Flowers Foods

Second Quarter 2021 Prepared Remarks

August 12, 2021

CORPORATE PARTICIPANTS

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

Ryals McMullian, *President and CEO*

Steve Kinsey, *CFO and CAO*

PRESENTATION

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

Hello everyone and welcome to the pre-recorded discussion of Flowers Foods' second quarter 2021 results. This is JT Rieck, SVP of finance and investor relations. As a reminder, we released our second quarter results on August 12, 2021. Along with a transcript of these recorded remarks from our CEO and CFO, you can find the earnings release and related slide presentation in the investor section of our website. We will host a live Q&A session on Friday, August 13 at 8:30 a.m. Eastern. The details are posted in 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, president and CEO, and Steve Kinsey, our CFO. Ryals, I'll turn it over to you…

Ryals McMullian, *President and CEO*

Thanks JT.

It's a pleasure to share our results with you today. We believe the environment in which we are operating remains favorable. We continue to benefit from the mix shift to branded retail, though we have seen some reversion as consumers begin to eat out more and foodservice recovers some of its sales declines.

Not content to simply rely on a favorable demand environment to drive growth, we are pushing forward with our strategies to further improve our performance, including portfolio strategy, portfolio optimization, and our digital transformation. These initiatives are already bearing fruit and we expect continued benefits from them in the future no matter the environment.

And these initiatives are just a part of the many steps we have taken over the last few years that we believe will drive our growth at least in-line with our long-term financial targets. Among these steps are the organizational realignment we undertook to support powerful investment and focus on our leading brands. As part of that realignment, we have made numerous additions of high-caliber talent that have substantially strengthened our team, standing up a distinct agile product innovation group to drive future sales, and the creation of our transformation office to direct our digital initiatives, which we expect will facilitate top line growth and margin improvements. In addition, we enjoy a successful track record and ongoing strategy of pursuing smart M&A, the two most recent of which are projected to account for approximately $1 billion in retail sales this year.

Our investors rightfully have an expectation that we will achieve our long-term financial targets and we are taking all of the necessary steps to meet those expectations.

To highlight the opportunity a little bit clearer, should we meet the mid-point of our long-term financial targets over the next few years, we would expect our EPS to grow from our 2019 base of an adjusted $0.96 to well above the adjusted $1.31 we realized in 2020 during the height of the pandemic. We are focused on driving profitable growth for our shareholders' benefit, and by successfully executing on our four strategic priorities we are confident that our long-term financial targets are achievable.

To provide some context to our results, I'll discuss the current business environment and the steps we're taking to succeed in it through the lens of our four strategic priorities: developing our team, focusing on our brands, prioritizing margins, and pursuing smart M&A.

Starting with our team….

I'd like to begin by once again expressing my sincere appreciation to the entire Flowers team for their continued devotion to producing quality products for our consumers and faithfully serving our markets.

The current labor market certainly does present some unique challenges, particularly regarding availability and turnover. Like many other companies, in some locations it can be difficult to hire new employees and sometimes difficult to retain them. Operating in such an environment increases recruiting, training, and overtime expenses so we are taking steps to mitigate the impact of these headwinds, including reviewing compensation and instituting quality of life initiatives, such as improved work schedules.

Despite these challenges, our team has selflessly pitched in where needed to minimize the impact of these headwinds and you can see the results of their efforts in our financial results. We are supplying the products our customers demand and doing so effectively and efficiently.

Our second strategic priority is focusing on brands. Our leading brands are driving current performance and setting us up for future growth. We believe our brand portfolio has never been stronger as evidenced by our continued market share gains. In the second quarter of 2021, our dollar share increased to 17.7%, up from 17.4% a year earlier, and 16.7% in the second quarter of 2019.

We expect the investments we are making in marketing and innovation to continue to strengthen our brands and market share. For example, we recently launched new Dave's Killer Bread and Nature's Own Perfectly Crafted advertising and media campaigns targeting selected markets.

Later on the call, I'll go into more detail on the advantages our leading brands provide.

Our third strategic priority is margins, and second quarter results continue to demonstrate our success in that area. Comparisons to the prior year are difficult at the moment because of the extraordinary demand in those periods driven by the pandemic, but we are well ahead of second quarter 2019 results. With sales up 4.3% over the second quarter of 2019, adjusted EBITDA margins increased 120 bps to 12.0%, driving adjusted EBITDA growth of 15.4% compared to the second quarter of 2019.

The key driver of that margin expansion is the mix shift to more branded retail products, but we are also working hard to maximize our internal efficiencies. Our portfolio optimization project is on track to reach our target savings of $30-40 million this year, making the full value of this program over the last 2 years close to $60mm. We also expect our digital transformation initiatives to drive efficiencies far into the future, enabling us to meet or exceed our long-term financial targets.

Our fourth priority is smart M&A. Deal flow activity is ramping up following the pandemic-induced lull in 2020 and we're proactively exploring our options. Our steady free cash flow and strong balance sheet provide the flexibility

to act when we have strong financial, commercial, and operational conviction. And, as always, we will maintain our disciplined approach.

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

Steve Kinsey, *CFO and CAO*

Thank you, Ryals – and hello everyone. I'd like to echo your comments and express my sincere thanks to our incredible team whose efforts have been nothing short of outstanding. Now, turning to the quarterly results…

The pandemic continues to influence our results, though we do see some indications of mix reversion. That said, we are pleased with our overall sales and mix in Q2 of 2021. Like last quarter, because of the uniqueness of the year over year comparisons, in some circumstances we will also provide comparisons to the pre-pandemic results in the second quarter of 2019.

Total sales declined 0.8% from the prior year period but increased 4.3% compared to the second fiscal quarter of 2019. Lower volumes drove the decline, down 3.9%, due to difficult prior year comparisons in most channels aside from foodservice. Partially offsetting the volume decline was a 3.1% increase in price/mix, which was more heavily weighted to price than mix driven by promotional efficiency. As comparisons with the prior year eased throughout the quarter, results versus the prior year improved as well. Relative to the pre-pandemic levels of 2019, results were strong throughout the quarter.

Looking at sales by channel, branded retail sales decreased $14.1 million compared to the prior year, or 2.0%, to $674.7 million. Despite the difficult comparisons, Flowers' fresh packaged bread sales gained 30 bps of market share in tracked channels, with sales of Dave's Killer Bread up 9.4% and Canyon Bakehouse up 16.9%.

Compared to the second quarter of 2019, branded retail sales increased 15.2%, higher than the first quarter 2021 growth rate of 13.7%, as our leading brands continue to benefit from pandemic-related demand increases and our initiatives to drive further growth. Our total market share increased 100 bps to 17.7% over pre-pandemic levels. New products, such as our Nature's Own Perfectly Crafted buns, were particularly strong contributors to the growth, up 75% compared to the prior year, and gaining 60 bps of market share.

Store branded retail sales decreased $13.6 million year over year, or 9.4%, to $131.0 million, as consumers continued to express a preference for more-differentiated, branded products. The store branded category as a whole lost 90 bps of market share, declining to 19.5%, a downward trend that has endured for more than five years. Compared to the 2019 second quarter, store branded sales were down 19.5%.

Non-retail and other sales increased $19.1 million, or 9.9%, to $211.5 million as we lapped significant pandemic-induced declines in the prior year period. Non-retail sales benefitted from improved price/mix, partly due to internal initiatives to improve the profitability of this business. Foodservice recovery was particularly noteworthy.

Non-retail and other sales overall remain below pre-pandemic levels, with sales down 6.8% compared to the 2019 second quarter, though fast food and foodservice are the exception and are higher versus 2019. As non-retail sales continue their recovery, that business is coming back at higher margins than before due to the initiatives we've taken to improve the profitability of the business.

In the quarter, gross margin as a percentage of sales, excluding depreciation and amortization, decreased 20 bps to 50.5%. Margin was impacted by lower sales and increased returns of unsold products, partially offset by $1.5 million of start-up costs in the year-ago period related to the conversion of our Lynchburg, Virginia facility to an

organic bakery. Rising commodity costs were partially offset by positive price/mix and improved promotional efficiency.

Selling distribution and administrative expenses increased 140 bps as a percentage of sales in the second quarter. Excluding the items affecting comparability detailed in the press release, adjusted SD&A expenses increased 30 bps to 38.4% as higher logistics costs and increased marketing investment were partly offset by lower distributor distribution fees, due to the mix shift, and higher scrap income.

GAAP diluted EPS for the quarter was 26 cents per share compared to 27 cents in the prior year period. Excluding the items affecting comparability detailed in the release, adjusted diluted EPS in the quarter was 32 cents per share, down 1 penny from the prior year period.

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

Year-to-date through the second quarter of 2021, cash flow from operating activities decreased $52.4 million to $223.4 million compared to the prior year period primarily due to changes in working capital; capital expenditures increased $11.7 million to $58.3 million; and dividends paid increased $4.4 million to $87.0 million.

Our financial position remains strong. At quarter-end, net debt to trailing twelve month adjusted EBITDA stood at approximately 1.2-times, equal to leverage at the end of the first quarter, and down from 1.3-times at 2020 year-end. At quarter-end, we held approximately $292 million in cash and cash equivalents and had approximately $663 million of remaining availability on our credit facilities.

Now, turning to our adjusted outlook for 2021.

We are forecasting sales to decline between 2% to 3% versus 2020, an increase at the bottom end from prior guidance. Relative to 2019 results, our guidance implies growth of 3.2% to 4.3%. For earnings, we are raising our guidance range to adjusted EPS of $1.17 to $1.22, compared to our prior guidance of $1.10 to $1.17 and 2019 adjusted EPS of $0.96.

Our updated guidance range is within or above our long-term financial target ranges of 1-2% sales growth and above the 7-9% EPS growth range off the 2019 base, even with the five-cent headwind from our digital/ERP initiatives and no benefit from M&A. As a reminder, 2021 shifts back to 52 weeks, one fewer week than 2020. The additional week in 2020 contributed 1.8% to full-year sales and approximately 2 cents to EPS.

As we've completed the first half of the year, the market environment remains better than we initially forecasted. In fact, our most profitable segment, branded retail, constituted 66.3% of our total sales in Q2 compared to 66.1% in Q1, 67.2% in the prior year second quarter, and 60.0% in the pre-pandemic second quarter of 2019. Branded retail has largely maintained its increased percentage of our total sales despite the partial recovery in our non-retail and other business.

Some of the factors we considered when setting guidance included the impact of the pandemic on the pace of reopening, as well as inflationary commodity costs. We've been successful in offsetting much of the inflationary pressure so far.

The biggest swing factor in determining our results for the second half of 2021 will be the back-to-school season. As kids go back to school and parents have more flexibility to return to the office, we should get a better sense for what the new normal demand environment could look like. However, the rise in Covid cases caused by the Delta variant could prolong the impact of the pandemic, so we are watching those developments carefully.

In a moment, Ryals will share more color on the factors we are watching in 2021.

Free cash flow generation is expected to be strong, and our capital allocation priorities and philosophy remain consistent with our focus on maximizing return on invested capital and growing shareholder value. Although our

first half capex spend of $58 million is somewhat below our full year run rate, we do anticipate the pace of investment to pick up over the second half of 2021.

We reduced our capital expenditure guidance to the range of $125 to $135 million, down from $140 to $150 million for the year, largely due to delays caused by the pandemic. As a reminder, this level is somewhat elevated compared to recent years primarily due to targeted investments to support supply chain optimization and our digital transformation.

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

Ryals McMullian, *President and CEO*

Thank you, Steve.

You've heard the financial details of the quarter, of which I am very pleased, and now I'd like to focus on the current environment and the steps we're taking to succeed now and in the future.

We continue to execute our portfolio strategy of becoming a more brand-focused company, a plan that we put in place prior to the onset of the pandemic.

The pandemic has presented challenges, but it has also highlighted the benefits of our strategy. By shifting our sales mix to a greater percentage of more-profitable branded retail products, we have expanded margins even with lower overall volume.

We've talked about our portfolio strategy before, particularly in the context of improving margins, but it's especially important in the current environment. Branded retail sales are off their peak from the height of the pandemic but remain well above pre-pandemic levels. Foodservice demand is recovering, though still below 2019 levels. And private label has continued its multi-year decline as consumers seek out differentiated products that are generally only offered by brands in our category.

The decline in private label bread is in stark contrast to most other store categories, where private label market share is increasing. Part of the reason for this dynamic is that the bread category is undergoing a premiumization process, led by brands like Dave's Killer Bread, Canyon Bakehouse, and Nature's Own Perfectly Crafted, in which consumers are deliberately seeking out products and brands with improved health and indulgence attributes.

We believe this trend will persist and that it bodes well for our leading, differentiated brands. With our enhanced agile innovation capabilities, we expect to continue bringing new, exciting, and differentiated products to the market under our leading brands, which we expect to fuel future growth.

Although we'd expect some longer-term impact on food-at-home demand from the pandemic, it also seems reasonable to assume some reversion toward prior levels. In such an environment, we believe our brands will allow us to capture greater market share from consumers who recognize the unique quality and flavor profiles of our products.

And so far, we've been able to do just that. As Steve noted, in the second quarter, our fresh packaged bread market share rose 30 bps to 17.7% compared to the prior year period and 100 bps compared to the same period in 2019 thanks to the continued growth of brands like Dave's Killer Bread and Canyon Bakehouse.

And we are experiencing success in our targeted geographies. For example, the Northeast has been an attractive source of growth for us, gaining 80 bps of share in the quarter and 210 bps over the last three years, and we are investing to drive further gains in this crucial market.

We also intend to build on the success of the new products developed by our innovation team, such as our brioche buns and rolls, and have an exciting pipeline of disruptive innovation that we expect to help drive future sales growth. Of all the new products in our category tracked by IRI over the last two years, Nature's Own Perfectly Crafted brioche hamburger buns were #1.

In addition to the sales and market share benefits that our leading brands provide, the current inflationary environment highlights another advantage: the ability to raise prices when necessary to offset higher costs.

Pricing is only one of the tools we consider, including other options such as operational efficiencies and internal cost savings. However, in periods like the current one where we do see significant inflation, those other methods are not always sufficient to offset the higher costs.

Inflation has been a slight headwind in 2021 and, as we mentioned last quarter, should commodity prices remain at current levels, we would expect more meaningful inflation in 2022. Our hedging strategy, in which we attempt to lock in commodity prices 6-9 months out, provides visibility into the future inflation environment and enables us to be proactive in offsetting potential cost increases.

So far, we've been successful in obtaining the higher prices necessary to offset inflation in the current year and we are optimistic that, combined with other internal actions, we will be able to use pricing to mitigate the impact of inflation into 2022 as well if necessary.

We believe the strength of our leading brands and our improving market share make pricing conversations with customers a little easier and increases consumers' willingness to pay a bit more to enjoy the differentiated attributes of our products.

To add some historical context, we experienced similar inflation leading up to and into the Great Recession of 2007-2009. In that period, we were able to offset the inflation with pricing as we have been doing now. The major difference between the two periods, is that back then we only had one major brand (Nature's Own) compared to the portfolio of leading brands we have today. Further, our national market share was only approximately 8% in the second quarter of 2009 compared to 17.7% now.

In closing, I am extremely proud of our performance in the first half of the year and I'm quite optimistic about the initiatives we have in place to ensure our future success. We are prospering in the current environment and our best-in-class team and leading brands position us better than ever to deliver results in-line with our long-term financial targets.

Thank you very much for your time. This concludes our prepared remarks. I'd like to invite you to listen to our live question and answer webcast, which will begin at 8:30 am Eastern on Friday, August 13, and will be available for replay on the investor section of flowersfoods.com. Take care.

Flowers Foods reserves the right to make changes to documents, content, or other information on its website without obligation to notify any person of such changes.

The information contained in this transcript is a textual representative of Flowers Foods' conference call and although 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 call. In no way does Flowers Foods assume any responsibility for any investment or other decisions made based upon the information provided on this website or in any transcript. Users are advised to review the conference call itself and our SEC filings before making any investment decision.

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 future financial condition and results of operations and the ultimate impact of the novel strain of coronavirus ("COVID-19") on our business, results of operations and financial condition 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 the Annual Report on Form 10-K (the "Form 10-K") 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) 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 ultimate impact of the COVID-19 outbreak and measures taken in response thereto, including additional variants of the virus and the efficacy and distribution of vaccines, on our business, results of operations and financial condition, which are highly uncertain and are difficult to predict, (c) the loss or financial instability of any significant customer(s), including as a result of product recalls or safety concerns related to our products, (d) changes in consumer behavior, trends and preferences, including health and whole grain trends, and the movement toward more inexpensive store branded products, (e) the level of success we achieve in developing and introducing new products and entering new markets, (f) our ability to implement new technology and customer requirements as required, (g) our ability to operate existing, and any new, manufacturing lines according to schedule, (h) our ability to execute our business strategies which may involve, among other things, (1) the integration of acquisitions or the acquisition or disposition of assets at presently targeted values, (2) the deployment of new systems and technology, and (3) an enhanced organizational structure, (i) consolidation within the baking industry and related industries, (j) changes in pricing, customer and consumer reaction to pricing actions, and the pricing environment among competitors within the industry, (k) disruptions in our direct-store-delivery distribution model, including litigation or an adverse ruling by a court or regulatory or governmental body, or other regulatory developments, that could affect the independent contractor classifications of the independent

distributors, (l) increasing legal complexity and legal proceedings that we are or may become subject to, (m) labor shortages and turnover or increases in employee and employee-related costs, (n) the credit, business, and legal risks associated with independent distributors and customers, which operate in the highly competitive retail food and foodservice industries, (o) any business disruptions due to political instability, pandemics, armed hostilities, 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, (p) the failure of our information technology systems to perform adequately, including any interruptions, intrusions or security breaches of such systems or risks associated with the planned implementation of a new enterprise resource planning ("ERP") system; and (q) regulation and legislation related to climate change that could affect our ability to procure our commodity needs or that necessitate additional unplanned capital expenditures. The foregoing list of important factors does not include all such factors, nor 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 Securities and Exchange Commission ("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 Part II, Item 1A., Risk Factors of the Form 10-Q for the quarter ended July 17, 2021 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, EBITDA margin, adjusted EBITDA margin, adjusted net income, adjusted EPS, adjusted income tax expense, adjusted selling, distribution and administrative expenses (SD&A), gross margin excluding depreciation and amortization, free cash flow, and the ratio of net debt to adjusted EBITDA. 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 defines free cash flow as operating cash flow minus capital expenditures. The company believes that free cash flow provides investors a better understanding of the company's liquidity position. 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. EBITDA is used as the primary performance measure in the company's 2014 Omnibus Equity and Incentive Compensation Plan. Furthermore, pursuant to the terms of our credit facility, EBITDA is used to determine the company's compliance with certain financial covenants. 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, EBITDA margin, adjusted EBITDA margin, adjusted net income, adjusted diluted EPS, adjusted income tax expense and adjusted SD&A, respectively, excluding the impact of asset impairment charges, Project Centennial consulting costs, business process improvement costs, lease terminations and legal settlements, acquisition-related costs, and pension plan settlements. Adjusted income tax expense also excludes the impact of tax reform. 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.

The company defines net debt as total debt less cash and cash equivalents. Net debt to EBITDA is used as a measure of financial leverage employed by the company. Gross margin excluding depreciation and amortization is used as a performance measure to provide additional transparent information regarding our results of operations on a consolidated and segment basis. Changes in depreciation and amortization are separately discussed and include depreciation and amortization for materials, supplies, labor and other production costs and operating activities.

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.

Reconciliations of the non-GAAP measures used in this script to the most comparable GAAP financial measure are published in the earnings release issued in advance of this earnings call and posted on our website at flowersfoods.com/investors.