UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 26, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________

Commission File Number: 001-40837

Sovos Brands, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**81-5119352**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

168 Centennial Parkway, Suite 200
Louisville, CO 80027
(Address of principal executive offices) (zip code)
(720) 316-1225
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, $0.001 par value per share	SOVO	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Date File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer☐
Non-accelerated filer	☒	Smaller reporting company☐
		Emerging growth company☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of April 29, 2022, there were 100,895,085 shares of common stock, $0.001 par value per share outstanding.

SOVOS BRANDS, INC.
FORM 10-Q
FOR THE QUARTER ENDED MARCH 26, 2022

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PART I. Financial Information

Item 1. Financial Statements (Unaudited)

Sovos Brands, Inc.
Condensed Consolidated Balance Sheets
(Unaudited, dollars in thousands, except par value and share data)

	March 26, 2022	December 25, 2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 70,149	$ 66,154
Accounts receivable, net	82,802	70,729
Inventories	49,856	51,615
Prepaid expenses and other current assets	7,339	6,685
Total current assets	210,146	195,183
Property and equipment, net	67,534	62,671
Operating lease right-of-use assets	15,068	15,672
Goodwill	437,451	437,451
Intangible assets, net	457,845	464,655
Other long-term assets	2,243	2,299
TOTAL ASSETS	$ 1,190,287	$ 1,177,931
LIABILITIES AND STOCKHOLDERS’ EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 42,577	$ 37,254
Accrued expenses	50,831	51,757
Current portion of long-term debt	93	98
Current portion of long-term lease liabilities	3,285	3,216
Total current liabilities	96,786	92,325
Long-term debt, net of debt issuance costs	481,652	481,420
Deferred income taxes	77,282	76,976
Long-term operating lease liabilities	16,505	17,302
Other long-term liabilities	431	421
TOTAL LIABILITIES	672,656	668,444
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS’ EQUITY:		
Preferred stock, $0.001 par value per share, 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.001 par value per share, 500,000,000 shares authorized, 100,892,547 and 100,892,547 shares issued and outstanding as of March 26, 2022 and December 25, 2021, respectively	101	101
Additional paid-in-capital	563,313	559,226
Accumulated deficit	(45,783)	(49,840)
TOTAL STOCKHOLDERS’ EQUITY	517,631	509,487
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 1,190,287	$ 1,177,931

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Sovos Brands, Inc.
Condensed Consolidated Statements of Operations
(Unaudited, dollars in thousands, except share and per share data)

	13 Weeks Ended	
	March 26, 2022	March 27, 2021
Net sales	$ 209,933	$ 189,371
Cost of sales	156,025	127,629
Gross profit	53,908	61,742
Operating expenses:		
Selling, general and administrative	33,915	33,433
Depreciation and amortization	7,203	7,190
Total operating expenses	41,118	40,623
Operating income	12,790	21,119
Interest expense	6,022	5,367
Income before income taxes	6,768	15,752
Income tax expense	(2,711)	(4,040)
Net income	$ 4,057	$ 11,712
Earnings per share:		
Basic	$ 0.04	$ 0.16
Diluted	$ 0.04	$ 0.15
Weighted average shares outstanding:		
Basic	100,892,547	74,058,447
Diluted	101,262,103	76,867,992

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Sovos Brands, Inc.
Condensed Consolidated Statements of Changes in Stockholders' Equity
(Unaudited, dollars in thousands, except share data)

	Common Stock		Stockholders' Notes Receivable	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares	Amount				
Balance at December 25, 2021	**100,892,547**	**$ 101**	**$ —**	**$ 559,226**	**$ (49,840)**	**$ 509,487**
Equity-based compensation expense	—	—	—	4,087	—	4,087
Net income	—	—	—	—	4,057	4,057
Balance at March 26, 2022	**100,892,547**	**$ 101**	**$ —**	**$ 563,313**	**$ (45,783)**	**$ 517,631**

	Common Stock		Stockholders' Notes Receivable	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares	Amount				
Balance at December 26, 2020	**74,058,447**	**$ 74**	**$ (6,000)**	**$ 654,386**	**$ (51,759)**	**$ 596,701**
Proceeds from stockholders' notes receivable	—	—	6,000	—	—	6,000
Equity-based compensation expense	—	—	—	561	—	561
Net income	—	—	—	—	11,712	11,712
Balance at March 27, 2021	**74,058,447**	**$ 74**	**$ —**	**$ 654,947**	**$ (40,047)**	**$ 614,974**

See accompanying notes to the unaudited condensed consolidated financial statements.

Sovos Brands, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited, dollars in thousands)

	13 Weeks Ended	
	March 26, 2022	March 27, 2021
Operating activities		
Net income	$ 4,057	$ 11,712
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,555	9,379
Equity-based compensation expense	4,087	561
Deferred income taxes	306	2,764
Amortization of debt issuance costs	316	575
Non-cash operating lease expense	603	536
Provision for excess and obsolete inventory	484	70
Loss on disposal of property and equipment	—	54
Other	(6)	122
Changes in operating assets and liabilities:		
Accounts receivable, net	(12,065)	(23,292)
Inventories	1,275	(9,394)
Prepaid expenses and other current assets	(1,043)	(251)
Other long-term assets	(10)	396
Accounts payable	4,896	7,193
Accrued expenses	(538)	2,534
Other long-term liabilities	10	4
Operating lease liabilities	(728)	(632)
Net cash provided by operating activities	11,199	2,331
Investing activities		
Purchases of property and equipment	(7,180)	(1,367)
Net cash used in investing activities	(7,180)	(1,367)
Financing activities		
Repayments of capital lease obligations	(24)	(19)
Proceeds from stockholder's note receivable	—	6,000
Net cash provided by (used in) financing activities	(24)	5,981
Cash and cash equivalents		
Net increase in cash and cash equivalents	3,995	6,945
Cash and cash equivalents at beginning of period	66,154	37,026
Cash and cash equivalents at end of period	$ 70,149	$ 43,971

	13 Weeks Ended	
	March 26, 2022	March 27, 2021
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 5,937	$ 4,860
Cash paid for taxes	37	6
Proceeds from income tax refunds	(10)	—
Non-cash investing and financing transactions		
Lease liabilities arising from operating lease right-of-use assets recognized at ASU No. 2016-02 transition	$ —	$ 21,711
Acquisition of property and equipment not yet paid	467	134

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Company Overview

Sovos Brands, Inc. and its subsidiaries (the "Company," "we," "our") is a consumer-packaged food company that creates value for its stockholders through acquisition and executive management of brands in the food industry. On September 22, 2021, Sovos Brands, Inc. priced its initial public offering (the "IPO") of 23,334,000 shares of its common stock, $0.001 par value per share, which excluded the underwriters' option to purchase up to an additional 3,500,100 shares of common stock, at an offering price of $12.00 per share. In conjunction with the IPO, the Company became actively traded on the Nasdaq Global Select Market ("NASDAQ") listed under the trade symbol of "SOVO." Upon the closing of the IPO on September 27, 2021, the Company issued 23,334,000 shares of its common stock and received approximately $263.2 million, net of underwriting discounts and commissions. Subsequent to the IPO, the underwriters exercised their options to purchase an additional 3,500,100 shares of common stock. The Company closed its sale of such additional shares on October 5, 2021, resulting in net proceeds of approximately $39.5 million, net of underwriting discounts and commissions. See Note 12. *Stockholders' Equity* for more information.

Prior to the IPO, Sovos Brands Limited Partnership (the "Ultimate Parent" or the "Limited Partnership") owned 100% of Sovos Brands, Inc., which owns 100% of Sovos Brands Holdings, Inc., which owns 100% of Sovos Brands Intermediate, Inc. ("Sovos Intermediate"). Sovos Intermediate has four wholly-owned operating subsidiaries: Rao's Specialty Foods, Inc. ("Rao's"); Bottom Line Food Processors, Inc. doing business as Michael Angelo's Gourmet Foods, Inc. ("Michael Angelo's"); Noosa Yoghurt, LLC ("Noosa"); and Birch Benders, LLC ("Birch Benders"). Through its wholly-owned operating subsidiaries, the Company produces and distributes food products in various locations throughout the United States. The Company was founded on January 17, 2017 and has its executive headquarters in Louisville, Colorado.

The unaudited condensed consolidated financial statements include the accounts of Sovos Brands, Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated. Unless the context otherwise requires, "we," "us," "our," "Sovos Brands" and the "Company" refer to Sovos Brands, Inc. and its subsidiaries.

The Company maintains its accounting records on a 52/53-week fiscal year, ending on the last Saturday in December of each year. Our fiscal year ending December 31, 2022 ("fiscal 2022") will have 53 weeks.

Description of Business

Sovos Brands, Inc. is a consumer-packaged food company that is focused on acquiring and building disruptive growth brands that bring today's consumers great tasting food that fits the way they live. The Company's principal products include a variety of pasta sauces, dry pasta, soups, frozen entrees, yogurts, gelato, pancake and waffle mixes, other baking mixes, and frozen waffles, which are primarily sold in the United States. The Company sells products marketed under the brand names *Rao's*, *Michael Angelo's*, *noosa*, and *Birch Benders* which are built with authenticity at their core, providing consumers food experiences that are genuine, delicious, and unforgettable, making each of our brands "one-of-a-kind." Our products are premium and made with simple, high-quality ingredients. We strive to empower our teams to lead with courage and tenacity, with the goal of providing them with the confidence and agility to connect with our consumers and retail partners to drive unparalleled growth. We believe our focus on "one-of-a-kind" brands, products that people love, and passion for our people makes Sovos Brands a "one-of-a-kind" company and enables us to deliver on our objective of creating a growing and sustainable food enterprise yielding financial growth ahead of industry peers.

Unaudited Interim Condensed Consolidated Financial Statements

The interim condensed consolidated financial statements and related notes of the Company and its subsidiaries are unaudited. The unaudited interim condensed consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("GAAP") and the rules and regulations of the Securities and Exchange Commission (the "SEC"). The unaudited interim condensed consolidated financial statements reflect all adjustments and disclosures which are, in our opinion, necessary for a fair presentation of the results of operations, financial position and cash flows for the indicated periods. All such adjustments were of a normal and recurring nature.

The year-end balance sheet data was derived from the audited financial statements and, in accordance with the instructions to Form 10-Q, certain information and footnote disclosures required by GAAP have been condensed or omitted. The results reported in these unaudited interim condensed consolidated financial statements are not necessarily indicative of the results that may be reported for the entire fiscal year and should be read in conjunction with our consolidated financial statements for the fiscal year ended December 25, 2021, included in our Annual Report on Form 10-K, as amended, filed with the SEC on March 15, 2022 ("Form 10-K").

2. Summary of Significant Accounting Policies

There have been no material changes in the Company's significant accounting policies as compared to the significant accounting policies described in Note 2. *Summary of Significant Accounting Policies*, to the consolidated financial statements included in the Company's Form 10-K.

New Accounting Pronouncements and Policies

Recently Issued Accounting Pronouncements Not Yet Adopted

In March 2020, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* The amendments of ASU No. 2020-04 apply only to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The Company will continue to monitor the effects of rate reform, if any, on its contracts and the effects of adoption of these ASUs through December 31, 2022. The Company does not anticipate the amendments in these ASUs to be material to its consolidated financial statements upon adoption.

3. Revenue Recognition

Revenue disaggregated by brand is as follows:

	13 Weeks Ended	
(In thousands)	March 26, 2022	March 27, 2021
Rao's	$ 137,412	$ 115,070
Noosa	41,851	38,870
Michael Angelo's	20,242	19,003
Birch Benders	10,428	16,428
Total net sales	$ 209,933	$ 189,371

4. Inventories

Inventories consisted of the following:

(In thousands)	March 26, 2022	December 25, 2021
Finished goods	$ 36,233	$ 38,715
Raw materials and packaging supplies	13,623	12,900
Total inventories	$ 49,856	$ 51,615

5. Goodwill

There was no change in the carrying value of Goodwill during the 13 weeks ended March 26, 2022.

There were no impairment charges related to goodwill during the 13 weeks ended March 26, 2022 or March 27, 2021.

6. Intangible Assets, Net

Intangible asset, net, consisted of the following:

	March 26, 2022		
(In thousands)	Gross carrying amount	Accumulated amortization	Net carrying amount
Intangible assets - definite lives			
Customer relationships	$ 213,000	$ 75,797	$ 137,203
Tradename	192,347	24,705	167,642
	405,347	100,502	304,845
Intangible assets - indefinite lives			
Tradename	153,000	—	153,000
Total intangible assets	$ 558,347	$ 100,502	$ 457,845

	December 25, 2021		
(In thousands)	Gross carrying amount	Accumulated amortization	Net carrying amount
Intangible assets - definite lives			
Customer relationships	$ 213,000	$ 71,330	$ 141,670
Tradename	192,347	22,362	169,985
	405,347	93,692	311,655
Intangible assets - indefinite lives			
Tradename	153,000	—	153,000
Total intangible assets	$ 558,347	$ 93,692	$ 464,655

Amortization expense related to intangible assets during the 13 weeks ended March 26, 2022 and March 27, 2021 was $6.8 million and $6.8 million, respectively. There were no impairment charges related to intangible assets during the 13 weeks ended March 26, 2022 and March 27, 2021.

Estimated total intangible amortization expense during the next five fiscal years and thereafter is as follows:

(In thousands)	Amortization
Remainder of 2022	$ 20,430
2023	27,240
2024	27,240
2025	27,240
2026	27,240
2027 and thereafter	175,455
Total	$ 304,845

7. Accrued Expenses

Accrued expenses consisted of the following:

(In thousands)	March 26, 2022	December 25, 2021
Accrued trade	$ 23,772	$ 23,122
Accrued general expense	14,798	15,327
Accrued compensation and benefits	10,520	10,478
Accrued marketing	1,741	2,830
Total accrued expenses	$ 50,831	$ 51,757

8. Long-Term Debt

Long-term debt consisted of the following:

	March 26, 2022		
(In thousands)	Principal	Unamortized debt issuance costs	Total debt, net
Initial First Lien Term Loan Facility	$ 480,800	$ (6,126)	$ 474,674
Finance lease liabilities	7,071	—	7,071
Total debt	$ 487,871	$ (6,126)	481,745
Less: current portion of finance lease liabilities			93
Total long-term debt			$ 481,652

	December 25, 2021		
(In thousands)	Principal	Unamortized debt issuance costs	Total debt, net
Initial First Lien Term Loan Facility	$ 480,800	$ (6,377)	$ 474,423
Finance lease liabilities	7,095	—	7,095
Total debt	$ 487,895	$ (6,377)	481,518
Less: current portion of finance lease liabilities			98
Total long-term debt			$ 481,420

Senior Debt

In November 2018, in conjunction with the acquisition of Noosa, Sovos Intermediate (“Borrower”) entered into a Credit Facility Agreement with Credit Suisse, Citizens Bank N.A. (“Citizens”), Deutsche Bank, and Aresbank, S.A. (“Credit Agreement”) with a term loan of $280 million (“2018 Term Loan”) and a revolving line of credit of $45 million (“Revolving Line of Credit”). In accordance with the Credit Agreement, the Company repaid the outstanding 2017 term loan of $158.4 million with Citizens as well as the amount outstanding under the revolving line of credit of $7.0 million.

In October 2020, the Company entered into an amendment to its Credit Agreement (“Amended Credit Agreement”). The Amended Credit Agreement provided, among other things, for an additional $100.0 million term loan (the “Incremental Term Loan”) which was part of the same class and had the same terms as the 2018 Term Loan. The Company analyzed the amendment and determined the Incremental Term Loan was not considered a debt modification because the existing 2018 Term Loan was not paid off. The Company paid debt issuance costs related to the Incremental Term Loan of $3.2 million, which were all capitalized.

In June 2021, Sovos Intermediate entered into a First Lien Credit Agreement ("First Lien Credit Agreement") among Sovos Intermediate, Sovos Brands Holdings, Inc., Credit Suisse AG, Cayman Islands Branch ("Credit Suisse"), as administrative agent and collateral agent, and the lenders and issuing banks from time to time party thereto ("First Lien Lenders"), consisting of an initial term loan facility of $580.0 million ("Initial First Lien Term Loan Facility"), and a revolving credit facility of $125.0 million ("Revolving Facility"), including a letter of credit facility with a $45.0 million sublimit. Also in June 2021, Sovos Intermediate entered into a Second Lien Credit Agreement ("Second Lien Credit Agreement") among Sovos Intermediate, Sovos Brands Holdings, Inc., Owl Rock Capital Corporation, as administrative agent and collateral agent, and the lenders from time to time party thereto ("Second Lien Lenders"), consisting of an initial term loan facility of $200.0 million ("Initial Second Lien Facility"). In accordance with the First Lien Credit Agreement and Second Lien Credit Agreement, the Company repaid the outstanding 2018 Term Loan and Incremental Term Loan of $373.2 million to Credit Suisse and made a restricted payment for the purpose of paying a dividend in the amount of $400.0 million to the direct or indirect equity holders of the Ultimate Parent. See Note 12. *Stockholders' Equity* for further information on the dividend payment.

As the June 2021 debt transaction on the Initial First Lien Term Loan Facility and Initial Second Lien Facility was accounted for as an extinguishment of the old debt, the Company wrote off $9.4 million of the existing 2018 Term Loan and Incremental Term Loan debt issuance costs to expense. The Initial First Lien Term Loan Facility and Initial Second Lien Facility were issued with discounts of $1.5 million and $4.0 million respectively, and the Company paid debt issuance costs of $6.8 million and $0.5 million respectively. The discounts and debt issuance costs paid on the Initial First Lien Term Loan Facility and Initial Second Lien Facility were capitalized. The debt transaction on the Revolving Facility was accounted for as a debt modification. The Company continued to amortize $0.2 million of the existing Revolving Line of Credit debt issuance costs over the new life of the debt, wrote off $0.3 million of the existing Revolving Line of Credit debt issuance costs to expense, and paid $1.1 million in debt issuance costs for the new Revolving Facility, which was capitalized.

In September 2021, using net proceeds of the IPO, the Company paid the full outstanding principal balance on the Initial Second Lien Facility of $200.0 million plus accrued interest of approximately $2.9 million. Upon the full prepayment of the Initial Second Lien Facility, the Company recognized a loss on the loan extinguishment resulting in a write-off of $4.3 million of the related unamortized issuance costs and discounts. Additionally, in September 2021 and October 2021, the Company prepaid $59.7 million and $39.5 million, respectively, of the outstanding principal balance under the Initial First Lien Term Loan Facility, plus total accrued interest of approximately $0.9 million. Upon the partial prepayment of the Initial First Lien Term Loan Facility, the Company recognized a $1.4 million proportional loss on the partial extinguishment of the related unamortized issuance costs and discounts.

The remaining principal balance on the Initial First Lien Term Loan Facility, after the $59.7 million and $39.5 million prepayments, is $480.8 million. The Company has directed Credit Suisse to apply the prepayments against future scheduled principal installments, which eliminates all future principal payments for the remaining term of the loan.

The amortization of debt issuance costs and discount of $0.3 million and $0.6 million for the 13 weeks ended March 26, 2022 and March 27, 2021, respectively, is included within interest expense in the Condensed Consolidated Statements of Operations.

The interest rate for the Initial First Lien Term Loan Facility and Revolving Facility is London Inter-Bank Offered Rate ("LIBO Rate") plus an applicable rate contingent on the Company's calculated first lien leverage ratio, ranging from 400 to 425 basis points, and is subject to a 50 basis points reduction, at each level, after the consummation of an initial public offering (as used in this paragraph, an "IPO"). In no event shall the LIBO Rate be less than 0.75% per annum for the Initial First Lien Term Loan Facility or less than 0.00% per annum for the Revolving Line of Credit. The Initial First Lien Term Loan Facility matures on June 8, 2028 and the Revolving Facility matures on June 8, 2026. The Initial First Lien Term Loan Facility is collateralized by substantially all of the assets of the Company.

The interest rate for the Initial Second Lien Facility was LIBO Rate plus 8.00% per annum and was subject to a 25 basis points reduction after the consummation of an IPO. In no event could the LIBO Rate be less than 0.75% per annum. The Initial Second Lien Facility was originally scheduled to mature on June 8, 2029 and was collateralized by substantially all of the assets of the Company. As described above, in September 2021, the Initial Second Lien Facility was paid in full.

As of September 27, 2021, the closing date of the IPO, the interest rate on the Initial First Lien Term Loan Facility and Revolving Facility decreased 50 basis points. As of March 26, 2022 and December 25, 2021, the effective interest rate for the Initial First Lien Term Loan Facility and Revolving Facility was 4.25% and 4.50%, respectively.

As of March 26, 2022 and December 25, 2021, the Company had available credit of $125 million under the Revolving Facility. There was zero outstanding on the Revolving Facility as of March 26, 2022 and December 25, 2021.

Loan Covenants

In connection with the First Lien Credit Agreement, the Company has various financial, affirmative, and negative covenants that it must adhere to as specified within the loan agreements. The First Lien Credit Agreement contains a springing financial covenant, which requires the Borrower to maintain a first lien net leverage ratio of consolidated first lien net debt to consolidated EBITDA (with certain adjustments as set forth in the First Lien Credit Agreement) no greater than 6.95:1.00. Such financial covenant is tested only if outstanding revolving loans (excluding any undrawn letters of credit) minus unrestricted cash exceed 35% of the aggregate revolving credit commitments. The financial covenant is subject to customary “equity cure” rights. In addition, under the First Lien Credit Agreement, an annual excess cashflow calculation is required, to determine if any excess is required to be paid on the Initial First Lien Term Loan Facility. As of March 26, 2022, the Company had no outstanding revolving loans, so did not meet the requirement to test the financial covenant under the First Lien Credit Agreement.

See Note 9. *Leases* and Note 15. *Related Party Transactions* for additional discussion of the finance lease liabilities.

9. Leases

The Company leases real estate in the form of distribution centers, manufacturing facilities, equipment, and office space. Generally, the term for real estate leases ranges from 2 to 10 years at inception of the contract. Generally, the term for equipment leases is 5 years at inception of the contract. Most manufacturing facilities and office space leases include one or more options to renew, with renewal terms that generally can extend the lease term from 2 to 30 years. The exercise of lease renewal options is at the Company’s discretion.

Operating and finance lease costs are included within Cost of sales and Selling, general, and administrative expenses in the Condensed Consolidated Statements of Operations. Sublease income was not material for the periods presented.

The components of lease expense were as follows:

(In thousands)	Statement of Operations Caption	13 Weeks Ended March 26, 2022	13 Weeks Ended March 27, 2021
Operating lease cost:			
Lease cost	*Cost of sales and Selling, general, and administrative*	$ 840	$ 777
Variable lease cost [1]	*Cost of sales and Selling, general, and administrative*	363	339
Total operating lease cost		1,203	1,116
Short term lease cost	*Cost of sales and Selling, general, and administrative*	46	80
Finance lease cost:			
Amortization of right-of-use assets	*Cost of sales and Selling, general, and administrative*	65	65
Interest on lease liabilities	*Interest expense*	133	133
Total finance lease cost		198	198
Total lease cost		$ 1,447	$ 1,394

(1) Variable lease cost primarily consists of common area maintenance, utilities, taxes, and insurance.

The gross amount of assets and liabilities related to both operating and finance leases were as follows:

(In thousands)	Balance Sheet Caption	March 26, 2022	December 25, 2021
Assets			
Operating lease right-of-use assets	*Operating lease right-of-use assets*	$ 15,068	$ 15,672
Finance lease right-of-use assets	*Property and equipment, net*	6,234	6,299
Total lease assets		$ 21,302	$ 21,971
Liabilities			
Current:			
Operating lease liabilities	*Operating lease liabilities*	$ 3,285	$ 3,216
Finance lease liabilities	*Current portion of long-term debt*	93	98
Long-term:			
Operating lease liabilities	*Long-term operating lease liabilities*	16,505	17,302
Finance lease liabilities	*Long-term debt, net of debt issuance costs*	6,978	6,997
Total lease liabilities		$ 26,861	$ 27,613

The weighted-average remaining lease term and weighted-average discount rate for operating and finance leases at March 26, 2022 were as follows:

	Operating Leases	Finance Leases
Weighted-average remaining lease term (in years)	6.9	34.6
Weighted-average discount rate	4.9 %	7.8 %

Future maturities of lease liabilities as of March 26, 2022 were as follows:

(In thousands)	Operating Leases	Finance Leases
Fiscal year ending:		
Remainder of 2022	$ 3,144	$ 450
2023	4,040	609
2024	3,472	557
2025	2,961	549
2026	2,995	520
Thereafter	6,920	18,970
Total lease payments	23,532	21,655
Less: Interest	(3,742)	(14,584)
Present value of lease liabilities	$ 19,790	$ 7,071

As of March 26, 2022, the Company did not have any significant additional operating or finance leases that have not yet commenced.

Supplemental cash flow and other information related to leases were as follows:

	13 Weeks Ended	
(In thousands)	March 26, 2022	March 27, 2021
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 1,011	$ 942
Operating cash flows from finance leases	133	133
Financing cash flows from finance leases	24	$ 17

10. Commitments and Contingencies

Litigation

From time to time, we are subject to various legal actions arising in the ordinary course of our business. We cannot predict with reasonable assurance the outcome of these legal actions brought against us as they are subject to uncertainties. Accordingly, any settlement or resolution in these legal actions may occur and affect our net income (loss) in such period as the settlement or resolution. We do not believe the outcome of any existing legal actions would have a material adverse effect on our consolidated financial statements taken as a whole.

Purchase Commitments

As of March 26, 2022, the Company had purchase commitments to third-party suppliers, primarily for materials and supplies used in the manufacture of the Company's products, for an aggregate of $13.7 million.

See Note 15. *Related Party Transactions* for information about our commitments to related parties.

11. Fair Value of Financial Instruments

ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), defines fair value as the price that would be received for an asset, or paid to transfer a liability, in an orderly transaction between market participants on the measurement date, and establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: inputs for the asset or liability that are based on unobservable inputs in which there is little or no market data.

Cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued expenses are reflected in the Condensed Consolidated Balance Sheets at carrying value, which approximates fair value due to the short-term nature of these instruments.

The Company's borrowing instruments are recorded at their carrying values in the Condensed Consolidated Balance Sheets, which may differ from their respective fair values. The carrying values and estimated fair values of the Company's Initial First Lien Term Loan Facility and Revolving Facility approximate their carrying values as of March 26, 2022 and December 25, 2021, based on interest rates currently available to the Company for similar borrowings.

There were no transfers of financial instruments between the three levels of fair value hierarchy during the 13 weeks ended March 26, 2022 and the fiscal year ended December 25, 2021.

12. Stockholders' Equity

Dividend distribution

On June 8, 2021, the Company paid a one-time cash dividend to the Ultimate Parent. The total amount of the dividend was $400 million and was recorded against APIC.

Stock split

On September 8, 2021, the Company filed a certificate of amendment to its Certificate of Incorporation ("Certificate of Amendment") with the Secretary of State of the State of Delaware. Prior to the effective date of the Certificate of Amendment, the Company was authorized to issue 750,000 shares of common stock at $0.01 par value. As a result of the filing of the Certificate of Amendment, the Company became authorized to issue 500,000,000 shares of common stock at $0.001 par value. Pursuant to the Certificate of Amendment, on September 8, 2021 the Company effected a stock split of its common stock, at a rate of 120.8-for-1 (the "Stock Split"), accompanied by a corresponding increase in the Company's issued and outstanding shares of common stock. No fractional shares of common stock were issued upon the Stock Split. Any holder of common stock with aggregated shares totaling to fractional shares were rounded up to the nearest whole share. The accompanying consolidated financial statements and related disclosure for periods prior to the Stock Split have been retroactively restated to reflect the filing of the Certificate of Amendment, including the Stock Split.

As a result of the Stock Split, the Company had a total of 74,058,447 shares issued and outstanding as of September 8, 2021. In connection with the IPO, on September 22, 2021, the Ultimate Parent distributed its shares of Sovos Brands, Inc. common stock to its limited partners, including holders of IUs, in accordance with the applicable terms of its partnership agreement.

Preferred Stock

On September 23, 2021, the Company filed an amended and restated certificate of incorporation ("Amended and Restated Charter") with the Secretary of State of the State of Delaware, which was effective on September 23, 2021. As a result of the filing of the Amended and Restated Charter, the Company was authorized to issue 510,000,000 shares, divided into two classes as follows: (i) 500,000,000 shares are designated shares of common stock, par value $0.001 per share, and (ii) 10,000,000 shares are designated shares of preferred stock, par value $0.001 per share.

Organizational Transactions and IPO

On September 27, 2021, the Company closed its IPO of 23,334,000 shares of common stock, $0.001 par value per share, at an offering price of $12.00 per share, and received net proceeds from the IPO of approximately $263.2 million, net of $16.8 million in underwriting discounts and commissions.

Subsequent to the IPO, the underwriters exercised their option to purchase an additional 3,500,100 shares of common stock. The Company closed its sale of such additional shares on October 5, 2021, resulting in net proceeds of approximately $39.5 million, net of $2.5 million in underwriting discounts and commissions.

As a result of the IPO and the exercise of the underwriters' option to purchase additional shares, the new investors in the Company owned 26,834,100 shares of the common stock, or approximately 26.6% of the total 100,892,547 shares of common stock outstanding after the IPO.

13. Equity-Based Compensation

Pre-IPO Equity

2017 Equity Incentive Plan

In 2017, the Ultimate Parent established the Sovos Brands Limited Partnership 2017 Equity Incentive Plan ("2017 Plan"), in which certain employees and nonemployees of the Company received equity-based compensation in the form of Incentive Units ("IUs") of the Ultimate Parent, as consideration for services to the Company. The IUs, were deemed to be equity instruments subject to expense recognition under FASB ASC 718, *Compensation — Stock Compensation.* The estimate of fair value of the IUs granted was determined as of the grant date.

The fair value of the IUs granted in 2019 and 2020 was estimated using a two-step process. First, the enterprise value of Sovos Brands Holdings, Inc. was established using two generally accepted valuation methodologies: discounted cash flow analysis and guideline comparable public company analysis. Second, the enterprise value was allocated among the securities that comprise the capital structure of Sovos Brands Holdings, Inc. using the Black-Scholes option-pricing model. The use of the Black-Scholes option-pricing model requires the Company to make estimates and assumptions, such as expected volatility, expected term and expected risk-free interest rate.

The fair value of the IUs granted in 2021 was estimated using the Probability Weighted Expected Return Method ("PWERM"), which is a forward-looking approach that was considered to be appropriate when expected future liquidity events, such as an IPO, are reasonably certain. The PWERM analysis considered three potential liquidation time horizons, ranging from current value to three years and assigned a 33.3% probability to each scenario. The valuation of the total company enterprise and equity values was calculated for each of the three scenarios, and then applied a weighted average calculation.

Distribution of Sovos Common Stock with respect to IUs

In connection with the IPO, the Ultimate Parent distributed its shares of Sovos Brands, Inc. common stock to its limited partners, including holders of IUs, in accordance with the applicable terms of its partnership agreement.

Holders of IUs received shares of common stock and restricted common stock of Sovos Brands, Inc. in respect of their IUs. The common stock was distributed with respect to vested IUs and the restricted common stock was distributed with respect to nonvested IUs, with the vesting of such restricted common stock tracking the same vesting terms as the related nonvested IUs at the time of distribution.

The distribution of Sovos common stock with respect to IUs was calculated based on a multi-step valuation which included a comparison of the fair value of the Company based on the pricing at the Company's IPO to the fair value of the outstanding partnership units of the Ultimate Parent, including the IUs granted under the 2017 Plan. The conversion was based on:

- a ratio that takes into account the number of IUs held,
- the application distribution threshold applicable to the IUs, and
- the value of distributions that the holder would have been entitled to receive had the Ultimate Parent liquidated on the date of such replacement in accordance with the terms of the distribution "waterfall" set forth in the Ultimate Parent partnership agreement.

Restricted Common Stock

In connection with the IPO, a change in the vesting of the existing performance-based IUs and accordingly the related distributed restricted stock resulted in a modification to the grants and required the shares to be revalued as of the IPO date, resulting in a modified grant date fair value of approximately $13.0 million. The fair value of the performance-based restricted stock awards was calculated using a Monte Carlo simulation option pricing model which requires the Company to make estimates and assumptions, such as expected volatility, expected term and expected risk-free interest rate. Specifically, the model revalued the performance units based on the revised vesting condition of the 2.0x MOIC restricted stock units achieving the 2.0x MOIC based on a 30-day volume weighted average price with the remainder of the restricted stock units vesting upon the earlier of the Ultimate Parent owning 25% or less of the company or 30 months post-IPO. On November 3, 2021, the performance condition of the 2.0x MOIC restricted common stock was met and, accordingly, 683,442 shares of restricted stock with a performance-based vesting condition vested.

On November 4, 2021, the Company and the Limited Partnership modified a portion of the existing equity-based compensation awards dated September 22, 2021 among the Company, the Limited Partnership and the holders of such restricted stock. As a result of this modification, a portion of the shares that would have vested based upon a 4.0x MOIC (including any related linear interpolation, the "Original Vesting Criteria") instead vest on the last day of fiscal 2022 or on the last day of fiscal 2023, or upon achievement of the Original Vesting Criteria, if earlier. The fair value of the modified performance-based restricted stock awards was calculated using a Monte Carlo simulation option pricing model which requires the Company to make estimates and assumptions, such as expected volatility, expected term and expected risk-free interest rate, resulting in an incremental modified grant date fair value of approximately $6.1 million.

As of March 26, 2022, 51,258 shares of restricted common stock resulting from the distribution of common stock with respect to unvested time-based IUs vest upon fulfilling time-based service conditions and are scheduled to vest through 2024. As of March 26, 2022, the remaining 2,341,649 shares of restricted common stock resulting from the distribution with respect to unvested performance-based IUs will vest only if certain performance conditions, including exceeding various multiple of invested capital ("MOIC") levels, are achieved. Shares of restricted common stock that do not vest are not cancelled but instead remain outstanding and are forfeited back to the Ultimate Parent.

During the 13 weeks ended March 26, 2022, the Company recorded equity-based compensation expense of approximately $0.4 million related to the restricted common stock with time-based service vesting conditions. During the 13 weeks ended March 27, 2021, the Company recorded equity-based compensation expense of approximately $0.6 million related to the IUs with time-based service vesting conditions.

The Company recognized approximately $1.6 million of equity-based compensation expense during the 13 weeks ended March 26, 2022 related to the performance-based restricted common stock and will recognize the remaining expense for these awards ratably over the applicable 30-month period. Prior to the distribution of common stock with respect to the performance-based IUs, the performance conditions for the performance-based IUs were not deemed probable of occurrence, and therefore, no compensation cost was recorded for such IUs prior to September 23, 2021.

The equity-based compensation expense prior to the IPO was considered to be a transaction with the Ultimate Parent and was classified as a component within additional paid-in capital in the Company's consolidated statements of changes in stockholder's equity.

Post-IPO Equity

2021 Equity Incentive Plan

Effective September 21, 2021, the Company approved the 2021 Equity Incentive Plan (the "2021 Plan") which reserves 9,739,244 shares of common stock. The 2021 Plan provides for the granting of stock options, stock appreciation rights, restricted stock awards, restricted stock units or equity-based awards to eligible employees, consultants and directors.

Restricted Stock Units

In connection with the IPO and under the 2021 Plan, the Company granted 967,158 time-based restricted stock units ("RSUs") to certain employees and independent directors. The RSUs include (i) 759,362 RSUs issued to certain employees with each award vesting 100% on the third anniversary of the grant date, subject in general to the applicable employee's continued service through the vesting date, (ii) 191,130 RSUs issued to certain employees and independent directors with each award vesting in three equal annual installments, subject in general to the employee's or director's continued service through the vesting date, and (iii) 16,666 RSUs issued to certain of our independent directors that vest on the earlier of the first anniversary of the grant date and immediately prior to our first annual meeting of stockholders following the IPO, in each case subject in general to the applicable director's continued service through the vesting date.

During the 13 weeks ended March 26, 2022, the Company granted 561,355 RSUs to certain employees. The RSUs include (i) 485,316 RSUs issued with each award vesting in two equal annual installments, and (ii) 76,039 RSUs issued with each award vesting in three equal annual installments, all of which are subject in general to the employee's continued service through the vesting date.

Performance-based Restricted Stock Units

In connection with the IPO and under the 2021 Plan, the Company granted 687,690 performance-based restricted stock units ("PSUs) to certain employees with each award vesting subject in general to the achievement of the performance condition and subject in general to the employee's continued service through the vesting date. The fair value of the PSUs was estimated using a Monte Carlo simulation option pricing model, which requires the Company to make estimates and assumptions, such as expected volatility, expected term and expected risk-free interest rate.

During the 13 weeks ended March 26, 2022, the Company granted 343,800 PSUs to certain employees with each award vesting subject in general to the achievement of a performance condition that measures the total shareholder return ("TSR") relative to the TSR of the constituents of a custom peer group ("relative TSR"). The number of shares that may be earned ranges from 0% to 200% with straight-line interpolation applied and subject in general to the employee's continued service through the vesting date. The fair value of the PSUs granted during the 13 weeks ended March 26, 2022 was estimated using a Monte Carlo simulation option pricing model, which requires the Company to make estimates and assumptions, such as expected volatility, expected term and expected risk-free interest rate.

The Company recognized approximately $2.1 million for the 13 weeks ended March 26, 2022 resulting from the issuance of RSUs and PSUs under the 2021 Plan and expects to record equity-based compensation expense of approximately $24.3 million through the first quarter of 2025.

As of March 26, 2022, there was an aggregate of 7,426,379 shares of common stock available for future equity awards under the 2021 Plan.

14. Income Taxes

The tax expense and the effective tax rate resulting from operations were as follows:

(In thousands)	13 Weeks Ended March 26, 2022	13 Weeks Ended March 27, 2021
Income before income taxes	$ 6,768	$ 15,752
Effective income tax expense	$ (2,711)	$ (4,040)
Effective tax rate	40.0 %	25.7 %

The effective tax rates for the 13 weeks ended March 26, 2022 and March 27, 2021 differ from the statutory U.S. federal income and state and local income tax rates primarily due to nondeductible equity-based compensation and limitation on the deduction of executive compensation for public companies.

The Company's effective tax rate may increase or decrease with changes in, among other things, the amount of income or loss by jurisdiction, changes in tax law, and the movement of liabilities established pursuant to accounting guidance for unrecognized tax benefits as statutes of limitations expire, positions are effectively settled, or when additional information becomes available. Significant unusual or infrequently occurring items are excluded from the estimated annual effective tax rate and recognized in the interim period in which the transaction arises. For the 13 weeks ended March 26, 2022, the Company recorded return to provision items within the effective tax rate. For the 13 weeks ended March 27, 2021, there were no significant unusual or infrequent items excluded in the calculation of the effective tax rate. Proposed or pending tax law changes in the various jurisdictions in which we do business may have an impact on our effective tax rate and will be reflected as such in the period of enactment. Based upon the mix and timing of the Company's actual annual earnings or loss compared to annual projections, as well as changes in the factors noted above, the Company's effective tax rate may vary quarterly and may make quarterly comparisons not meaningful.

15. Related Party Transactions

The Company has two related party leases for a manufacturing facility and land. The facility and land are leased from Morning Fresh Dairy ("Morning Fresh"), a related party entity owned and controlled by an employee, board member of the Company and major equity holder of the Ultimate Parent. The facility lease and land lease are classified as a finance lease and operating lease, respectively, based on the original lease term and reasonably certain renewal options. As of March 26, 2022, the facility has a lease liability balance of $6.8 million which is primarily recognized as long-term debt in our Condensed Consolidated Balance Sheets. As of March 26, 2022, the land lease has a liability balance of $0.5 million which is primarily recognized as long-term operating lease liabilities in our Condensed Consolidated Balance Sheets. The facility and land lease contained total payments of approximately $142 thousand and $124 thousand for the 13 weeks ended March 26, 2022 and March 27, 2021, respectively. In addition, $46 thousand and $42 thousand was paid for the 13 weeks ended March 26, 2022 and March 27, 2021, respectively, for a proportionate share of utilities, taxes and insurance.

Morning Fresh regularly purchases finished goods inventory from the Company for sale to its customers. Additionally, Morning Fresh regularly supplies milk used in the Company's manufacturing process.

Sales to and purchases from Morning Fresh were as follows:

(In thousands)	13 Weeks Ended March 26, 2022	13 Weeks Ended March 27, 2021
Sales	$ 117	$ 112
Purchases	$ 1,970	$ 1,311

Amounts outstanding in respect to Morning Fresh transactions were as follows:

(In thousands)	March 26, 2022	December 25, 2021
Receivables	$ 11	$ 26
Payables	$ 826	$ 354

The Company has a milk supply agreement with Morning Fresh for a base term ending December 31, 2027, with the option available for extension for a total of fifteen additional 2-year periods to December 31, 2057. Four years' advance written notice is required to terminate the agreement. Milk will be priced on a month-to-month basis by USDA Central Federal Order No. 32 for Class II milk, plus surcharges and premiums, provided that the final price of the milk shall be 23.24 cents per hundred weight less than the published Dairy Farmers of America bill for that month. The Company will accept up to 3,650,000 gallons as determined by Morning Fresh in 2020, and for each year of the term thereafter. As of March 26, 2022, the Company has future commitments to purchase approximately $43.9 million of milk from Morning Fresh, approximated at current market price. In addition, the Company has agreed to pay an additional $33 thousand monthly through December 31, 2027 to cover the landowner's incremental costs relating to capital improvements necessary to support increased milk production required by the Company over the term of this agreement. If the agreement is terminated before December 1, 2027, the Company will be required to pay an early termination penalty, which declines from $3.0 million at the inception of the agreement to $0 over the ten-year term, based on an amortization table outlined in the agreement.

In January 2019, the Company entered into an agreement with a stockholder, to sell and issue 5,217 Class A units in exchange for a $6 million stockholder note receivable, which was recorded within stockholders' equity. In accordance with the agreement, interest on the note accrued and compounded quarterly at a rate equal to the long-term applicable federal rate per annum on date of issuance on the unpaid principal amount of the note. The federal rate used on the date of issuance was the January 2019 long-term applicable federal rates for purposes of IRC 1274(d), which was 3.12%. On February 26, 2021, the stockholder note receivable plus accrued and unpaid interest was paid in full in the amount of $6.4 million.

Advent International Corporation ("Advent" or "our Sponsor") is a private equity firm which has invested funds in our common stock. Although no individual fund owns a controlling interest in us, together the funds represent our current majority owners.

Our Sponsor and its affiliates have ownership interests in a broad range of companies. We have entered and may in the future enter into commercial transactions in the ordinary course of our business with some of these companies, including the sale of goods and services and the purchase of goods and services.

The Company pays legal expenses on behalf of the Limited Partnership and carries balances within other long-term assets that reflects the amount due from the Limited Partnership. As of March 26, 2022 and December 25, 2021, the receivable balance was $0.5 million and $0.4 million, respectively.

16. Earnings Per Share

Basic and diluted earnings per share ("EPS") were as follows:

(In thousands, except share and per share amounts)	13 Weeks Ended March 26, 2022	13 Weeks Ended March 27, 2021
Net income	$ 4,057	$ 11,712
Basic		
Weighted average basic common shares outstanding	100,892,547	74,058,447
Basic earnings per share	$ 0.04	$ 0.16
Diluted		
Weighted average diluted common shares outstanding	101,262,103	76,867,992
Diluted earnings per share	$ 0.04	$ 0.15

There were no anti-dilutive shares for the diluted EPS calculations for the 13 weeks ended March 26, 2022 and March 27, 2021.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q ("Form 10-Q") contains forward-looking statements. Forward-looking statements can be identified by words, such as "anticipates," "intends," "plans," "seeks," "believes," "estimates," "expects" and similar references to future periods, or by the inclusion of forecasts or projections. Examples of forward-looking statements include, but are not limited to, statements we make regarding the outlook for our future business and financial performance, such as those contained in this section.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. As a result, our actual results may differ materially from those contemplated by the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- inflation, including our vulnerability to decreases in the supply of and increases in the price of raw materials, packaging and fuel, and labor, manufacturing, distribution and other costs, and our inability to offset increasing costs through cost savings initiatives or pricing;
- supply disruptions, including increased costs and potential adverse impacts on distribution and consumption;
- geopolitical tensions, including relating to Ukraine;
- competition in the packaged food industry and our product categories;
- our inability to accurately forecast pricing elasticities and the resulting impact on volume growth and/or distribution gains;
- the COVID-19 pandemic and associated effects;
- our inability to maintain our workforce;
- our inability to identify, consummate or integrate new acquisitions or realize the projected benefits of acquisitions;
- our inability to effectively manage our growth;
- our inability to successfully introduce new products or failure of recently launched products to meet expectations or remain on-shelf;
- our inability to expand household penetration and successfully market our products;
- erosion of the reputation of one or more of our brands;
- issues with the major retailers, wholesalers, distributors and mass merchants on which we rely, including if they give higher priority to other brands or products, perform poorly or declare bankruptcy;
- our vulnerability to the impact of severe weather conditions, natural disasters and other natural events on our manufacturing facilities, co-packers or raw material suppliers;
- failure by us or third-party co-packers or suppliers of raw materials to comply with food safety, environmental or other laws or regulations, or new laws or regulations;
- our dependence on third-party distributors and third-party co-packers, including one co-packer for the substantial majority of our *Rao's Homemade* sauce products;
- failure to protect, or litigation involving, our tradenames or trademarks and other rights;
- our level of indebtedness under our First Lien Credit Agreement (as defined herein), which as of March 26, 2022 was $480.8 million, and our duty to comply with covenants under our First Lien Credit Agreement; and
- the interests of Advent International Corporation ("Advent") may differ from those of public stockholders.

See Part II. Item IA. "Risk Factors" for a further description of these and other factors. For the reasons described above, we caution you against relying on any forward-looking statements, which should also be read in conjunction with the other cautionary statements that are included elsewhere in this report. Any forward-looking statement made by us in this report speaks only as of the date on which we make it. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Unless the context otherwise requires, "we," "us," "our" and the "Company" refer to Sovos Brands, Inc. and its subsidiaries. The Company's fiscal year ends on the last Saturday in December of each year and as a result, a 53rd week is added approximately every sixth year. Our fiscal years ended December 25, 2021 ("fiscal 2021") and December 26, 2020 ("fiscal 2020") each have 52 weeks. Our fiscal year ending December 31, 2022 ("fiscal 2022") will have 53 weeks. Our fiscal quarters are comprised of 13 weeks each, ending on the 13th Saturday of each quarter, except for the 53-week fiscal years for which the fourth quarter will be comprised of 14 weeks, ending on the 14th Saturday of such fourth quarter. The information for the 13 weeks ended March 26, 2022 and March 27, 2021 are derived from the unaudited condensed consolidated financial statements and the notes thereto included elsewhere in this report.

Overview

We are the fastest growing food company of scale in the United States over the past two years, focused on acquiring and building disruptive growth brands that bring today's consumers great tasting food that fits the way they live. Our brands, *Rao's*, *Michael Angelo's*, *noosa* and *Birch Benders* are built with authenticity at their core, providing consumers food experiences that are genuine, delicious and unforgettable, making each of our brands "one-of-a-kind." Our products are premium and made with simple, high-quality ingredients. Our people are at the center of all that we do. We strive to empower our teams to lead with courage and tenacity, with the goal of providing them with the confidence and agility to connect with our consumers and retail partners to drive unparalleled growth. We believe our focus on "one-of-a-kind" brands, products that people love, and passion for our people makes Sovos Brands a "one-of-a-kind" company and enables us to deliver on our objective of creating a growing and sustainable food enterprise yielding financial growth ahead of industry peers.

Since our inception, we have been focused on building an organization with the capabilities to acquire, integrate, and grow brands as we continue to scale. Our business model is grounded in acquiring "one-of-a-kind" brands, and leveraging a common infrastructure and shared playbook to drive growth. We have a track record of successful deals and have completed the following four acquisitions:

- in January 2017, we completed the acquisition of Bottom Line Food Processors, Inc. d/b/a Michael Angelo's Gourmet Foods;
- in July 2017, we completed the acquisition of Rao's Specialty Foods, Inc.;
- in November 2018, we completed the acquisition of 100% of the outstanding capital stock of Noosa Holdings, Inc. (the "Noosa Acquisition"); and
- in October 2020, we completed the acquisition of the Birch Benders business (the "Birch Benders Acquisition").

On September 22, 2021, we priced our initial public offering (the "IPO") of 23,334,000 shares of our common stock, $0.001 par value per share, which excluded the underwriters' option to purchase an additional 3,500,100 shares of common stock, at an offering price of $12.00 per share. The IPO closed on September 27, 2021 and resulted in net proceeds of approximately $263.2 million, after deducting underwriting discounts and commissions. Subsequent to the IPO, the underwriters exercised their options to purchase an additional 3,500,100 shares of common stock. We closed the sale of such additional shares on October 5, 2021, resulting in net proceeds of approximately $39.5 million, after deducting underwriting discounts and commissions.

Emerging Growth Status

As a company with less than $1.07 billion in gross revenue during our last fiscal year, we qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). An emerging growth company may take advantage of specified reduced reporting and other regulatory requirements for up to five years that are otherwise applicable generally to public companies. These provisions include, among other matters:

- exemption from the auditor attestation requirement on the effectiveness of our system of internal control over financial reporting pursuant to the Sarbanes-Oxley Act;

- exemption from the adoption of new or revised financial accounting standards until they would apply to private companies;

- exemption from compliance with any new requirements adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer;

- an exemption from the requirement to seek non-binding advisory votes on executive compensation and golden parachute arrangements; and

- reduced disclosure about executive compensation arrangements.

We will remain an emerging growth company until the last day of the fiscal year following the fifth anniversary of the date of the first sale of our common stock pursuant to an effective registration statement, which was September 22, 2021, unless, prior to that time, we have more than $1.07 billion in annual gross revenue, have a market value for our common stock held by non-affiliates of more than $700 million as of the last day of our second fiscal quarter of the fiscal year and a determination is made that we are deemed to be a "large accelerated filer," as defined in Rule 12b-2 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or issue more than $1.0 billion of non- convertible debt over a three-year period, whether or not issued in a registered offering. We have availed ourselves of the reduced reporting obligations with respect to audited financial statements and related "Management's Discussion and Analysis of Financial Condition and Results of Operations" and executive compensation disclosure and expect to continue to avail ourselves of the reduced reporting obligations available to emerging growth companies in future filings.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, for complying with new or revised accounting standards. An emerging growth company can, therefore, delay the adoption of certain accounting standards until those standards would otherwise apply to private companies.

Inflationary Environment; Impact of COVID-19

In the 13 weeks ended March 26, 2022, we experienced increased cost of sales, as a percentage of net sales, driven by increased costs for logistics, materials, labor and energy. Since the price increase announcements made in late fiscal 2021, we have continued to experience increased inflationary pressure and volatility, and accordingly, we have announced additional price increases during the 13 weeks ended March 26, 2022. In addition, to assist in partially mitigating inflation, we are targeting reduced trade spending, seeking to remove our least efficient promotions and drive net price increases.

We expect the year-over-year inflation impact to be higher in the first half of fiscal 2022 given the tight global supply chain. As a result, we will closely monitor our pricing and may announce additional price increases in fiscal 2022. Consistent with the consumer-packaged food industry, we are seeing cost increases in several raw materials including, but not limited to, milk, animal proteins, fruit, glass, resin and cardboard. Transportation challenges continue to be acute, particularly due to logistical issues at major ports, intermodal and trucking delays and capacity constraints for ocean freight cargo. These challenges have resulted in long lead times and higher logistics costs. Labor-related disruptions, including labor shortages and absenteeism, have been challenges within our operations and among our third-party logistics providers and other business partners.

We expect to develop additional initiatives to partially mitigate inflationary pressure on top of the various productivity initiatives already in progress. Some of our ongoing supply chain initiatives today include: the further automation of our own production facilities, optimization of our co-manufacturing network, packaging value engineering, and competitive procurement actions. Collectively, we expect the increases in costs to be partially mitigated in fiscal 2022 by the pricing actions, as well as productivity initiatives.

We continue to actively monitor the impact of COVID-19 on all aspects of our business. We cannot predict the degree to, or the period over, which we will be affected by the COVID-19 pandemic and resulting governmental and other measures or changes thereto, including easing of restrictions. The global impact of the COVID-19 pandemic continues to evolve, and we continue to closely monitor the impact of the COVID-19 pandemic on our business and remain focused on prioritizing the health of our employees while seeking to maintain the continuity of our product supply throughout the supply chain. We have benefited from changes in consumer shopping and consumption patterns during the COVID-19 pandemic, including increases of in-home consumption and trial of our products, resulting in increased household penetration of our brands. As a result of the strong demand for our products as well as supply chain disruptions, we are currently facing challenges to meet our expected customer service levels in fiscal 2022.

Key Performance Indicators

We regularly review a number of metrics to evaluate our business, measure our progress and make strategic decisions. EBITDA, Adjusted EBITDA, EBITDA margin, Adjusted EBITDA margin, adjusted net income, diluted earnings per share from adjusted net income, adjusted operating expenses, adjusted income tax expense and adjusted effective tax rate (the "non-GAAP financial measures"), which are non-GAAP financial measures, are currently utilized by management and may be used by our competitors to assess performance. We believe these measures assist our investors in gaining a meaningful understanding of our performance. Because not all companies use identical calculations, our presentation of these measures may not be comparable to other similarly titled measures of other companies. See "—Non-GAAP Financial Measures" for definitions and a reconciliation of net income to EBITDA and Adjusted EBITDA, net income to adjusted net income and diluted earnings per share from adjusted net income.

Results of Operations

The discussion that follows includes a comparison of our results of operations and liquidity and capital resources for the 13 weeks ended March 26, 2022 and March 27, 2021. We have also included certain non-GAAP financial measures for the 13 weeks ended March 27, 2021 that were not included in our Prospectus filed with the SEC on September 24, 2021 in order to conform with current period presentation.

Comparison of Unaudited Results for the 13 weeks ended March 26, 2022 and March 27, 2021

The following unaudited table presents, for the periods indicated, selected information from our Condensed Consolidated Statements of Operations, including information presented as a percentage of net sales:

(In thousands, except share and per share data)	13 Weeks Ended March 26, 2022	% of Sales	13 Weeks Ended March 27, 2021	% of Sales	Increase / (Decrease) $ Change	% Change
Net sales	$ 209,933	100.0 %	$ 189,371	100.0 %	$ 20,562	10.9 %
Cost of sales	156,025	74.3 %	127,629	67.4 %	28,396	22.2 %
Gross profit	53,908	25.7 %	61,742	32.6 %	(7,834)	(12.7)%
Operating expenses:						
Selling, general and administrative	33,915	16.2 %	33,433	17.7 %	482	1.4 %
Depreciation and amortization	7,203	3.4 %	7,190	3.8 %	13	0.2 %
Total operating expenses	41,118	19.6 %	40,623	21.5 %	495	1.2 %
Operating income	12,790	6.1 %	21,119	11.2 %	(8,329)	(39.4)%
Interest expense	6,022	2.9 %	5,367	2.8 %	655	12.2 %
Income before income taxes	6,768	3.2 %	15,752	8.3 %	(8,984)	(57.0)%
Income tax expense	(2,711)	(1.3)%	(4,040)	(2.1)%	1,329	(32.9)%
Net income	$ 4,057	1.9 %	$ 11,712	6.2 %	$ (7,655)	(65.4)%
Diluted earnings per share	$ 0.04	—	$ 0.15	—	$ (0.11)	(73.7)%
Diluted weighted average shares outstanding	101,262,103	—	76,867,992	—	24,394,111	31.7 %
Other financial data: (1)						
EBITDA	$ 22,345	10.6 %	$ 30,498	16.1 %	$ (8,153)	(26.7)%
Adjusted EBITDA	$ 27,621	13.2 %	$ 35,559	18.8 %	(7,938)	(22.3)%
EBITDA margin	10.6 %	—	16.1 %	—	—	(33.9)%
Adjusted EBITDA margin	13.2 %	—	18.8 %	—	—	(29.9)%
Adjusted net income	$ 13,782	—	$ 20,793	—	$ (7,011)	(33.7)%
Diluted earnings per share from adjusted net income	$ 0.14	—	$ 0.27	—	$ (0.13)	(48.2)%
Adjusted operating expenses	$ 36,434	—	$ 35,562	—	872	2.5 %
Adjusted income tax expense	$ (5,071)	—	$ (6,830)	—	1,759	(25.8)%
Adjusted effective tax rate	26.9 %	—	24.7 %	—	—	8.7 %

(1) Other financial data includes non-GAAP financial metrics. See "—Non-GAAP Financial Measures" for definitions and a reconciliation of our net income to EBITDA and Adjusted EBITDA, net income to adjusted net income, total operating expenses to adjusted operating expenses, reported income tax expense to adjusted income tax expense and reported effective tax rate to adjusted effective tax rate.

Net Sales

Net sales consist primarily of product sales to our customers less cost of trade promotions such as consumer incentives, coupon redemptions, other in-store merchandising activities and allowances for unsalable product.

Net sales of $209.9 million represented an increase of $20.6 million, or 10.9%, for the 13 weeks ended March 26, 2022, as compared to the 13 weeks ended March 27, 2021. The increase was primarily due to higher volume related to *Rao's*, *noosa* and *Michael Angelo's*. In addition, a *Rao's* list price increase began to take hold, and volume increases as well as price impact was partially offset by lower *Birch Benders* volume and negative product mix. *Rao's* grew by 19.4% during the quarter, with the majority driven by higher sauce sales in addition to growth across frozen, soup, and pasta categories. *Michael Angelo's* grew 6.5% during the quarter and *noosa* delivered growth of 7.7% driven by increases in sales of core spoonable and drinkable yogurt offerings, and the initial launch of our new frozen gelato offerings which resulted in higher year over year slotting fees compared to the 13 weeks ended March 27, 2021. *Birch Benders* had lower volume driven by softening of the pancake and waffle mix category as we began to exit the COVID-19 restrictions and not repeating a key customer event.

Household penetration of *Rao's* products grew to 14.0% in the 52 weeks ended March 27, 2022, up 290 basis points compared to the 52 weeks ended March 28, 2021, as sauce and frozen entrées continued to realize distribution gains. For the 13 weeks ended March 27, 2022, *Rao's* remained the #2 pasta & pizza sauce brand in dollar consumption.

Cost of Sales

Cost of sales represents costs directly related to the manufacturing and distribution of products. Such costs include raw materials, labor and overhead required to produce the products, co-manufacturing, packaging, warehousing, shipping and handling, third-party distribution, and depreciation of equipment and leasehold improvements. We manufacture our products in our Austin, Texas and Bellvue, Colorado manufacturing locations. We also use third-party contract manufacturers in the United States, Canada and the European Union. We procure selected elements of raw materials and packaging and receive finished goods. We incur tolling charges related to our contract manufacturing arrangements.

Cost of sales of $156.0 million represented an increase of $28.4 million, or 22.2%, for the 13 weeks ended March 26, 2022 as compared to the 13 weeks ended March 27, 2021. The increase was primarily attributable to higher net sales discussed above, coupled with incremental costs due to heightened inflationary pressures, including increased raw materials, packaging, distribution and container costs compared to the 13 weeks ended March 27, 2021, which experienced minimal inflation. Consistent with others in our industry, we have faced challenges with supply chain and inflationary headwinds, several of which have intensified in recent months. With Omicron and geopolitical tensions having brought on the latest wave of supply chain disruption, near-term cost and operating pressures related to raw materials, particularly dairy and animal proteins, logistics, packaging and labor have intensified. As a result, we have experienced higher domestic and ocean freight, port-related costs as well as higher input and materials costs.

Cost of sales as a percentage of net sales increased from 67.4% for the 13 weeks ended March 27, 2021, to 74.3% for the 13 weeks ended March 26, 2022. The increase in cost of sales as a percentage of net sales was driven by incremental raw material and labor costs and higher logistics costs to meet customer service levels as described above. In addition, we recognized a one-time adjustment of $0.6 million related to packaging write-downs associated with the Birch Benders Acquisition and a strategic initiative to move co-packaging production from an international supplier to a domestic supplier.

Gross Profit

Gross profit of $53.9 million represented a decrease of $7.8 million, or 12.7%, for the 13 weeks ended March 26, 2022, as compared to the 13 weeks ended March 27, 2021. Gross profit as a percentage of net sales, or gross margin, decreased from 32.6% for the 13 weeks ended March 27, 2021 to 25.7% for the 13 weeks ended March 26, 2022, and was a result of the items discussed above, as well as higher slotting fees supporting our launch of *noosa* frozen gelato.

Operating Expenses

Operating expenses of $41.1 million represented an increase of $0.5 million, or 1.2%, for the 13 weeks ended March 26, 2022 compared to the 13 weeks ended March 27. 2021 due to the following:

- *Selling, General and Administrative expenses*: Selling, general and administrative expenses include sales and marketing costs and general and administrative expenses. Selling and marketing costs primarily include consumer facing marketing costs and customer and consumer facing selling expenses, principally comprised of advertising and marketing costs and broker commissions, as well as research and development expenses. General and administrative expenses are comprised of expenses associated with our corporate and administrative functions that support our business, including expenses for employee salaries and benefits, travel and entertainment, professional services, insurance and other corporate expenses, including auditor and tax fees, third-party consultancy fees, office leases and equity-based compensation expense (see below for additional information).

Selling, general and administrative expenses of $33.9 million represented an increase of $0.5 million, or 1.4%, for the 13 weeks ended March 26, 2022 compared to the 13 weeks ended March 27, 2021. The increase was primarily driven by higher equity-based compensation expense of $3.5 million related to the equity modifications in connection with the IPO and new equity grants described below and higher selling, general and administrative costs of $0.9 million related primarily to increased public company costs. This increase was partially offset by lower transaction, and integration costs, lower IPO readiness costs and lower non-recurring costs of $3.9 million.

In connection with the IPO, we modified our existing equity-based compensation awards which resulted in a non-cash expense of approximately $1.1 million for the 13 weeks ended March 26, 2022 and will result in a non-cash expense of approximately $6.6 million through the first quarter of 2024. In November 2021, we further modified a portion of our existing equity-based compensation awards which resulted in a non-cash expense of approximately $0.9 million for the 13 weeks ended March 26, 2022 and will result in an incremental non-cash expense of approximately $4.7 million through the fourth quarter of our fiscal year ending December 30, 2023. In addition, we recorded a non-cash expense of $2.1 million resulting from the issuance of grants under the Sovos Brands, Inc. 2021 Equity Incentive Plan.

- *Depreciation and Amortization expenses:* Depreciation and amortization expense consists of the depreciation of non-production property and equipment, including leasehold improvements, equipment, capitalized leases and the amortization of customer relationships and finite-lived trademarks.

  Depreciation and amortization expenses of $7.2 million represented an increase of $13 thousand, or 0.2%, for the 13 weeks ended March 26, 2022, compared to the 13 weeks ended March 27, 2021. The increase was primarily due to an increase in capitalized software amortization for the 13 weeks ended March 26, 2022.

Interest Expense

Interest expense primarily consists of interest and fees on our Credit Facilities (as defined herein), our Senior Credit Facilities, and amortization of deferred financing costs. We have incurred, and may incur additional, indebtedness to fund acquisitions, and we may choose to prepay on our Credit Facilities to reduce indebtedness.

Interest expense of $6.0 million represented an increase of $0.7 million, or 12.2%, for the 13 weeks ended March 26, 2022 compared to the 13 weeks ended March 27, 2021. The increase in interest expense resulted primarily from a higher balance of borrowings outstanding driven by the borrowings related to our June 2021 shareholder dividend, partially offset by a decrease in interest expense related to our Initial First Lien Term Loan Facility as a result of lower variable interest rates for the 13 weeks ended March 26, 2022 compared to the 13 weeks ended March 27, 2021.

Income Tax Expense

Income tax expense consists of federal and various state taxes. Income tax expense of $2.7 million for the 13 weeks ended March 26, 2022, represented a decrease of $1.3 million, compared to the income tax expense of $4.0 million for the 13 weeks ended March 27, 2021. The decrease in our income tax expense for the 13 weeks ended March 26, 2022 is primarily attributable to the decrease in earnings before taxes, partially offset by an increase in non-deductible expenses for tax purposes related to equity-based compensation expense driven by the modification of performance equity awards, and a limitation on the deductibility of executive compensation related to becoming a public company. These factors resulted in a decrease to income tax expense for the 13 weeks ended March 26, 2022 compared to the 13 weeks ended March 27, 2021.

Net Income

Net income for the 13 weeks ended March 26, 2022 was $4.1 million compared to net income of $11.7 million for the 13 weeks ended March 27, 2021. The decrease in net income was attributable to the items described above.

EBITDA

EBITDA of $22.3 million for the 13 weeks ended March 26, 2022 represented a decrease of $8.2 million as compared to the 13 weeks ended March 27, 2021. The decrease was primarily due to higher operating expenses partially offset by higher net sales as discussed in the “Net Sales,” “Gross Profit,” and “Operating Expenses” sections above. See “—Non-GAAP Financial Measures” for a discussion of EBITDA and a reconciliation of our net income to EBITDA.

Adjusted EBITDA

Adjusted EBITDA of $27.6 million for the 13 weeks ended March 26, 2022 represented a decrease of $7.9 million as compared to the 13 weeks ended March 27, 2021. The decrease of $7.9 million was primarily due to higher operating expenses partially offset by higher net sales as discussed in the “Net Sales,” “Gross Profit,” and “Operating Expenses” sections above. See “—Non-GAAP Financial Measures” for a discussion of Adjusted EBITDA and a reconciliation of our net income to Adjusted EBITDA.

Adjusted Net Income

Adjusted net income for the 13 weeks ended March 26, 2022 was $13.8 million compared to $20.8 million for the 13 weeks ended March 27, 2021. The decrease of $7.0 million was attributable to the items described above. See “—Non-GAAP Financial Measures” for a discussion of adjusted net income and a reconciliation of our net income to adjusted net income.

Diluted Earnings per Share from Adjusted Net Income

Diluted earnings per share from adjusted net income for the 13 weeks ended March 26, 2022 was $0.14 per share compared to $0.27 per share for the 13 weeks ended March 27, 2021. See “—Non-GAAP Financial Measures” for a discussion of diluted earnings per share from adjusted net income and a reconciliation of our net income to adjusted net income and the associated diluted earnings per share.

Adjusted Operating Expenses

Adjusted operating expenses for the 13 weeks ended March 26, 2022 was $36.4 million compared to $35.6 million for the 13 weeks ended March 27, 2021. See “—Non-GAAP Financial Measures” for a discussion of adjusted operating expenses and a reconciliation of our total operating expenses to adjusted operating expenses.

Adjusted Income Tax Expense

Adjusted income tax expense for the 13 weeks ended March 26, 2022 was $5.1 million compared to $6.8 million for the 13 weeks ended March 27, 2021, See “—Non-GAAP Financial Measures” for a discussion of adjusted income tax expense and a reconciliation of our reported income tax expense to adjusted income tax expense.

Adjusted Effective Tax Rate

The adjusted effective tax rate for the 13 weeks ended March 26, 2022 was 26.9% compared to 24.7% for the fiscal 13 weeks ended March 27, 2021. See “—Non-GAAP Financial Measures” for a discussion of adjusted effective tax rate and a reconciliation of reported effective tax rates to adjusted effective tax rate.

Non-GAAP Financial Measures

We report our financial results in accordance with GAAP. To supplement this information, we also use EBITDA, Adjusted EBITDA, EBITDA margin, Adjusted EBITDA margin, adjusted net income, diluted earnings per share from adjusted net income, adjusted operating expenses, adjusted income tax expense and adjusted effective tax rate, non-GAAP financial measures, in this report. We define EBITDA as net income before net interest expense, income tax expense, depreciation and amortization. We define Adjusted EBITDA as EBITDA adjusted for impairment of goodwill and intangible assets, transaction and integration costs, IPO readiness costs, non-cash equity-based compensation, supply chain optimization and non-recurring costs. EBITDA margin is determined by calculating the percentage EBITDA is of net sales. Adjusted EBITDA margin is determined by calculating the percentage Adjusted EBITDA is of net sales. Adjusted net income, adjusted operating expenses, adjusted income tax (expense) benefit and adjusted effective tax rate consists of net income, total operating expenses, reported income tax expense and reported effective tax rate before impairment of goodwill and intangible assets, transaction and integration costs, IPO readiness, non-cash equity-based compensation, supply chain optimization, non-recurring costs, acquisition amortization and tax-related adjustments that we do not consider in our evaluation of our ongoing operating performance from period to period as discussed further below. Diluted earnings per share from adjusted net income is determined by dividing adjusted net income by the weighted average diluted shares outstanding. Non-GAAP financial measures are included in this report because they are key metrics used by management to assess our operating performance. Management believes that non-GAAP financial measures are helpful in highlighting performance trends because non-GAAP financial measures eliminate non-recurring and unusual items and non-cash expenses, which we do not consider indicative of ongoing operational performance. Our presentation of non-GAAP financial measures should not be construed to imply that our future results will be unaffected by these items. By providing these non-GAAP financial measures, management believes we are enhancing investors' understanding of our business and our results of operations, as well as assisting investors in evaluating how well we are executing our strategic initiatives.

EBITDA, Adjusted EBITDA, EBITDA margin, Adjusted EBITDA margin, adjusted net income, diluted earnings per share from adjusted net income, adjusted operating expenses, adjusted income tax expense and adjusted effective tax rate are not defined under GAAP. Our use of the terms EBITDA, Adjusted EBITDA, EBITDA margin, Adjusted EBITDA margin, adjusted net income and diluted earnings per share from adjusted net income, adjusted operating expenses, adjusted income tax expense and adjusted effective tax rate may not be comparable to similarly titled measures of other companies in our industry and are not measures of performance calculated in accordance with GAAP. Our presentation of non-GAAP financial measures are intended as supplemental measures of our performance that are not required by, or presented in accordance with, GAAP. Non-GAAP financial measures should not be considered as alternatives to operating income, net income, earnings per share, net sales or any other performance measures derived in accordance with GAAP, or as measures of operating cash flows or liquidity.

Non-GAAP financial measures have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP. Some of these limitations are:

- EBITDA, Adjusted EBITDA, EBITDA margin and Adjusted EBITDA margin do not reflect any charges for the assets being depreciated and amortized that may need to be replaced in the future;

- EBITDA, Adjusted EBITDA, EBITDA margin and Adjusted EBITDA margin do not reflect the significant interest expense or the cash requirements necessary to service interest or, if any, principal payments on our debt;

- EBITDA, Adjusted EBITDA, EBITDA margin and Adjusted EBITDA margin do not reflect our income tax expense or the cash requirements to pay our income taxes;

- Adjusted EBITDA, Adjusted EBITDA margin, adjusted net income, diluted earnings per share from adjusted net income, adjusted operating expenses, adjusted income tax expense and adjusted effective tax rate do not reflect the impact of impairments of goodwill or intangible assets;

- Adjusted EBITDA, Adjusted EBITDA margin, adjusted net income, diluted earnings per share from adjusted net income, adjusted operating expenses, adjusted income tax expense and adjusted effective tax rate do not reflect the impact of transaction costs and certain integration costs associated with the Birch Benders Acquisition and the Noosa Acquisition as well as costs associated with incomplete potential acquisitions and substantial one-time costs in fiscal 2020 and fiscal 2021 related to a large, uncompleted transaction;

- Adjusted EBITDA, Adjusted EBITDA margin, adjusted net income, diluted earnings per share from adjusted net income, adjusted operating expenses, adjusted income tax expense and adjusted effective tax rate do not reflect costs associated with preparing for our IPO, including public company readiness;

- Adjusted EBITDA, Adjusted EBITDA margin, adjusted net income, diluted earnings per share from adjusted net income, adjusted operating expenses, adjusted income tax expense and adjusted effective tax rate do not reflect the impact of write-downs of fixed assets, product write-offs related to manufacturing optimization, certain operation rationalization initiatives and strategic initiatives;

- Adjusted EBITDA, Adjusted EBITDA margin, adjusted net income, diluted earnings per share from adjusted net income, adjusted operating expenses, adjusted income tax expense and adjusted effective tax rate do not reflect the impact of share-based compensation upon our results of operations; and

- Adjusted EBITDA, Adjusted EBITDA margin, adjusted net income, diluted earnings per share from adjusted net income, adjusted operating expenses, adjusted income tax expense and adjusted effective tax rate do not include certain expenses that are non-recurring, infrequent and unusual in nature, including extinguishment of debt, forgiveness of capital advance, costs associated with the dividend, enterprise resource planning ("ERP") implementation costs related to integrating acquisitions, severance costs and certain legal settlements related to the exit of facilities.

In the future we may incur expenses similar to those eliminated in this presentation of non-GAAP financial measures.

The following table provides a reconciliation of EBITDA and Adjusted EBITDA to net income, their most directly comparable GAAP measure, for each of the periods presented:

	13 Weeks Ended	
(In thousands)	March 26, 2022	March 27, 2021
Net income	$ 4,057	$ 11,712
Interest	6,022	5,367
Income tax expense	(2,711)	(4,040)
Depreciation and amortization	9,555	9,379
EBITDA	22,345	30,498
Transaction and integration costs[(1)]	—	3,170
Initial public offering readiness[(2)]	220	1,145
Non-cash equity-based compensation[(3)]	4,087	561
Supply chain optimization[(4)]	592	—
Non-recurring costs[(5)]	377	185
Adjusted EBITDA	$ 27,621	$ 35,559
EBITDA margin	10.6 %	16.1 %
Adjusted EBITDA margin	13.2 %	18.8 %

(1) Consists of transaction costs and certain integration costs associated with the Birch Benders Acquisition as well as costs associated with incomplete potential acquisitions and substantial one-time costs related to a large, uncompleted

transaction. There are no costs for the 13 weeks ended March 26, 2022. For the 13 weeks ended March 27, 2021, these costs are included in total operating expenses.

(2) Consists of costs associated with preparing for an IPO and other professional fees associated with building the organizational infrastructure to support a public company environment. For all periods presented, these costs are included in total operating expenses.

(3) Consists of non-cash equity-based compensation expense associated with the grant of equity-based compensation provided to officers, directors and employees. For all periods presented, these costs are included in total operating expenses.

(4) Consists of write-downs associated with packaging optimization and a strategic initiative to move co-packaging production from an international supplier to a domestic supplier. For the 13 weeks ended March 26, 2022, all costs are included in cost of sales. There are no costs for the 13 weeks ended March 27, 2021.

(5) Consists of costs related to professional fees related to organizational optimization and ERP conversion costs related to integrating acquisitions. For all periods presented, these costs are included in total operating expenses.

EBITDA margin and Adjusted EBITDA margin are calculated by dividing EBITDA and Adjusted EBITDA by net sales for the applicable period.

The following table provide a reconciliation of adjusted net income to net income, its most directly comparable GAAP measure, and the resulting adjusted diluted earnings per share calculated from adjusted net income, for each of the periods presented:

	Fiscal Year Ended	
(In thousands, except share and per share data)	**March 26, 2022**	**March 27, 2021**
Net income	$ 4,057	$ 11,712
Transaction and integration costs[1]	—	3,170
Initial public offering readiness[2]	220	1,145
Non-cash equity-based compensation[3]	4,087	561
Supply chain optimization[4]	592	—
Non-recurring costs[5]	377	185
Acquisition amortization[6]	6,809	6,810
Tax effect of adjustments[7]	(2,360)	(2,790)
Adjusted net income	$ 13,782	$ 20,793
Earnings per share:		
Diluted	$ 0.04	$ 0.15
Adjusted diluted	$ 0.14	$ 0.27
Weighted average shares outstanding:		
Diluted	101,262,103	76,867,992
Adjusted diluted	101,262,103	76,867,992

(1) Consists of transaction costs and certain integration costs associated with the Birch Benders Acquisition as well as costs associated with incomplete potential acquisitions and substantial one-time costs related to a large, uncompleted transaction. There are no costs for the 13 weeks ended March 26, 2022. For the 13 weeks ended March 27, 2021, these costs are included in total operating expenses.

(2) Consists of costs associated with preparing for an IPO and other professional fees associated with building the organizational infrastructure to support a public company environment. For all periods presented, these costs are included in total operating expenses.

(3) Consists of non-cash equity-based compensation expense associated with the grant of equity-based compensation provided to officers, directors and employees. For all periods presented, these costs are included in total operating expenses.

(4) Consists of write-downs associated with packaging optimization and a strategic initiative to move co-packaging production from an international supplier to a domestic supplier. For the 13 weeks ended March 26, 2022, all costs are included in cost of sales. There are no costs for the 13 weeks ended March 27, 2021.

(5) Consists of costs related to professional fees related to organizational optimization and ERP conversion costs related to integrating acquisitions. For all periods presented, these costs are included in total operating expenses.

(6) Amortization costs associated with acquired trade names and customer lists.

(7) Tax effect was calculated using the Company's adjusted annual effective tax rate.

The following table provides a reconciliation of adjusted operating expenses to total operating expenses, its most directly comparable GAAP measure, for each of the periods presented:

	13 Weeks Ended	
(In thousands)	March 26, 2022	March 27, 2021
Selling, general and administrative	$ 33,915	$ 33,433
Depreciation and amortization	7,203	7,190
Total operating expenses	41,118	40,623
Transaction and integration costs[(1)]	—	(3,170)
Initial public offering readiness[(2)]	(220)	(1,145)
Non-cash equity-based compensation[(3)]	(4,087)	(561)
Non-recurring costs[(4)]	(377)	(185)
Total adjusted operating expenses	$ 36,434	$ 35,562

(1) Consists of transaction costs and certain integration costs associated with the Birch Benders Acquisition as well as costs associated with incomplete potential acquisitions and substantial one-time costs related to a large, uncompleted transaction.

(2) Consists of costs associated with preparing for an IPO and other professional fees associated with building the organizational infrastructure to support a public company environment.

(3) Consists of non-cash equity-based compensation expense associated with the grant of equity-based compensation provided to officers, directors and employees.

(4) Consists of costs related to professional fees related to organizational optimization and ERP conversion costs related to integrating acquisitions.

We adjust the GAAP financial measures for reported income tax expense and reported effective tax rate to exclude the effect of impairment of goodwill and intangible assets, transaction and integration costs, IPO readiness, non-cash equity-based compensation, supply chain optimization, acquisition amortization and other non-recurring costs impacting comparability. We excluded the items which we believe may obscure trends in our pre-tax income and the related tax effect of those items on our adjusted effective tax rate, and other impacts to tax expense. This non-GAAP financial measure is intended to provide a meaningful comparison of the Company's effective tax rate, excluding the pre-tax income and tax effect of the items noted above, for the periods presented. Management uses this non-GAAP financial measure to monitor the effectiveness of adjustments on our tax rate.

The following table provides reconciliations of reported income tax expense to adjusted income tax expense and reported effective tax rate to adjusted effective tax rate for the 13 weeks ended March 26, 2022 and March 27, 2021:

(In thousands)	13 Weeks Ended March 26, 2022	13 Weeks Ended March 27, 2021
Reported income tax expense	$ (2,711)	$ (4,040)
Transaction and integration costs	(416)	(779)
Initial public offering readiness	(349)	(284)
Non-recurring costs	-	(46)
Acquisition amortization	(1,595)	(1,681)
Adjusted income tax expense[1]	$ (5,071)	$ (6,830)
Reported effective tax rate	40.0 %	25.7 %
Transaction and integration costs	(2.3)	(0.3)
Initial public offering readiness	(1.9)	(0.1)
Acquisition amortization	(8.9)	(0.6)
Adjusted effective tax rate[1]	26.9 %	24.7 %

(1) The adjustments to reported income tax expense and reported effective tax rate represent the tax effect of the reconciling items included in the adjusted net income table above. See "—Non-GAAP Financial Measures" for definitions of our reported income tax expense to adjusted income tax expense and reported effective tax rate to adjusted effective tax rate.

Liquidity and Capital Resources

Our primary sources of liquidity include cash flow from operations, cash and cash equivalents and credit capacity under our Credit Facilities and proceeds from equity offerings. As of March 26, 2022, we had cash and equivalents of $70.1 million and availability under our Credit Facilities of $125.0 million.

We expect to use cash primarily for working capital, capital expenditures, purchase commitments, lease obligations and interest payments on our debt. We estimate that our capital expenditures will be approximately $16 million to $20 million in fiscal 2022, which we plan to fund with cash generated from our operating activities. We have purchase commitments of approximately $6.0 million and $8.0 million to third-party and related-party manufacturers and suppliers, respectively, over the next 12 months, primarily for materials and supplies used in the manufacture of our products. Our total lease obligations were $26.9 million as of March 26, 2022, with $3.4 million due over the next 12 months. The principal balance on our Initial First Lien Term Loan Facility was $480.8 million as of March 26, 2022, with no obligation to pay principal payments over the remaining term. We are required to make quarterly interest payments and estimate our interest payments to be approximately $23.8 million over the next 12 months.

We believe that our cash flow from operations, availability under our Revolving Facility (as defined herein) and available cash and cash equivalents will be sufficient to meet our liquidity needs for at least the next 12 months. We anticipate that to the extent that we require additional liquidity, it will be funded through the incurrence of additional indebtedness, the issuance of equity, or a combination thereof. We cannot assure you that we will be able to obtain this additional liquidity on reasonable terms, or at all. Additionally, our liquidity and our ability to meet our obligations and fund our capital requirements are also dependent on our future financial performance, which is subject to general economic, financial and other factors that are beyond our control. Accordingly, we cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available from additional indebtedness or otherwise to meet our liquidity needs. We may incur additional debt or sell additional equity to finance future acquisitions, which would result in additional expenses or dilution.

Credit Facilities and Unused Borrowing Capacity

On June 8, 2021, Sovos Intermediate (the “Borrower”) entered into (i) the First Lien Credit Agreement, pursuant to which the First Lien Lenders agreed to provide senior secured credit facilities, consisting of (a) an initial first lien term loan facility in an original principal amount of $580.0 million (the “Initial First Lien Term Loan Facility” and the loans thereunder, the “Initial First Lien Term Loans”) and (b) a revolving facility in an original principal amount of $125.0 million (the “Revolving Facility” and the loans thereunder, the “Initial Revolving Loans”), including a letter of credit facility with a $45.0 million sublimit, and (ii) a Second Lien Credit Agreement among Sovos Intermediate, Sovos Brands Holdings, Inc., Owl Rock Capital Corporation, as administrative agent and collateral agent, and the lenders from time to time party thereto (“Second Lien Lenders”), pursuant to which the Second Lien Lenders agreed to provide a second lien secured credit facility, consisting of an initial term loan facility in an original principal amount of $200.0 million (the “Initial Second Lien Facility” and the loans thereunder, the “Initial Second Lien Loans,” and together with the Initial First Lien Term Loans and the Initial Revolving Loans, collectively, the “Credit Facilities”). Our Senior Credit Facilities consisted of (i) an initial term loan facility in an original principal amount equal to $280.0 million, (ii) a revolving credit facility in an original principal amount equal to $45.0 million, including a letter of credit facility with a $15.0 million sublimit, and (iii) an incremental term loan commitment in an original principal amount equal to $100.0 million (collectively, the “Senior Credit Facilities”).

In June 2021, we used the proceeds of the Initial First Lien Term Loans and the Initial Second Lien Loans to repay the full amounts outstanding under our Senior Credit Facilities and finance a dividend of $400.0 million to the sole stockholder of Sovos Intermediate, which was ultimately distributed to the limited partners of Sovos Brands Limited Partnership.

In September 2021, using net proceeds of the IPO, we paid the full outstanding principal balance on the Initial Second Lien Loans of $200.0 million. Additionally, in September 2021 and October 2021, we prepaid $59.7 million and $39.5 million, respectively, of the outstanding principal balance under the Initial First Lien Term Loans. As a result of the prepayment on the Initial First Lien Term Loans, all future principal payments have been eliminated for the remaining term of the loan.

The interest rate for the Initial First Lien Term Loans and the Initial Revolving Loans is (at the Borrower's option) either (a) LIBO Rate (as defined in the First Lien Credit Agreement) plus the applicable LIBO Rate spread or (b) Alternate Base Rate (as defined in the First Lien Credit Agreement) plus the applicable Alternate Base Rate spread. The Initial First Lien Term Loans mature on June 8, 2028 and the Initial Revolving Loans mature on June 8, 2026.

As of March 26, 2022, we have available credit of $125.0 million under the Revolving Facility. No revolving loans were outstanding as of March 26, 2022. As of March 26, 2022, the effective interest rate for the Initial First Lien Term Loans and Revolving Facility was 4.25%.

The First Lien Credit Agreement contains various financial, affirmative and negative covenants that we must adhere to. Under the First Lien Credit Agreement, the Borrower is required to comply with a springing financial covenant, which requires the Borrower to maintain a first lien net leverage ratio of consolidated first lien net debt to consolidated EBITDA (with certain adjustments as set forth in the First Lien Credit Agreement) of no greater than 6.95:1.00. Such financial covenant is tested only if outstanding revolving loans (excluding any undrawn letters of credit) minus unrestricted cash exceeds 35% of the aggregate revolving credit commitments. The financial covenant is subject to customary “equity cure” rights. In addition, under the First Lien Credit Agreement, an annual excess cashflow calculation is required, to determine if any excess is required to be paid on the Initial First Lien Term Loan Facility. As of March 26, 2022, the Company had no outstanding revolving loans, so did not meet the requirement to test the financial covenant under the First Lien Credit Agreement.

Statement of Cash Flows

The following table presents a summary of our cash flows provided by (used in) operating, investing and financing activities for the periods presented:

	13 Weeks Ended	
(In thousands)	March 26, 2022	March 27, 2021
Cash provided by (used in):		
Operating activities	$ 11,199	$ 2,331
Investing activities	(7,180)	(1,367)
Financing activities	(24)	5,981
Change in cash and cash equivalents	$ 3,995	$ 6,945

Cash Provided by Operating Activities

Cash provided by operating activities was $11.2 million for the 13 weeks ended March 26, 2022, an increase of $8.9 million from $2.3 million for the 13 weeks ended March 27, 2021. The increase was primarily due to a decrease in the use of cash in operating assets and liabilities of $15.2 million and an increase in non-cash charges of $3.5 million for equity-based compensation, offset by a decrease in net income of $7.7 million and a decrease in non-cash charges for deferred income taxes in the 13 weeks ended March 26, 2022 compared to the same period in 2021.

The decrease in cash used in operating assets and liabilities was primarily due to an $11.2 million decrease in the use of cash from accounts receivable resulting from decreased days sales outstanding as well as decreased volume impact, and a $10.7 million decrease in the use of cash for inventory due to supply constraints resulting in lower inventory levels for the 13 weeks ended March 26, 2022 compared to inventory replenishment during the 13 weeks ended March 27, 2021 due to low inventory levels from high COVID-19 demand in fiscal 2020. These decreases in the use of cash were offset by a $3.1 million increase in the use of cash from accrued expenses as a result of lower accrued marketing and professional fees, a $2.3 million increase in the use of cash from accounts payable and a $0.8 million increase in the use of cash from prepaid expenses related to prepaid marketing during the 13 weeks ended March 26, 2022.

Cash Used in Investing Activities

Cash used in investing activities was $7.2 million for the 13 weeks ended March 26, 2022, an increase of $5.8 million from $1.4 million for the 13 weeks ended March 27, 2021. The increase in cash used by investing activities was related to increased capital expenditures for the 13 weeks ended March 27, 2021, primarily due to new production equipment at a co-packing manufacturing facility and packaging automation at our Austin, Texas manufacturing facility.

Cash Provided by (Used in) Financing Activities

Cash used in financing activities was $24 thousand for the 13 weeks ended March 26, 2022, compared to cash provided by financing activities of $6.0 million for the 13 weeks ended March 27, 2021. The decrease was primarily due to the $6.0 million in proceeds from payment in full of a stockholder note receivable during the 13 weeks ended March 27, 2021.

Off-Balance Sheet Arrangements

As of March 26, 2022, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, income or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

For a description of critical accounting policies that affect our significant judgments and estimates used in the preparation of our consolidated financial statements, refer to our audited consolidated financial statements as of December

25, 2021 included in our Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission (the "SEC") on March 15, 2022 ("Form 10-K").

Recently Issued Accounting Pronouncements

See Note 2. *Summary of Significant Accounting Policies*, to the consolidated financial statements included in the Company's Form 10-K for a discussion of recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to the following market risks:

Commodity and Packaging Prices and Inflation

In the 13 weeks ended March 26, 2022, we experienced increased cost of sales, as a percentage of net sales, including higher freight and shipping costs and raw material costs. We continue to expect higher inflation and distribution costs given the tight global supply chain and current geopolitical tensions. Consistent with the industry, we are seeing cost increases in several packaging and raw materials such as milk, animal proteins, fruit, glass, resin and cardboard. Transportation challenges continue to be acute, particularly due to logistical issues at major ports as well as intermodal and trucking delays, which have resulted in long lead times and higher logistics costs.

Interest Rate Risk

We are exposed to interest rate risk through fluctuations in interest rates on our debt obligations. Interest rate changes do not affect the market value of such debt, but could impact the amount of our interest payments, and accordingly, our future earnings and cash flows, assuming other factors are held constant. As of March 26, 2022, we had $480.8 million of variable rate debt outstanding under our Credit Facilities. See "Liquidity and Capital Resources — Credit Facilities and Unused Borrowing Capacity" above. Based upon our principal amount of long-term debt outstanding at March 26, 2022, a hypothetical 1% increase or decrease in average interest rates would impact our annual interest expense in the next year by approximately $5.0 million.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosures.

Management, including the participation of our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation (pursuant to Rule 13a-15(b) under the Exchange Act) of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 26, 2022, the Company's disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

Based on management's evaluation, there were no changes in our internal control over financial reporting during the 13 weeks ended March 26, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. While our disclosure controls and procedures are designed to provide reasonable assurance of their effectiveness, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II. Other Information

Item 1. Legal Proceedings

From time to time, we may become involved in actions, claims, suits and other legal proceedings arising in the ordinary course of our business, including lawsuits or claims relating to product labelling, product recalls and product liability as well as the marketing of our products, intellectual property, contracts, employment matters, environmental matters or other aspects of our business. We are not currently a party to any actions the outcome of which would, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations if determined adversely to us.

Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. Before investing in our common stock, in addition to the other information discussed in this report, please consider the factors described in Part I, Item 1A., "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 25, 2021 ("2021 Form 10-K") which could materially affect our business, financial condition or future results. The information presented below updates, and should be read in conjunction with, the risk factors disclosed in our 2021 Form 10-K, but these are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition or operating results. The occurrence of any of the risks disclosed in our 2021 Form 10-K or any of the following risks could materially and adversely affect our business, financial condition, results of operations, in which case the trading price of our common stock could decline and you could lose all or part of your investment.

We are vulnerable to decreases in the supply of and increases in the price of ingredients and other materials and labor, manufacturing, distribution and other costs, and we may not be able to offset increasing costs through cost savings initiatives or pricing.

We purchase raw materials, including agricultural products, whole milk, almond and other flours, tomatoes, cheese, chicken and meat, and other ingredients, such as fruit preparations, from growers, commodity processors, ingredient suppliers and other food companies located primarily in the United States. We also purchase packaging materials, including glass jars, foils, tubs, caps and lids, trays, labels, cardboard, cartons and other packaging, from global packaging manufacturers. Our co-manufacturers also purchase ingredients and packaging materials and can pass along cost increases to us subject, in some instances, to certain contractual limitations. Ingredients and packaging materials are subject to increases in price attributable to a number of factors, including disruptions in supply, global geopolitical tensions, other political unrest, tariffs, sanctions, trade disputes, drought and excessive rain, fire, temperature extremes and other adverse weather events, water scarcity, scarcity of suitable agricultural land, crop size, cattle cycles, herd and flock disease, crop disease and crop pests. Certain ingredients used in some of our products are organic or non-GMO, and organic and non-GMO raw materials may be subject to additional pressures from increased demand or greater supply vulnerability. We are particularly vulnerable to agricultural disasters or pestilence resulting in price increases associated with the tomato crops in Italy and the United States, the eggplant crop in the United States and Mexico, egg production in the United States, the production of milk in the United States, honey production in the United States and Canada and fruit crop supply because of our and our co-packers' large purchases of these materials. Crop disease or other crop failures and crop pests, such as insects, plant diseases and fungi, as well as herd and flock diseases, such as mad cow disease, swine influenza and avian influenza, and issues impacting pollinators and bee colonies, could impact the cost and availability of the agricultural products, animal proteins and eggs used in our products. Factors associated with the COVID-19 pandemic have resulted in increased demand for and disrupted supply of some ingredients and packaging materials. Factors associated with global geopolitical tensions, including relating to Ukraine, have also disrupted packaging and other supplies and increased costs. We expect factors associated with COVID-19 and global geopolitical tensions to continue to impact our business and may become more acute, particularly with respect to oil and its related impact on transportation and logistics costs as well as resin costs. Fluctuations in commodity prices can lead to retail price volatility and increased price competition and can influence consumer and trade buying patterns.

In addition, the costs of labor, logistics, manufacturing, energy, fuel and packaging materials and other costs related to the production and distribution of our products can from time to time increase significantly and unexpectedly. We attempt to manage some of these risks by entering into supply contracts and advance commodities purchase agreements from time to time and implementing cost saving measures. Our suppliers may also close (whether permanently or temporarily), causing us to seek suitable suppliers elsewhere. Factors associated with the COVID-19 pandemic have resulted in increased demand for transportation and the availability and cost of transportation for our products have been and could continue to be impacted. Moreover, we are exposed to higher costs in certain areas, such as front-line employee compensation as well as incremental costs associated with newly added health screenings, temperature checks and enhanced cleaning and sanitation protocols to protect our employees, due to the COVID-19 pandemic. Third parties, such as co-packers, suppliers, distributors, retailers and transportation companies, are subject to similar cost pressures and may seek to pass these increased costs on to us. Competition for co-packers, including increased demand for co-packed products, could also increase the costs of manufacturing and packing our products.

Further, if we increase prices to offset higher costs, we could experience lower demand for our products and sales volumes. We recently increased prices for *Rao's* sauces and also announced that we will increase prices for other products in our portfolio, which could adversely impact demand and sales. We may implement additional price increases in the future, including multiple price increases in a fiscal year, and we may not be able to accurately forecast pricing elasticities and the resulting impact on volume growth and/or distribution gains. To the extent we are unable to offset present and future cost increases related to the production and distribution of our products, it could have a material adverse effect on our business, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Document
3.1	Amended and Restated Certificate of Incorporation of Sovos Brands, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on September 27, 2021).
3.2	Amended and Restated Bylaws of Sovos Brands, Inc. (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed on September 27, 2021).
4.1	Form of Certificate of Common Stock of Sovos Brands, Inc. (incorporated by reference to Exhibit 4.1 to the Company's Form S-1 filed on August 27, 2021).
4.2	Registration Rights Agreement dated as of September 23, 2021, by and among Sovos Brands, Inc. and the other parties thereto (incorporated by reference to Exhibit 4.2 to the Company's Form 10-Q filed on November 9, 2021).
10.1	First Lien Credit Agreement, dated as of June 8, 2021, by and among Sovos Brands Intermediate, Inc., Sovos Brands Holdings, Inc., the financial institutions party thereto and Credit Suisse AG, Cayman Islands Branch, as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Company's Form S-1 filed on August 27, 2021).
10.2	Second Lien Credit Agreement, dated as of June 8, 2021, by and among Sovos Brands Intermediate, Inc., Sovos Brands Holdings, Inc., the financial institutions party thereto and Owl Rock Capital Corporation, as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Company's Form S-1 filed on August 27, 2021).
†10.3	Employment Agreement, dated as of January 14, 2017, between Grand Prix Intermediate, Inc. and Todd R. Lachman (incorporated by reference to Exhibit 10.3 to the Company's Form S-1 filed on August 27, 2021).
†10.4	Amendment to the Employment Agreement, dated as of September 1, 2021, between Sovos Brands Intermediate, Inc. and Todd R. Lachman (incorporated by reference to Exhibit 10.4 to the Company's Form S-1/A filed on September 9, 2021).
†10.5	Sovos Brands Richard Greenberg Employment Term Sheet (incorporated by reference to Exhibit 10.5 to the Company's Form S-1 filed on August 27, 2021).
†10.6	Retention Agreement dated January 14, 2022 between Sovos Brands Intermediate, Inc. and Richard Greenberg (incorporated by reference to Exhibit 10.6 to the Company's Form 10-K filed on March 15, 2022).
†10.7	Sovos Brands Limited Partnership 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Form S-1 filed on August 27, 2021).
†10.8	Amendment No. 1 to Sovos Brands Limited Partnership 2017 Equity Incentive Plan, dated as of February 10, 2021 (incorporated by reference to Exhibit 10.7 to the Company's Form S-1 filed on August 27, 2021).
†10.9	Sovos Brands, Inc. 2021 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to the Company's Form S-1/A filed on September 9, 2021).
†10.10	Sovos Brands, Inc. 2021 Annual Cash Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Form S-1 filed on August 27, 2021).
†10.11	Sovos Brands, Inc. Annual Cash Incentive Plan (incorporated by reference to Exhibit 10.10 to the Company's Form S-1 filed on August 27, 2021).
†10.12	Incentive Unit Grant Agreement, dated as of June 7, 2017, between Sovos Brands Limited Partnership and Todd R. Lachman (incorporated by reference to Exhibit 10.11 to the Company's Form S-1 filed on August 27, 2021).

†10.13	Incentive Unit Grant Agreement, dated as of August 29, 2017, between Sovos Brands Limited Partnership and Todd R. Lachman (incorporated by reference to Exhibit 10.12 to the Company's Form S-1 filed on August 27, 2021).
†10.14	Incentive Unit Grant Agreement, dated as of May 1, 2019 between Sovos Brands Limited Partnership and Todd R. Lachman (incorporated by reference to Exhibit 10.13 to the Company's Form S-1 filed on August 27, 2021).
†10.15	Incentive Unit Grant Agreement, dated as of June 26, 2017 between Sovos Brands Limited Partnership and Richard Greenberg (incorporated by reference to Exhibit 10.14 to the Company's Form S-1/A filed on September 9, 2021).
†10.16	Incentive Unit Grant Agreement, dated as of August 23, 2017 between Sovos Brands Limited Partnership and Richard Greenberg (incorporated by reference to Exhibit 10.15 to the Company's Form S-1/A filed on September 9, 2021).
†10.17	Incentive Unit Grant Agreement, dated as of May 1, 2019 between Sovos Brands Limited Partnership and Richard Greenberg (incorporated by reference to Exhibit 10.16 to the Company's Form S-1/A filed on September 9, 2021).
†10.18	Incentive Unit Grant Agreement, dated as of November 14, 2019 between Sovos Brands Limited Partnership and Chris Hall (incorporated by reference to Exhibit 10.17 to the Company's Form S-1/A filed on September 9, 2021).
†10.19	Form of Amendment to the Incentive Unit Grant Agreement between Sovos Brands Limited Partnership and certain of its officers and directors (incorporated by reference to Exhibit 10.18 to the Company's Form S-1/A filed on September 9, 2021).
†10.20	Form of Restricted Stock Agreement between Sovos Brands, Inc. and certain of its officers and directors (incorporated by reference to Exhibit 10.19 to the Company's Form S-1/A filed on September 9, 2021).
†10.21	Restricted Stock Agreement, dated as of September 22, 2021 among Sovos Brands, Inc., Sovos Brands Limited Partnership, Todd R. Lachman, and Christine R. Lachman and The St. Louis Trust Company, as trustees of the Todd Lachman 2021 Family Trust (incorporated by reference to Exhibit 10.20 to the Company's Form 10-Q filed on November 9, 2021).
†10.22	Restricted Stock Agreement, dated as of September 22, 2021 among Sovos Brands, Inc., Sovos Brands Limited Partnership and Richard P. Greenberg (incorporated by reference to Exhibit 10.21 to the Company's Form 10-Q filed on November 9, 2021).
†10.23	Restricted Stock Agreement, dated as of September 22, 2021 among Sovos Brands, Inc., Sovos Brands Limited Partnership and Christopher W. Hall (incorporated by reference to Exhibit 10.22 to the Company's Form 10-Q filed on November 9, 2021).
†10.24	Restricted Stock Agreement, dated as of September 22, 2021 among Sovos Brands, Inc., Sovos Brands Limited Partnership and William R. Johnson (incorporated by reference to Exhibit 10.23 to the Company's Form 10-Q filed on November 9, 2021).
†10.25	Restricted Stock Agreement, dated as of September 22, 2021 among Sovos Brands, Inc., Sovos Brands Limited Partnership and Daniel L. Poland (incorporated by reference to Exhibit 10.24 to the Company's Form 10-Q filed on November 9, 2021).
†10.26	Form of Notice of Modification of Vesting Terms of Restricted Stock Agreement among Sovos Brands, Inc., Sovos Brands Limited Partnership and certain of its officers and directors (incorporated by reference to Exhibit 10.25 to the Company's Form 10-Q filed on November 9, 2021).
†10.27	Notice of Modification of Vesting Terms of Restricted Stock Agreement, dated as of September 22, 2021, among Sovos Brands, Inc., Sovos Brands Limited Partnership, Todd R. Lachman, and Christine R. Lachman and The St. Louis Trust Company, as trustees of the Todd Lachman 2021 Family Trust (incorporated by reference to Exhibit 10.26 to the Company's Form 10-Q filed on November 9, 2021).

†10.28	Notice of Modification of Vesting Terms of Restricted Stock Agreement, dated as of September 22, 2021, among Sovos Brands, Inc., Sovos Brands Limited Partnership and Richard P. Greenberg (incorporated by reference to Exhibit 10.27 to the Company's Form 10-Q filed on November 9, 2021).
†10.29	Notice of Modification of Vesting Terms of Restricted Stock Agreement, dated as of September 22, 2021, among Sovos Brands, Inc., Sovos Brands Limited Partnership and Christopher W. Hall (incorporated by reference to Exhibit 10.28 to the Company's Form 10-Q filed on November 9, 2021).
†10.30	Notice of Modification of Vesting Terms of Restricted Stock Agreement, dated as of September 22, 2021, among Sovos Brands, Inc., Sovos Brands Limited Partnership and William R. Johnson (incorporated by reference to Exhibit 10.29 to the Company's Form 10-Q filed on November 9, 2021).
†10.31	Form of Sovos Brands, Inc. 2021 Equity Incentive Plan Performance-Based Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.30 to the Company's Form 10-Q filed on November 9, 2021).
†10.32	Form of Sovos Brands, Inc. 2021 Equity Incentive Plan Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.32 to the Company's Form 10-K filed on March 15, 2022).
†10.33	Form of Sovos Brands, Inc. 2021 Equity Incentive Plan Performance-Based Restricted Stock Unit Award Agreement (IPO Grants) (incorporated by reference to Exhibit 10.22 to the Company's Form S-1/A filed on September 9, 2021).
†10.34	Form of Sovos Brands, Inc. 2021 Equity Incentive Plan Restricted Stock Unit Award Agreement (IPO Grants) (incorporated by reference to Exhibit 10.23 to the Company's Form S-1/A filed on September 9, 2021).
†10.35	Form of Executive Officer and Director Indemnification Agreement for Sovos Brands, Inc. (incorporated by reference to Exhibit 10.22 to the Company's Form S-1 filed on August 27, 2021).
†10.36	Letter Agreement dated March 14, 2022 between Sovos Brands Intermediate, Inc. and Kirk Jensen (incorporated by reference to Exhibit 10.36 to the Company's Form 10-K filed on March 15, 2022).
21.1	List of subsidiaries (incorporated by reference to Exhibit 21.1 to the Company's Form S-1 filed on August 27, 2021).
*31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
*31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
*32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act.
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101).

* Filed herewith.

† Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Sovos Brands, Inc.	
	By:	/s/ Christopher W. Hall
Date: May 4, 2022	Name:	Christopher W. Hall
	Title:	Chief Financial Officer
		(Principal Financial Officer and Authorized Officer)

Exhibit 31.1

CERTIFICATION

PURSUANT TO RULES 13a-14(a) AND 15d-14(a)

OF THE U.S. SECURITIES EXCHANGE ACT OF 1934

AS ADOPTED PURSUANT TO

Section 302 of the Sarbanes-Oxley Act of 2002

I, Todd R. Lachman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sovos Brands, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) [omitted];
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2022

By: /s/ Todd R. Lachman
Name: Todd R. Lachman
Title: Chief Executive Officer, President and Director

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

PURSUANT TO RULES 13a-14(a) AND 15d-14(a)

OF THE U.S. SECURITIES EXCHANGE ACT OF 1934

AS ADOPTED PURSUANT TO

Section 302 of the Sarbanes-Oxley Act of 2002

I, Christopher W Hall, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sovos Brands, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) [omitted];
    c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 4, 2022

By: /s/ Christopher W. Hall
Name: Christopher W. Hall
Title: Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

PURSUANT TO 18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Sovos Brands, Inc. (the "Company") for the fiscal period ended March 26, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certificate is being furnished solely for the purposes of 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Date: May 4, 2022	By:	/s/ Todd R. Lachman
	Name:	Todd R. Lachman
	Title:	Chief Executive Officer, President and Director *(Principal Executive Officer)*

Date: May 4, 2022	By:	/s/ Christopher W. Hall
	Name:	Christopher W. Hall
	Title:	Chief Financial Officer *(Principal Financial Officer)*