Flowers FOODS

FIRST QUARTER 2024 PREPARED REMARKS

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CORPORATE PARTICIPANTS

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PRESENTATION

J.T. Rieck, *EVP of Finance and Investor Relations*

Hello everyone. This is J.T. Rieck, EVP of finance and investor relations. Welcome to the pre-recorded discussion of Flowers Foods' 2024 first-quarter results. We will host a live Q&A session this evening at 5:00 p.m. Eastern. Further details about the live call, along with our earnings release, a transcript of these recorded remarks, and a related slide presentation, are posted on the investor section of flowersfoods.com.

Before we get started, keep in mind that the information presented here may include forward-looking statements about the company's performance. Although we believe these statements to be reasonable, they are subject to risks and uncertainties that could cause actual results to differ materially. In addition to what you hear in these remarks, important factors relating to Flowers Foods' business are fully detailed in our SEC filings.

Providing remarks today are Ryals McMullian, chairman and CEO, and Steve Kinsey, our CFO. Ryals, I'll turn it over to you…

Ryals McMullian, *Chairman and CEO*

Thanks J.T. It's a pleasure to welcome everyone to the call.

Our solid first quarter results underscore the progression of our portfolio strategy, which we have been discussing for several years now. In a challenging and dynamic market, we grew branded retail units in tracked channels, outperforming the fresh packaged bread category. Our strong brands also drove dollar sales outperformance, increasing 4% compared to category expansion of only 1%.

Importantly, momentum built throughout the quarter and total company volumes turned positive in the last four weeks, as our branded products continue to gain share, and away-from-home business exits moderate. Excluding deliberate exits in our away-from-home business, company-wide volumes grew in the first quarter. Even more exciting is that early signs indicate that these positive results have continued into the second quarter.

As I mentioned, the catalyst for that performance was our portfolio strategy, which aims to shift a greater portion of our sales to higher margin branded retail products, while improving the profitability of our private label and away-from-home businesses. Our results during the pandemic demonstrated the potential benefits of that strategy, as the mix shift to branded retail products drove significant margin expansion.

In the years since, we've been focused on advancing that strategy, strengthening our brands through investments in innovation and marketing. We've also improved the composition of our away-from-home and private label businesses, emphasizing margins over volume. In the short-term, that process resulted in stranded overhead that hampered corporate margins. However, beneath the surface, profitability in those businesses improved dramatically and we are capitalizing on new opportunities to rebuild that lost volume at more-attractive margins.

Financial results gained momentum throughout the quarter with a solid top- and bottom-line performance. Sales benefitted from the carryover of pricing actions in the prior year as well as improving volume trends. Margins were aided by moderating commodity costs, partially offset by investments in growth initiatives and higher labor expense.

The bread category continues to outperform, with unit sales flat compared to a 3% decline in overall food, as shown on slide 9. Trends within the category were consistent with the recent past. Although the economic environment has shifted demand toward private label products, which gained 30 basis points of unit share, slide 10 shows that shift has clearly moderated. In fact, private label actually lost share in the last four weeks of the quarter.

In this evolving environment, our brands continue to thrive, maintaining unit share in the quarter and gaining 50 basis points of dollar share in tracked channels. We performed particularly well in the specialty premium, sandwich buns and rolls, and breakfast channels where we added 140, 40, and 40 basis points of unit share respectively. This encouraging performance bolsters our confidence in our long-term prospects as consumer demand normalizes.

Based on these results, we are largely maintaining our financial outlook for the year, though with increased expectations for capital spending related to supply chain optimization initiatives. We are optimistic about continued volume improvement and expect to benefit from new, profitable business wins and increased savings initiatives that will flow through the second half. We remain somewhat cautious about the uncertain consumer and promotional environment. Steve will offer more detail in his remarks.

Now, I'll provide an overview of our first quarter performance in the context of our four strategic priorities: developing our team, focusing on our brands, prioritizing margins, and pursuing smart M&A. Following that, Steve will review our financial results and guidance, and then I'll close with a discussion of key themes moving forward.

I can't say enough about the tremendous progress we've made in a challenging market environment. That performance is the direct result of the hard work of our team, who are our greatest competitive advantage. From innovating new products, expanding into new markets, deepening our relationship with retail partners, improving the efficiency of our manufacturing process, refining how we go to market, and other areas that are too numerous to list, the Flowers team is focused on ensuring our company continues to improve each day. I am humbled by their enthusiasm and dedication, and I'm extremely proud of their accomplishments.

Our second strategic priority is focusing on our brands, which continue to resonate with consumers. Although inflation is driving a greater focus on value, consumers continue to seek out differentiation. Our brands offer an assortment of options at various price points, and we are seeing successful performance throughout the portfolio.

Dave's Killer Bread continues to post exceptional results despite category weakness in premium products. Dave's gained 30 basis points of dollar share while growing units 10%. Other brands generated similarly impressive results, with Nature's Own and Wonder each gaining 20 basis points of dollar share. And with the benefit of recent capacity additions, Canyon Bakehouse is making progress in reigniting its growth, increasing dollar share in the gluten free category by 40 basis points.

We attribute these strong results to our brand strength, market execution, and innovative products. Highlighting the effectiveness of our innovation capabilities, Flowers has had the number one new SKU introduced in the bread category in each of the last two years with Nature's Own Hawaiian loaf in 2022 and Keto Net One loaf in 2023. Our innovation pipeline has been increasingly productive with the recent introduction of 11 new products.

For example, building on the success of the Keto Net One loaf, the top-selling Keto packaged bread nationwide, we introduced Keto Soft White Buns. Other products include Nature's Own Perfectly Crafted Flatbreads, DKB Organic Rock 'N' Rolls, Wonder bagels and English muffins, and Canyon Cinnamon Raisin bread.

And, of course, we are in the midst of the nationwide launch of DKB Amped-Up Protein Bars with plans to launch DKB Snack Bites nationally soon after. The original DKB Snack Bars continue to receive strong support from consumers—an encouraging sign as we launch these follow-on products.

The breadth and scope of our newest launches are a testament to our continued focus on innovation and the growth of our leading brands. As consumers increasingly seek more-differentiated items, it is critical that we continue to bring new and exciting products to market. We have ambitious plans in that regard, and I am optimistic about the long-term growth potential enabled by our innovation team.

Our third strategic priority is margins, an area where we continue to make progress. Pricing actions taken last year to offset inflationary pressures have been effective in recovering some of the margin lost in prior years. And plans to further optimize bakery operations, including our digital initiatives, are taking hold, and beginning to show progress.

Equally impressive is the improved profitability in our away-from-home and private label businesses, which I touched on earlier. Signifying the increased profit potential for away-from-home, we elevated it in our portfolio strategy matrix to the Balance Growth quadrant as shown in slide 11. We are excited about the opportunities in each of these areas.

To further strengthen our leading brands, we are investing in marketing and digital initiatives. Although those investments temper near-term results, they are non-negotiable and crucial in enabling us to meet or exceed our long-term financial targets.

Despite our solid performance, we recognized the need to further improve our cost structure to better leverage our strong top-line results and deliver increased profitability. To help offset the near-term impact of those investments, we are redoubling our efforts and increasing our expectations for savings initiatives for the year from $30 to $40 million to $40 to $50 million.

The increase reflects our confidence in the effectiveness of our initial cost-savings programs, and the addition of new programs as we continue to optimize our operations. Specific actions include select workforce reductions, reduced third-party spend, enhancing the effectiveness of marketing investments, improvements in leased labor and indirect procurement spend, and efficiency in our DSD network, among others.

In addition to those savings initiatives, we have identified further areas of operational improvement in a couple of bakeries that we expect will result in a meaningful improvement to quarterly earnings going forward, though these initiatives will take time to implement. Had those bakeries been operating at their proper efficiency levels, our quarterly performance would have been even stronger. We are actively working to capture these efficiencies, and view that process as a significant opportunity to drive further earnings growth.

Amid this challenging environment, it is more important than ever that we wisely control our costs and promote a culture of ownership and accountability. While this focus has always been ingrained in our DNA, we are increasing our emphasis going forward—instituting a mindset of continuous productivity improvement related to cost across the organization.

Our fourth priority is smart M&A.

M&A has been a key contributor to our growth for decades, expanding our geographic coverage and supplementing our brand lineup. In addition to strengthening our position in core categories by expanding our geographic reach and gaining share in underdeveloped markets, we are also focused on finding new revenue streams across the baked foods category. We seek compelling brands that complement our existing portfolio and skew towards a "better for you" nutritional profile.

The M&A market is showing signs of improvement and we remain encouraged by the developing pipeline of potential opportunities. Our strong balance sheet positions us well to act when we have financial, commercial, and operational conviction.

Now, I'll turn it over to Steve to review the details of the quarter, and then I'll close with our outlook for the current business environment. Steve?

Steve Kinsey, *CFO*

Thank you, Ryals – and hello everyone.

Total sales in the first quarter increased 2.8% from the prior-year period. Improved price/mix drove the year-over-year increase, up 3.1%, primarily due to pricing actions taken in the prior year to mitigate inflationary pressures. Volume decreased 0.8%, largely due to targeted sales rationalizations in away-from-home. Notably, Branded Retail volumes increased 0.3%. The Papa Pita acquisition added 0.5%.

Gross margin as a percentage of sales, excluding depreciation and amortization, increased 160 basis points to 49.4% over the same quarter last year. Comparisons benefitted from pricing actions taken in the prior year and lower ingredient and packaging costs, partially offset by volume declines related to business rationalizations.

Selling, distribution, and administrative expenses as a percentage of sales were 39.7%, a 110-basis point increase over the prior year period. Increased labor and technology expenses were partly offset by lower distributor distribution fees as a percentage of sales.

Excluding matters affecting comparability, adjusted SD&A expenses were 39.3% of sales, a 130-basis point increase, due to the factors listed above.

GAAP diluted EPS for the quarter was 34 cents per share compared to 33 cents in the prior-year period. Excluding the items affecting comparability detailed in the release, adjusted diluted EPS in the quarter was 38 cents per share, consistent with the prior-year period.

Turning now to our balance sheet, liquidity, and cash flow.

Cash flow from operating activities in the first quarter increased by $47 million to $105 million. Capital expenditures decreased $1 million to $33 million and included $2 million for the ongoing ERP upgrade. Dividends paid increased $2 million to $51 million.

We believe our financial position remains strong. At quarter end, net debt to trailing twelve month adjusted EBITDA stood at approximately 2.0-times. We held approximately $16 million in cash and cash equivalents and had approximately $541.6 million of remaining availability on our credit facilities.

Now, turning to our outlook for 2024.

As Ryals said, we are largely maintaining our previously issued guidance, which calls for sales to be flat to up 1.6%, EBITDA of $524 to $553 million, and adjusted EPS in the range of $1.20 to $1.30. The one change is an increase in capital spending related to supply chain optimization.

Guidance reflects our expectation for continued volume improvement while acknowledging an uncertain economy and its potential impact on consumer behavior and the promotional environment. Full-year results are also expected to benefit from an expansion of our savings initiatives, and new business wins.

Key factors that could shift results within our guidance range include the consumer and promotional environment, the transition of our California distribution, and implementation of our savings initiatives. Other factors expected to impact full-year results include a higher tax rate and increased net interest expense associated with funding payments related to the California legal settlement, the ongoing ERP project, and decreased interest income.

As previously disclosed, we reached an agreement to settle distributor-related class action litigation in California. The settlement received final court approval on March 18, 2024. We have started the process of repurchasing the California distribution rights, which is expected to be completed during the first quarter of fiscal 2025. Once completed, we plan to service the California market with an employment model.

Approximately 83% of our key raw materials are covered in 2024. Based on that coverage, our guidance incorporates a moderation in ingredient costs in 2024 relative to the prior year. To minimize volatility and provide adequate visibility into costs, we have maintained our historical hedging strategy in which we attempt to increase the certainty of our key ingredient costs 6 to 12 months out.

Our ERP rollout went live in the second quarter of 2023, and we continue to make progress in that implementation, though we have paused the bakery rollout to concentrate resources on our California distribution transition. In fiscal 2024, we expect costs for the upgrade of our ERP system to be approximately $25 to $35 million, including $3 to $6 million expected to be capitalized. As of quarter-end, we have incurred costs related to the project of approximately $223 million, of which $114 million has been capitalized.

Thank you. And now I'll turn it back to Ryals.

Ryals McMullian, *Chairman and CEO*

Thank you, Steve.

Now I'd like to discuss some of the trends impacting our current performance, and the steps we are taking to maximize our opportunities in this environment and beyond. I'll first touch on consumer trends and then address the competitive environment.

Consumer purchasing behavior in the first quarter remained consistent with the recent past. The market is somewhat bifurcated, with premium products performing well as some consumers seek differentiation, and less-expensive products appealing to those looking for greater value.

Private label products continued to gain share, though that trend is moderating, as I noted earlier. In fact, private label actually lost unit share toward the end of the quarter. And as private label unit growth moderated, our branded retail volume inflected positively, growing in the quarter for the first time since 2020. That shift continues the positive trend that we highlighted last quarter as shown on slide 12. Consistent with our portfolio strategy, the result of that growth is that our branded retail mix increased to 64.4% of sales in the quarter, up 50 basis points from the year earlier period, and up 440 basis points from the first quarter of 2019.

Consumer spending remains somewhat inconsistent. Data shows that fast-food traffic is declining while overall at-home food and beverage units also trended negatively toward the end of the quarter. At the same time, bread category trends have been improving, with notably better sequential unit performance in the quarter, as highlighted in slide 9. We continue to monitor these trends closely.

Turning now to the competitive environment, which remains rational and consistent with recent periods. Although economic pressure is driving many consumers to seek greater value, lifts from promotion remain below pre-pandemic levels. Research from Circana offers several possible explanations for this seeming anomaly. First, following significant price increases to offset inflation, consumers perceive discounts off those higher prices as less of a value compared to lower, pre-inflationary prices. Second, lower-income consumers with stretched budgets, who previously may have capitalized on promotions by stocking up on product, may not be able to afford to do so now. And third, more consumers are planning their purchases ahead of store visits and not straying from their list while in store, minimizing the number of impulse purchases.

Given that environment, to drive greater efficiencies in our promotions, we are leaning even further on our enhanced internal digital tools. Last quarter, we noted that the percentage of our product sold on promotion grew, as our promotional activity increased slightly and consumer response to promotions reverted somewhat to more historic levels.

In the first quarter, we saw a similar trend, with higher levels of product sold on promotion compared to the prior year, though at a smaller percentage increase. That said, our promotions remain significantly below pre-pandemic levels. It’s also important to note that our average selling price rose versus the prior year quarter, validating our selective use of promotions in combination with enhanced display execution and new trade promotion management capabilities. We will continue to selectively use promotions where warranted, including to drive trial of new and innovative products, but only where we expect a net positive return on investment.

Beyond promotions, we remain focused on bringing greater perceived value to consumers through innovation, and highlighting that value in our marketing. For example, our new Nature’s Own small loaves offer the same great taste, texture, and quality of our traditional loaves, but at a lower price point with less product waste for smaller households. We expect our innovation team to continue their work of developing unique products that expand the potential market for our leading brands.

In closing, I am pleased with the improvement demonstrated by our first quarter results. Maintaining a focus on long-term opportunities requires patience, as change takes time to implement, and progress can be uneven. Short-term fixes that generate quick wins can be tempting, but often don’t go far enough to maximize long-term value.

If there is one thing that I hope everyone will take away from this call, it’s that we are doing exactly what we said we would do: executing our portfolio strategy by exiting low margin business and refilling that capacity with margin accretive new business; improving our cost structure; investing in our brands to drive volume and share gains and improve our mix; leveraging technology to improve data visibility and drive better strategic decisions; and investing in our team to improve overall execution.

While we are not yet where we want to be, our progress is becoming increasingly apparent. We will continue to push forward with a focus on achieving our long-term financial targets. I am extremely confident in our growth potential and I look forward to continuing our progress throughout 2024.

Thank you very much for your time. That concludes our prepared remarks.

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Forward-Looking Statements

Statements contained in this transcript and certain other written or oral statements made from time to time by Flowers Foods, Inc. (the "company", "Flowers Foods", "Flowers", "us", "we", or "our") and its representatives that are not historical facts are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to current expectations regarding our business and our future financial condition and results of operations and are often identified by the use of words and phrases such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "should," "will," "would," "is likely to," "is expected to" or "will continue," or the negative of these terms or other comparable terminology. These forward-looking statements are based upon assumptions we believe are reasonable. Forward-looking statements are based on current information and are subject to risks and uncertainties that could cause our actual results to differ materially from those projected. Certain factors that may cause actual results, performance, liquidity, and achievements to differ materially from those projected are discussed in our Annual Report on Form 10-K for the year ended December 30, 2023 (the "Form 10-K") and Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission ("SEC") and may include, but are not limited to, (a) unexpected changes in any of the following: (1) general economic and business conditions; (2) the competitive setting in which we operate, including advertising or promotional strategies by us or our competitors, as well as changes in consumer demand; (3) interest rates and other terms available to us on our borrowings; (4) supply chain conditions and any related impact on energy and raw materials costs and availability and hedging counter-party risks; (5) relationships with or increased costs related to our employees and third-party service providers; (6) laws and regulations (including environmental and health-related issues); and (7) accounting standards or tax rates in the markets in which we operate, (b) the loss or financial instability of any significant customer(s), including as a result of product recalls or safety concerns related to our products, (c) changes in consumer behavior, trends and preferences, including health and whole grain trends, and the movement toward less expensive store branded products, (d) the level of success we achieve in developing and introducing new products and entering new markets, (e) our ability to implement new technology and customer requirements as required, (f) our ability to operate existing, and any new, manufacturing lines according to schedule, (g) our ability to implement and achieve our corporate responsibility goals in accordance with regulatory requirements and expectations of stakeholders, suppliers, and customers; (h) our ability to execute our business strategies which may involve, among other things, (1) the ability to realize the intended benefits of completed, planned or contemplated acquisitions, dispositions or joint ventures, (2) the deployment of new systems (e.g., our enterprise resource planning ("ERP") system), distribution channels and technology, and (3) an enhanced organizational structure (e.g., our sales and supply chain reorganization), (i) consolidation within the baking industry and related industries, (j) changes in pricing, customer and consumer reaction to pricing actions (including decreased volumes), and the pricing environment among competitors within the industry, (k) our ability to adjust pricing to offset, or partially offset, inflationary pressure on the cost of our products, including ingredient and packaging costs; (l) disruptions in our direct-store-delivery distribution model, including litigation or an adverse ruling by a court or regulatory or governmental body that could affect the independent contractor classifications of the independent distributor partners, and changes to our direct-store-delivery distribution model in California, (m) increasing legal complexity and legal proceedings that we are or may become subject to, (n) labor shortages and turnover or increases in employee and employee-related costs, (o) the credit, business, and legal risks associated with independent distributor partners and customers, which operate in the highly competitive retail food and foodservice industries, (p) any business disruptions due to political instability, pandemics, armed hostilities (including the ongoing conflict between Russia and Ukraine and the conflict in the Middle East), incidents of terrorism, natural disasters, labor strikes or work stoppages, technological breakdowns, product contamination, product recalls or safety concerns related to our products, or the responses to or repercussions from any of these or similar events or conditions and our ability to insure against such events, (q) the failure of our information technology systems to perform adequately, including any interruptions, intrusions, cyber-attacks or security breaches of such systems or risks associated with the implementation of the upgrade of our ERP system; and (r) the potential impact of climate change on the company, including physical and transition risks, availability or restriction of resources, higher regulatory and compliance costs, reputational risks, and availability of capital on attractive terms. The foregoing list of important factors does not include all such factors, nor does it necessarily present them in order of importance. In addition, you should consult other disclosures made by the company (such as in our other filings with the SEC or in company press releases) for other factors that may cause actual results to differ materially from those projected by the company. Refer to Part I, Item 1A., Risk Factors, of the Form 10-K and subsequent filings with the SEC for additional information regarding factors that could affect the company's results of operations, financial condition and liquidity. We caution you not to place undue reliance on forward-looking statements, as they speak only as of the date made and are inherently uncertain. The company undertakes no obligation to publicly revise or update such statements, except as required by law. You are advised, however, to consult any further public disclosures by the company (such as in our filings with the SEC or in company press releases) on related subjects.

Information Regarding Non-GAAP Financial Measures

The company prepares its consolidated financial statements in accordance with U.S. Generally Accepted Accounting Principles (GAAP). However, from time to time, the company may present in its public statements, press releases and SEC filings, non-GAAP financial measures such as, EBITDA, adjusted EBITDA, adjusted EBITDA margin, adjusted net income, adjusted diluted EPS, adjusted income tax expense, adjusted selling, distribution and administrative expenses (SD&A), and gross margin excluding depreciation and amortization. The reconciliations attached provide reconciliations of the non-GAAP measures used in this presentation or release to the most comparable GAAP financial measure. The company's definitions of these non-GAAP measures may differ from similarly titled measures used by others. These non-GAAP measures should be considered supplemental to, and not a substitute for, financial information prepared in accordance with GAAP.

The company defines EBITDA as earnings before interest, taxes, depreciation and amortization. Earnings are net income. The company believes that EBITDA is a useful tool for managing the operations of its business and is an indicator of the company's ability to incur and service indebtedness and generate free cash flow. The company also believes that EBITDA measures are commonly reported and widely used by investors and other interested parties as measures of a company's operating performance and debt servicing ability because EBITDA measures assist in comparing performance on a consistent basis without regard to depreciation or amortization, which can vary significantly depending upon accounting methods and non-operating factors (such as historical cost). EBITDA is also a widely-accepted financial indicator of a company's ability to incur and service indebtedness.

EBITDA should not be considered an alternative to (a) income from operations or net income (loss) as a measure of operating performance; (b) cash flows provided by operating, investing and financing activities (as determined in accordance with GAAP) as a measure of the company's ability to meet its cash needs; or (c) any other indicator of performance or liquidity that has been determined in accordance with GAAP.

The company defines adjusted EBITDA, adjusted EBITDA margin, adjusted net income, adjusted diluted EPS, adjusted income tax expense and adjusted SD&A, respectively, to exclude additional costs that the company considers important to present to investors to increase the investors' insights about the company's core operations. These costs include, but are not limited to, the costs of closing a plant or costs associated with acquisition-related activities, restructuring activities, certain impairment charges, legal settlements, costs to implement an enterprise resource planning system and enhance bakery digital capabilities (business process improvement costs) to provide investors direct insight into these costs, and other costs impacting past and future comparability. The company believes that these measures, when considered together with its GAAP financial results, provides management and investors with a more complete understanding of its business operating results, including underlying trends, by excluding the effects of certain charges. Adjusted EBITDA is used as the primary performance measure in the company's 2014 Omnibus Equity and Incentive Compensation Plan (Amended and Restated Effective May 25, 2023).

Presentation of gross margin includes depreciation and amortization in the materials, supplies, labor and other production costs according to GAAP. Our method of presenting gross margin excludes the depreciation and amortization components, as discussed above.

The reconciliations attached provide reconciliations of the non-GAAP measures used in this presentation or release to the most comparable GAAP financial measure.

No reconciliation of the forecasted range for adjusted EBITDA or adjusted EPS is included in this presentation because we are unable to quantify certain amounts that would be required to be included in the GAAP measure without unreasonable efforts. In addition, the company believes such reconciliations would imply a degree of precision that would be confusing or misleading to investors.