

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

FLO.N - Q1 2024 Flowers Foods Inc Earnings Call

EVENT DATE/TIME: MAY 16, 2024 / 9:00PM GMT

## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**A. Ryals McMullian** *Flowers Foods, Inc. - CEO & Chairman of Board*

**J. T. Rieck** *Flowers Foods, Inc. - Executive VP of Finance & IR*

**R. Steve Kinsey** *Flowers Foods, Inc. - CFO & CAO*

## CONFERENCE CALL PARTICIPANTS

**Connor J. Rattigan** *Consumer Edge Research, LLC - Research Analyst*

**James Ronald Salera** *Stephens Inc., Research Division - Analyst*

**Mitchell Brad Pinheiro** *Sturdivant & Co., Inc., Research Division - Research Analyst*

**Stephen Robert R. Powers** *Deutsche Bank AG, Research Division - Research Analyst*

**William Bates Chappell** *Truist Securities, Inc., Research Division - MD*

## PRESENTATION

### Operator

Good evening, and thank you for standing by. Welcome to the Flowers Foods First Quarter 2024 Results Conference Call. Please be advised that today's event is being recorded.

I would now like to hand the conference over to your opening speaker today, J.T. Rieck, Executive Vice President of Finance and Investor Relations. Please go ahead.

---

**J. T. Rieck** - *Flowers Foods, Inc. - Executive VP of Finance & IR*

Thank you, Carmen, and good evening. I hope everyone had the opportunity to review our earnings release, listen to our prepared remarks and view the slide presentation that were all posted earlier on our Investor Relations website. After today's Q&A session, we will also post an audio replay of this call.

Please note that in this Q&A session, we may make 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.

We also provide non-GAAP financial measures for which disclosure and reconciliations are provided in the earnings release and at the end of the slide presentation on our website.

Joining me today are Ryals McMullian, Chairman and CEO; and Steve Kinsey, our CFO. Ryals, I'll turn it over to you.

---

**A. Ryals McMullian** - *Flowers Foods, Inc. - CEO & Chairman of Board*

Okay. Thanks, J.T. Good evening, everybody. Thanks for joining our first quarter call, and we also appreciate everybody's flexibility in accommodating the change in timing for our Q&A session today. Our solid first quarter results reflect the increasing effectiveness of our portfolio strategy, driven by investments in marketing and innovation, our brands gained share despite the challenging consumer environment.

Significantly, we also grew branded retail volumes for the first time since 2020. Dave's Killer Bread led the way with its second consecutive quarter of 10% unit growth, but we saw encouraging signs across the brand portfolio. And we continue to expand our margins in our away-from-home

and private label businesses. We are maintaining our financial outlook for the year, which incorporates continued volume improvement while acknowledging the ongoing economic uncertainty and its potential impact on consumer behavior and the promotional environment.

As I mentioned in the prepared remarks, if there's one thing I'd like for you to take away from this call is that we're doing exactly what we said we would do. Although progress is not linear, we'll continue to execute our portfolio strategy with the expectation of achieving our long-term financial targets, and I'm extremely confident in our growth potential, and I look forward to continuing our progress throughout 2024.

So with that, Carmen, we'll open it up for questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question, and it comes from Steve Powers from Deutsche Bank.

---

### Stephen Robert R. Powers - Deutsche Bank AG, Research Division - Research Analyst

I was actually hoping we could talk -- start on just the operating expenses in the quarter and SD&A run rate spending. You called out a couple of things in the prepared remarks, higher labor costs, higher technology costs. You also separately called out stranded overheads. I was wondering if those 2 things are related, if those are separate? And really, what I'm focused on is just sort of how we think about the cadence of that SD&A and operating expense expenditures over the course of the year. Do we expect some relief on stranded overheads? Do you expect transition cost in California to replace that? Just some direction on the cadence of SD&A expenditures over the course of the year would be great.

---

### A. Ryals McMullian - Flowers Foods, Inc. - CEO & Chairman of Board

Sure. Happy to. I'll start, and I'm sure Steve will want to chime in here, too. But yes, it's a little bit of both. There's some labor expense in there. There's higher marketing expense in there, which we've talked about before, the rationale for that investment. And you've got the stranded overhead, too, that we've talked about in the past.

The good news is twofold: one, you may have noticed that we raised our savings range from \$30 to \$40 million to \$40 to \$50 million, and some of that will help us improve SD&A. As I noted in the prepared remarks, we do recognize our cost structure is a bit too high, and we're taking actions to pull some of that back and get more back in line. I mentioned the labor cost and marketing as well play a role in that. So I would expect over time for us to improve SD&A, particularly as a percentage of net sales. and better leverage our cost structure going forward.

Steve, do you want to add to that at all?

---

### R. Steve Kinsey - Flowers Foods, Inc. - CFO & CAO

Yes. I mean I think Ryals hit on that. Obviously, the first quarter is 16 weeks, we did see some elevated costs from that perspective. But we have good visibility to our cost takeout initiatives. And going forward, as a percent of sales, we do expect SD&A to pull back some and then kind of stabilize. So we do feel like we'll be able to get some of that under control as the year progresses.

**A. Ryals McMullian** - *Flowers Foods, Inc. - CEO & Chairman of Board*

Yes. The only other thing I'd add, Steve, relative to the stranded overhead is that, yes, this goes to -- this actually goes to the volume story as well, is that we are adding new business back at a bit of a faster clip than we originally anticipated at the beginning of the year. And of course, that will help cover that stranded cost.

**Stephen Robert R. Powers** - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. Very good. And then in terms of just use of cash, I noticed obviously, the capital expenditure outlook went up. Maybe a little bit more detail around what those supply chain investments are targeted at? And then you also sounded a little bit more front-footed with respect to an improved M&A environment. So maybe just some more color there as well.

**A. Ryals McMullian** - *Flowers Foods, Inc. - CEO & Chairman of Board*

Yes. I mean the capital investments really are just ongoing improvements, primarily at the bakeries, increasing automation, updating equipment. It's pretty normal course stuff, Steve, not out of the ordinary but just a little bit more spend than we originally thought beginning of the year. And then, yes, the M&A environment, I am a little bit more bullish on that now. Activity has really started to pick up that really started a couple of quarters ago and has continued.

So the conversations that we're having out there with targets are increasing in frequency, which is a good sign. It's been a little slow in the last couple of years, and you're very familiar with our balance sheet so you know we're poised to do a transaction when we find the right one.

**Stephen Robert R. Powers** - *Deutsche Bank AG, Research Division - Research Analyst*

Very good. One last line, if I could. Just on the ERP pause in the bakeries, I thought that was on track to be lifted in the second half. Just I don't know if that's still the case or if that's been recalibrated?

**R. Steve Kinsey** - *Flowers Foods, Inc. - CFO & CAO*

Yes. No, we're still planning to go back to the bakery rollout starting sometime in the back half.

**Operator**

And it comes from the line of Bill Chappell with Truist Securities.

**William Bates Chappell** - *Truist Securities, Inc., Research Division - MD*

Just maybe a little bit more about private label and the branded growth. I'm just trying to -- a little more color there. If anything, if there's any real weakness in the economy, we heard at the lower end, obviously, private label has kind of receded over the past few quarters, but I didn't know if you're surprised by brands holding up, if it's really Dave's Killer Bread accelerating? I mean, you said it was broader, but 10% growth for Dave's Killer Bread sounds pretty strong. So just maybe you could give us some more color, thoughts around beyond Dave's Killer Bread, kind of how brands are doing versus private label and kind of how the consumer environment is working out?

**A. Ryals McMullian** - *Flowers Foods, Inc. - CEO & Chairman of Board*

Sure. Yes. I mean, obviously, Dave's has been sort of the star of the show from a volume growth standpoint. But -- and I know you're asking questions about the broader portfolio, but I will say just to start, one of the interesting things that we saw in the quarter was low income shoppers coming

back to Dave's. So we had mentioned to you all quite a while back that around 20% of Dave's shoppers -- and we're defining that as \$30,000 or less in annual income, 20% of Dave's shoppers were low-income shoppers.

With the inflationary environment, that dropped off a little bit to about 16% and we've recovered almost back to 20% again. So that tells me that perhaps the consumer is getting a bit healthier, either that or they're tired of lack of differentiation and cheaper products and they're coming back to Dave's. I see that as a good macro sign that lower-income households are starting to come back.

Beyond that, we are seeing some strength in other parts of the portfolio. Wonder is a good example. That is a lower price point item for us, but Wonder, across sandwich buns and rolls, and loaf has been doing quite well. Nature's Own Perfectly Crafted continues to do well with positive unit growth in the quarter.

I think the one weak spot that we still have that we've talked about in prior quarters is sort of the broader basic Nature's Own product, whether that's Honey Wheat or 100% Whole Wheat, that is the area of the category that has experienced the most weakness during this era of private label trade down. I think some of that is starting to come back up out of private label into brands like Wonder. And if things continue to improve, I'd expect it to continue to come back to brands like Nature's Own as well.

---

**William Bates Chappell** - *Truist Securities, Inc., Research Division - MD*

Got it. No, that helps. And then a question we haven't really talked about it a long time is just kind of DSD network expansion. Where does that stand? Are you still adding routes, be it in California or elsewhere today? Is it more about velocity and more products through the existing routes? Are you actually shrinking? Are there areas where it doesn't make as much sense as you're trying to be more efficient? Any kind of thoughts on kind of the DSD network as it stands today would be helpful.

---

**A. Ryals McMullian** - *Flowers Foods, Inc. - CEO & Chairman of Board*

Sure. Yes. It's a little bit of a mixed bag. Now California is its own thing because we're converting to company routes there. But in some areas where we have higher growth, we're adding routes because routes are starting to get full. When that happens, it's usually quite a nice lift to sales to break up those routes and better service the stores in that area.

So in some places, we're adding. In some places on the fringe, we're not. And in other areas, as we move into new geographic territories, we're adding routes as well. So it kind of depends on where you are, what the growth trajectory is, how new the territory is. I think the key takeaway is that we are -- what we're really trying to do is make our DSD network as efficient as it possibly can be.

So for example, if you're in an area where you've got lower household penetration, lower market share and those independent routes may be struggling, we might convert them the company routes for a while until we get enough sales. In other areas where we're growing, we'll split them up and actually add routes. So it really just kind of depends. The key word is efficiency, though. That's what we're looking for.

---

**Operator**

And it comes from Jim Salera with Stephens.

---

**James Ronald Salera** - *Stephens Inc., Research Division - Analyst*

I wanted to ask on the volume side. In the prepared remarks, Ryals, you mentioned the planned business exits obviously contributed some headwinds on the volume side. And absent that, total company volume would have been positive. If possible, can you tell us what it would have been like the actual volume number would have been absent that? And beyond that, is the weakness in the Other category primarily coming from some of the restaurant customers because you called out some weakness in fast food? So any color around that would be helpful.

**A. Ryals McMullian** - *Flowers Foods, Inc. - CEO & Chairman of Board*

Yes, sure. So yes, we did say, Jim, if you took the intentional strategic exits -- and we didn't quantify it, but if you took the intentional strategic exits out total company volumes would have been positive. The reason we're saying it that way is because we did this on purpose, as we talked about. We had low margin business that was never going to be a big contributor, and we made the strategic decision to free that capacity up to move into higher-margin business.

The good news, and I think one of the larger stories of the quarter is that's exactly what we're doing. We're beginning to lap all those strategic exits. So you'll see those continue to go down as we move through the year. We pretty much lap all of them in the third quarter, be it very minor strategic exits in the back half, and we're replacing that volume with business that meets or exceeds our variable margin targets depending on what category of business we're talking about, whether it's branded or whether it's Other. So that's really the key takeaway there.

**James Ronald Salera** - *Stephens Inc., Research Division - Analyst*

Okay. Great. And maybe if I could dig in on Dave's for a second. Continues to grow ahead of the category, which is great. Obviously, a very differentiated offering. Can you just give us a sense for where it continues to source volume from? I mean, is it other larger branded players? Is it bringing people from outside to the category, just so we can kind of size up how long it can continue to run ahead of the broader category growth?

**A. Ryals McMullian** - *Flowers Foods, Inc. - CEO & Chairman of Board*

Yes. As we've looked at that, it's taken some share from other players in specialty premium, and it's -- we look at Dave's against the specialty premium category because we really don't have anything else to compare it to. But it kind of stands apart even from specialty premium because the specialty premium segment of the category is really, really weak right now. And Dave's is at a price point quite a bit higher than the rest of the specialty premium category. So it's really kind of hard to compare it to that. And it drives the -- it pretty much is the organic brand category.

But to answer your question, yes, it brings new people back into the category just because of its quality and differentiation. But Jim, also remember, it's also household penetration. The household penetration from Dave's is roughly half of what Nature's Own does. And so through our marketing investments, as we grow geographically, et cetera, we're growing that household penetration. So that's a big contributor as well.

**Operator**

And it's from Mitchell Pinheiro with Sturdivant & Company.

**Mitchell Brad Pinheiro** - *Sturdivant & Co., Inc., Research Division - Research Analyst*

I'm curious, you said you elevated the away-from-home part of the business to the balance growth as part of your strategy mix and your portfolio mix. And I thought that was interesting. Does that -- and that balance growth means you're going to grow above the category. So what's driving that? I mean, you've exited from some unproductive accounts, does -- are the accounts that you're in now growing in excess of the category, and that's sort of why? Or is there an ability to gain share but at a strong margin? I'd love to hear your thoughts on that move.

**A. Ryals McMullian** - *Flowers Foods, Inc. - CEO & Chairman of Board*

Sure. Well, first of all, I'm glad you noticed that. It's an important point to make. Yes, so now that we freed our capacity up to pursue better business, we felt that it made sense to move it into that category because we're going to place more focus on it. Now, that does not mean that we're going to over allocate resources to it to the detriment of the branded business. The strategy remains the same. We're moving to be a consumer-focused, brand-oriented company.

But when you look at the broader baked goods category, there is tremendous opportunity in away-from-home that we can capture with limited investment. We don't have to do a whole lot in terms of capacity or automation, et cetera, to capture some of that volume. And there are opportunities out there and customers who want us to serve them that are willing to deliver much fairer margins than we may have had in the past.

So we've always talked about our away-from-home business being an important contributor to the company. And this makes sense because the more profitable that we can make that business, the more resources we're going to have to allocate towards innovation and marketing and all the fun stuff we like to talk to you guys about every quarter. So that's the rationale.

---

**Mitchell Brad Pinheiro** - *Sturdivant & Co., Inc., Research Division - Research Analyst*

Okay. And then you're launching a lot of new products. I thought I read 11 new products. And look, how do you think about that, like first of all, in terms of priority of those new products, which ones are going to be at the top? And as these new products obviously would complicate, certainly, in the bakeries, as you're transitioning to things, is that -- how do you think about like the new products? Is it going to be positive out of the gate as a margin contributor in addition to sales? And I'd love to hear your comments on that.

---

**A. Ryals McMullian** - *Flowers Foods, Inc. - CEO & Chairman of Board*

Sure. Great question. I mean, we go through a very rigorous process that covers every single one of the points you just made. We start with the consumer, number one. Does the consumer even want this, right? If the answer to that is yes, then we start looking at commercialization and financials and how does this fit operationally? Is it going to create complexity in the plant? If so, how much?

And we don't launch anything that doesn't make sense for the consumer or doesn't make sense from a financial standpoint or doesn't make sense from an operational standpoint. We have to check all of those boxes before we'll launch anything. But it's a great question because we go through that entire sort of funneling process, if you will, before we launch any of these new items.

---

**Mitchell Brad Pinheiro** - *Sturdivant & Co., Inc., Research Division - Research Analyst*

Are these soft launches? Or are there going to be more substantial rollouts?

---

**A. Ryals McMullian** - *Flowers Foods, Inc. - CEO & Chairman of Board*

Yes. There are some of them that are more regional. But a lot of times, because we can make this stuff in so many bakeries, Mitch, most of them will be throughout the network.

---

**Mitchell Brad Pinheiro** - *Sturdivant & Co., Inc., Research Division - Research Analyst*

One more question on gross margin. It was a sizable expansion in the quarter. And you talked about pricing contributing, but pricing has been contributing about that rate for the last several quarters, so it seems like it's more than just that. And you called out some other things, but if you had to order them -- I mean, I'd love to know which were the largest contributors. And then is it price -- is the mix really helping there at all or not? And then do you see -- I know it's a long quarter. You generally get some nice -- you get some volume, some leverage there. Does that -- are we going to see a drop-off in gross margin in the second quarter?

**R. Steve Kinsey** - *Flowers Foods, Inc. - CFO & CAO*

Yes, Mitch, this is Steve. I mean, obviously, we've had said we've taken considerable pricing to help mitigate some of the inflationary pressures. So that continues to really help from the top line and gross margin perspective. And the mix, talking about Dave's and the growth there, continue to see really nice contribution overall from price mix. So I would say that I'd rate that, number one.

And then obviously, we had some nice commodity tailwinds coming into the year, and it does continue primarily through the first half, some in to the third quarter, and it started to wane some from Q3 and Q4. So that's -- that would be the with the second, I'd say, primary driver outside of the top line from an overall gross margin perspective.

---

**A. Ryals McMullian** - *Flowers Foods, Inc. - CEO & Chairman of Board*

Mitch, also, as we talk about the savings initiatives, some of those are going to benefit gross margin, not just SD&A but gross margin as well. And we also pointed to, in the quarter, we had a couple of discrete operational issues that we were working on that definitely impacted gross margin, that if we had hit closer to plan, we would have outperformed even the number we turned in on the bottom line. So as we get those things squared away, it's just 2 bakeries. It's not the end of the world but it did have a bit of an impact on the quarter as we bring that more back in line, that's also going to benefit gross margin. It will benefit the whole P&L but particularly gross margin.

---

**R. Steve Kinsey** - *Flowers Foods, Inc. - CFO & CAO*

I mean the forecast had some expectation is to increase gross margin year-over-year. But obviously, we're expecting up gross margin quarter-by-quarter, just different magnitudes.

---

**Operator**

(Operator Instructions) And it comes from the line of Connor Rattigan with Consumer Edge.

---

**Connor J. Rattigan** - *Consumer Edge Research, LLC - Research Analyst*

So in the prepared remarks, Ryals, you noted that you guys remain well below pre-pandemic promo levels and that it doesn't really seem like there's a real big notable lift on promo. But it does sound like your digital initiatives are really impacting your promo strategy. So I guess, what learnings have you guys gleaned so far on the promo front from those initiatives? And also, if you're not seeing as strong of a lift as you would like, should we maybe interpret that, that may inform your, I guess, you're spending decisions as you kind of debate the balance between using more promo versus marketing spend?

---

**A. Ryals McMullian** - *Flowers Foods, Inc. - CEO & Chairman of Board*

Yes, absolutely. And I will say, it seems like the lifts have gotten a little bit better, but certainly not where we were pre inflationary period, let's say. We did promote a little bit more in the quarter, pretty targeted, but we did. And -- but we're spending a whole lot less trade spend in order to do it, and the digital tools that you mentioned are really helping us achieve that.

We get better insights, we get better sort of postmortems, if you will, on promotions so that when we do them, we're generally doing them with a good positive return. It's been tremendously helpful because, I mean, you can see how much our trade spend has come down over the last 3 or 4 years, and a lot of that has been enabled by these digital tools we have now via TPM.



**Connor J. Rattigan** - *Consumer Edge Research, LLC - Research Analyst*

Got it. Very helpful. And then just one quick follow-up for me. So you guys also called out the expectation for profitable business wins and increased cost savings initiatives to flow through in the second half. Is this a change from any prior expectations? Or was there maybe some sort of a shift of expected cost savings out of 1Q into the back half? Or just no change there?

**A. Ryals McMullian** - *Flowers Foods, Inc. - CEO & Chairman of Board*

So no, we were able to identify -- when we came out of the year, we had -- we publicly remarked that we had a target of \$30 million to \$40 million. And as we really got into that, we uncovered further opportunities and we've been able to raise that pretty confidently actually to \$40 million to \$50 million. And we're already enjoying some of those savings now. And in the prepared remarks, I've listed out a few categories where we were looking to bring our costs back in line.

The new business, Connor. Let me touch on that, too. So again, similarly, when we started out the year, we had expectations for certain new business wins that we had really good line of sight to. And as we move through the year and -- move through the quarter rather, and continue to work on refilling this strategically exited capacity. We ended up finding more than we thought we were going to. And so our expectations for that have increased somewhat. Nobody's asked us yet sort of about how the cadence of the quarter went. So this is as good a time, as any, to address it.

The quarter did start off a little weaker than we anticipated that it would. I know originally, we had kind of signaled a first half weighted cadence to the year. That sort of unexpected weakness early in the quarter got us a little off cadence. However, now that we have these increased savings targets, and we have line of sight to higher new business wins, we think that, that's going to be able to offset that early weakness, thus maintaining guidance for the year. So that's how all that sort of shook out.

**Operator**

And as I see no further questions in the queue, I will hand it back to Ryals McMullian for final remarks.

**A. Ryals McMullian** - *Flowers Foods, Inc. - CEO & Chairman of Board*

Okay. Thank you, Carmen. I'd just like to thank everybody for taking the time today and joining us for questions. We very much appreciate your interest in our company. And as always, we look forward to seeing you again next quarter. Everybody take care. Thank you.

**Operator**

And thank you, everyone. This concludes the conference, and you may now disconnect.

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All Rights Reserved.