benefit from a lower egg market. So that's just another strength I think that we didn't have before.

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

Pooran Sharma^ Wanted to start off with the prepared foods segment. Understanding you're making some adjustments there. So lighter volumes, maybe a little bit higher cost until the end of the year is what I'm understanding.

You saw gross margins for that segment come down roughly 3% to around 19.6%. Is that a right kind of level to think about for the rest of this year? Or what kind of color can you give us in regards to gross margin for prepared foods?

Sherman Miller^ Thank you for that question. Prepared foods, we gave guidance right out of the gate with Echo Lake that we're looking at a 19% EBITDA margin. And we still think that holds true. There was some slippage in this quarter for the reasons you mentioned us preparing for a stronger future. And there will probably be a little additional slippage to that during the next quarter.

But the year in a whole, we're still feeling good about the 19% EBITDA margin. So once again, well worth the time of us pulling back and preparing for the future, this growth of 30% over the next 18 to 24 months is really exciting to us. And Max, what would you add to that?

Max Bowman^ I think you covered it.

Pooran Sharma^ Great, great. I guess my follow-up would be, and you guys have talked about the M&A pipeline in the past, maybe opening up when egg markets are depressed.

But just given your broader expansion into prepared foods, do you think that this would limit your opportunity or your M&A pipeline? Because I would think that for these businesses, a lower egg market would mean higher earnings potential and potentially higher valuation.

So I just wanted to get your take on the broader M&A pipeline opportunity given the depressed egg markets and given the change in your business.

Sherman Miller^ Pooran, the attractiveness to that prepared foods business is tied back to stability and away from kind of what you're talking about the Easter famine.

So we don't necessarily think that will be a huge influence to us. Growth is broader than it's ever been, all remaining egg centric to our core, but now growth in conventional specialty prepared foods, possible ingredients feeding prepared foods and even prepared foods brands are all possible avenues of growth for the future.

So we will continue to use a very disciplined model to evaluate acquisitions and move forward at the right pace. Max?

Max Bowman^ Again, you covered it well Sherman, I'll leave it there.

Operator^ Our next question comes from the line of Veronica Augustin with Goldman Sachs.

Leah Jordan^ This is actually Leah Jordan with Goldman. So the shift to specialty and prepared foods is really the key part of your story here going forward. And it looked great on the quarter today.

But how are you thinking about capacity growth for specialty eggs over time? And given the Clean Egg acquisition we saw this quarter, how do you think about M&A versus organic growth to continue that capacity expansion?

And ultimately, any color on how we should think about the cadence of the mix shift in your sales towards specialty over the longer term?

Sherman Miller^ As you said, our specialty eggs and prepared foods is exciting, made up 46% of our net sales for the quarter. And we've seen double-digit CAGR type growth in specialty eggs.

We look forward to continuing to drive to those same type growth metrics and longer term, we can definitely see specialty eggs making up greater than 50% of our total shell egg net sales.

So when you pair that with the 30% growth that we're targeting in prepared foods, we think it lends well to much more stable earnings here in the future.

Max Bowman^ Leah, you brought up the Clean Egg acquisition. That was a small but very timely important acquisition for us. I mean if you look at the description we gave, it's composed of 677,000 brown cage-free and free-range layers and (inaudible), all specialty.

We have market growth planned occurring now and getting those eggs at this time and for what we anticipate upcoming was very important and critical to the continued growth of that specialty business.

Leah Jordan^ That's very helpful. And just a follow-up on the prepared foods discussion just given the investments underway. Any more detail around the progress of the optimization and expansion efforts so far?

Any -- and as well as any more color on just the related higher costs that we should think about in the back half of this year relative to kind of what we saw this quarter? And just as those investments come online kind of over the next 12 to 18 months, how should we think about that kind of cadence of the growth trend there?

Sherman Miller^ You pointed out the important piece that is a 18- to 24-month project, and we've announced the CapEx piece of it at $36 million for that 30% growth in the interim of pulling back some lines so that we can get all of our automation and all of our different lines in place. There's some volume efficiency penalties we received from that.

But growth long term is certainly going to be good and all at the same time still believing we'll hit that 19% EBITDA margin that we initially talked about.

Max Bowman^ And we're confident that we can continue over the long term to grow that business is what we call out when we acquired Echo Lake at that 9% to 10% CAGR. So again, we talked about in the first quarter about sort of letting it run.

Let's see what it can do, and then we kind of assessed and now we're making the changes that we think position us the best for the long-term and for long-term growth and success in prepared foods.

Operator^ Our next question comes from the line of Ben Klieve with Benchmark StoneX.

Benjamin Klieve^ Congratulations on a good result here in a very dynamic period. First question is on the specialty volume. I'm wondering if you can hone in on specialty volumes within the second quarter.

They were basically flat, given that -- they're basically flat and you noted that the small acquisition you had in the quarter and plus a general upward trend in specialty volumes. So I'm wondering if you can kind of break down the puts and takes that led to specialty volumes being, again, kind of roughly flat in the quarter?

Sherman Miller^ Ben, specialty last year was a tremendous year. So we're making a very tough comparison. If you remember, conventional eggs became extremely tight that put a lot of demand on specialty eggs.

So to be flat is a huge win, we believe, and especially specialty eggs now accounting for 44% of total shell egg sales. I did mention the free-range and pasture-raised both had double-digit growth, both in dollars and dozens.

We don't formally break down that category. But as a whole, specialty eggs are solid in that the double-digit CAGR that we've been seeing, we think the mechanism is in place for us to continue to do that.

Max Bowman^ Yes. I mean the comparative quarter is a tough part there. And just to expand a little further on what Sherman said, when conventional eggs are selling for higher than specialty, of course, the consumer is going to move towards specialty because they perceive it as a bargain. And that was the case that we had last year. That is totally turned around in this quarter, we're reporting and today, but yet we held on to flat volumes.

And we still feel good and have said that we believe we can have double-digit specialty growth over time. So despite very difficult market comparison, we still have a lot of confidence in where our specialty business is and where it's going.

Sherman Miller^ One additional point, Max, so we do participate across every major specialty egg subcategory which means that we're serving all customers interested in specialty. So regardless of which type of specialty egg they're interested in, we take pride in producing that.

Benjamin Klieve^ Very good. That's very helpful across the board. One more for me and then I'll get back in queue. Is this dynamic that you've talked about regarding pricing of commodity eggs and kind of evolving that from the market-based -- purely market-based to -- more towards cost plus contract base, however you want to characterize it?

Can you talk about kind of the receptivity of your retail customer for this dynamic like today in the face of kind of normalized egg pricing versus even several months ago when prices were elevated?

I mean I would expect that the retailers are maybe less excited to engage in this conversation today than they were, but I'm wondering if you can elaborate on that dynamic in any way.

Sherman Miller^ Yes, be glad to. It really all centers on the particular customer's go-to-market strategy, whether they're a high-low customer or whether they're an everyday low price, they have different needs. And so that's the way these pricing structures are geared. And I think the model is performing exactly like there's supposed to be for the customer.

It gives them some high side protection which is very important. And then also during these type periods, there's some benefit on the low side for us which once again ties back to our mid-cycle earnings performance. So Max, what would you add to that?

Max Bowman^ I think you nailed it. I mean it's just that long-term relationship, I think your thoughts are generally right Ben, but someone points out, different customers have slightly different priorities. And the other thing that was mentioned in some of our prepared remarks is just the reliability of supply.

And what we're trying to do for the long term is demonstrate that even in times of tough production last year and even this year, Cal-Maine continues to get the egg to the customers that they want and demand, and we're going to work with them to build those long-term relationships to support their pricing priorities.

Operator^ Our next question comes from the line of Heather Jones with Heather Jones Research.

Heather Jones^ I'm just trying to get a sense of how much of a step down we should anticipate for the prepared foods business for the second half of '26. Revenues came down significantly from Q1 to Q2, but some of that I would assume is due to egg pricing.

But just how should we be thinking about the cadence of that business given its significance for your earnings for the second half?

Max Bowman^ Heather, I think we indicated that we would expect Q3 to have a continued pullback as we make these changes that we believe are good for the long term. So quarter-over-quarter, Q3 compared to Q2, I think you'll see slightly different results there.

But we're confident that we're positioning the business for the long term and Sherman called out that growth that we're looking for over the next 18 to 24 months. And so you won't see as much of that in the third quarter. I think it starts emerging in the fourth quarter and then builds from there over the next 12 months or so.

Heather Jones^ Okay. And then on the SG&A side, that came in somewhat higher than I was expecting for the quarter. And so just trying to think -- because last year, you had a contingency payment of like -- I think it was like $7 million.

So the year-on-year increase was much more significant in Q2 than Q1 on an adjusted basis. So how should we think about SG&A expense for the rest of the year?

Max Bowman^ Well you're calling out that contingency payment that was associated with [Fassio] we called that out. It was less this quarter than it was the same quarter last year, and that was just factor of egg prices being so high last year and down a bit now.

I think that's sort of -- that continues through October of this fiscal year -- or excuse me, this calendar year, so we'll be following that and completing that at the end of -- sort of the end of '26. What was the other part of your question? I lost my train of thought.

Heather Jones^ Just trying to figure out what kind of number should we be using like a run rate.

Max Bowman^ Yes. The other thing on the -- I think we called out increased professional fees. That seems to be the order of the day these days. So I think those numbers are going to run a little high. And then I think the other thing that drives SG&A is particularly specialty volume sometimes.

And we still are confident specialty volumes are going to grow. And when you do that, you're going to have some promotional expenses and some fees associated with that, that will make SG&A be up a bit.

I suspect as our retailers get more comfortable with supply that we will see more promotional activity in the back half of the year which will likely drive some increased cost on the SG&A line there.

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

Benjamin Mayhew^ Congratulations on the quarter. So it looks like you had a bit of a COGS benefit during the quarter as a result of lower priced outside egg purchases. So my questions are, has your volume outside egg purchases been on the decline sequentially as your company's supply recovers?

Can you remind us how you plan to utilize outside egg purchases moving forward as supplies reach more normalized levels and egg prices are at $1? So what I'm really trying to get is -- like should we expect ongoing benefits in future quarters from outside purchases? Or is this more of like a one-off item?

Sherman Miller^ Ben, last year was certainly a historic year, and our customers had some periods of extreme orders if the stores we serviced had eggs and the store across the road did not, then our orders were growing exponentially. And we cover those orders through our production plus outside sales, and we have been reporting our percent produced of sales for quite a while.

And we've moved back to that right at that 90% mark, and we do see that growing a few percentage points going forward just because we plan adding supply to be able to ensure that our customers have the eggs that they need. So whenever we do that, that does force lower purchases on the outside, and that's some of the effect that you're seeing.

But we plan our business well far ahead and short-term changes are difficult, whether up or down, but we do see that percent produced of sales to get back to that more of that 93%, 94%, 95% range here in the near term.

Max Bowman^ Yes. And Ben, just historically, we've called out before those outside egg purchasers to a large degree, sort of gap filler or how we address changes in the market. And as Sherman said, if we were to see more disruption in the market for the same reasons as last year, that would likely drive additional purchases because we will do that to benefit our customers. And as we said before to prove up markets, if you will, and try to develop longer-term customers for the future.

So it's a little bit opportunistic there, and it's a little bit based on what market conditions are. But no doubt, egg prices has been down. We called out the percentages related to the decrease in the egg price as well as the volume. And so both of those factors affect it.

So at this point, with prices where they are, I think it will certainly be down. And as Sherman says, as our production comes more fully online, that should help mitigate it as well. But keep your eye for those other dynamics; it could drive more purchases as we go forward.

Benjamin Mayhew^ And that's a good segue to my last question here, other dynamics. So do you have any thoughts on why we have seen a rapid -- such a rapid decrease in bird flu cases across the industry? Is there any one thing that industry players are doing that is protecting against the spread? Or do you chalk it up more to maybe luck?

Sherman Miller^ There's lots of ways of measuring that. If you're looking at just pure layer numbers, you would be correct.

But if you look at what we think is a greater indicator and that's just presence of the virus, it's an absolute terrible situation. It's all over the U.S. And in bigger than that, it's all over the globe. Back in 2015, when we saw the virus disappear.

We also saw it disappear on a global scale slightly before it did here. And all the indicators that it's a huge global presence since October 1, 26 countries are reporting High Path AI losses in poultry. And the number outbreaks is 496.

So the presence of the virus is extremely strong. 2025 was the worst year ever at 45.6 million layers in pullets that exceeded the next worst year of 2022 of $43.1 million. So Ben, it's very difficult to estimate the magnitude.

But all the indicators of the problem are still there. And it is certainly the incidence rates in November of this year is as high as 2022, just not the high bird numbers because smaller flocks were affected.

And usually, whenever big losses occur, there's some type of precursor, whether it's a major wild bird die-off or where it's a turkey population in an area or a commercial duck population, something increases that overall virus load in an area before we see these large bird explosions. So unfortunately, Ben, I would say that we're still on pins and needles watching this virus.

Max Bowman^ I'd just add, I was reading last night a lead market analytics report that came out. And amongst the things he was doing in that report was sort of critiquing his own primarily forecasting ability over the last several years and how it was driven. But there are many points, and it's worth of reading if you have access to that.

But one of the things that he said, and I'll tie in to what Sherman said, the incidences are still there. So the potential is still there. And since '22, if you look at sort of the projections for flock numbers and those kind of things.

For the most part, you've seen that they've been underestimated -- excuse me, they've been overestimated because of the influence of -- and the likelihood that we see for potential AI.

So we don't know what the future brings, and always the past isn't necessarily the best predictor for the future, but it does inform it. And I think it's a worth consideration.

Operator^ (Operator Instructions) I'm showing no further questions at this time. I would like to hand the call -- I'm sorry, one moment. All right. I am showing no further questions at this time. I would like to hand the conference back over to Sherman for further remarks.

Sherman Miller^ All right. Well thank you, since there's no additional questions. Operator, if you would, we're ready to conclude the call.

Operator^ This concludes our question and answer session. A replay for today's webcast will be available following the call on the Investor Relations page of the Cal-Maine Foods website.

In addition, a transcript of today's call will be posted on the Cal-Maine Foods website in the Investor Relations section. Thank you for joining us today. You may now disconnect. Everyone have a great day.