Flowers
FOODS
SECOND QUARTER 2023
PREPARED REMARKS
August 10, 2023
Nature's Own
PERFECTLY
Crafted
THICK SLICED
SOFT RYE

CORPORATE PARTICIPANTS

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

Ryals McMullian, Chairman, CEO, and President

Steve Kinsey, *CFO*

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' second-quarter 2023 results, which we announced in a press release on August 10, 2023. We will host a live Q&A session on Friday, August 11 at 8:30 a.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, CEO, and president, and Steve Kinsey, our CFO. Ryals, I'll turn it over to you…

Ryals McMullian, *Chairman, CEO, and President*

Thanks J.T.

It's a pleasure to welcome everyone to our call.

Following an unexpectedly slow start to the year, which we detailed on our first quarter call, we recovered nicely in the second quarter and delivered strong results despite a still somewhat uncertain macro environment. I attribute our performance to the effectiveness of our strategies and the outstanding execution by our team.

Sales growth was largely driven by solid brand performance and strategic pricing initiatives designed to mitigate the impact of inflationary pressures. Despite selective price increases, volume trends in our branded retail bread business improved significantly relative to recent quarters. The resulting top line strength translated into higher earnings, which is reflected in our updated 2023 guidance.

Consumers remain pressured by inflation, which has encouraged trade down in the retail category to private label products. Despite that pressure, and price increases in the quarter on many of our branded products, we successfully maintained our Branded Retail unit share in tracked channels for the fresh packaged bread category. Our performance was even stronger in the grocery channel, where we gained 20 basis points of unit share.

We saw particular strength in the organic, specialty loaf, and breakfast categories, gaining 290, 160, and 60 basis points of unit share respectively, reaching record levels in specialty loaf and breakfast.

After analyzing the source of that organic growth, we found that sales metrics for Dave's Killer Bread among middle- and lower-income consumers improved compared to the prior year, with increases in unit sales per buyer, product trips, and repeat rates. Furthermore, DKB grew overall units by 7% in tracked channels, which we believe is a decent barometer for consumer health given the brand's premium positioning.

Branded retail unit share for the company was fairly consistent throughout the quarter. Combined with the strong DKB unit growth, these factors give us some confidence that consumer demand may be migrating back to pre-inflationary levels. These indications are encouraging, but we'll be watching how the trends play out in the third quarter before concluding that consumer health is on a sustainable upward trajectory.

Sales in our Other category increased significantly, driven by pricing initiatives implemented earlier in the year. Those gains were partly offset by planned business rationalizations as we work to enhance profitability. The overwhelming majority of our company-wide volume decline was in our non-retail and cake businesses. This result is aligned with our portfolio strategy of shifting a greater portion of our sales to higher-margin, branded retail products, and improving the profitability of our other businesses. We expect volume declines related to these initiatives to moderate in the second half of 2023.

Now, I'll provide an overview of our second 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 then I'll come back with a discussion on key themes moving forward and our plan to drive shareholder value in 2023 and beyond.

I'd like to start by recognizing the incredible contributions of our team, whose passion and commitment are the key ingredients of our success. Their efforts were instrumental in our strong second quarter performance.

Last quarter, I discussed the restructuring of operational responsibilities at our bakeries—shifting them from the sales function to the supply chain function. One of the primary objectives of this change was to free up our sales team to focus solely on bringing our leading products to as many customers as possible. And I'm happy to say that the restructuring is already bearing fruit. The sales team delivered outstanding execution over the Memorial Day and Fourth of July holidays, resulting in a company record for bun unit share, a key part of our portfolio strategy. That execution is critical during the all-important bun season, and we expect continued benefits from the restructuring.

Similarly, we are seeing increased focus and better performance from our bakeries, owing to the direct line of accountability and clear KPIs established by supply chain leadership. As we've discussed for many quarters, operational improvement is a major opportunity for us, and I'm pleased to see our investments in capabilities, systems, and processes start to pay dividends.

Our second strategic priority is focusing on our brands.

Our brands continued to outperform. Despite a difficult competitive environment in which private label products gained market share, though at a moderating pace, our leading brands more than held their own. Nature's Own and Canyon Bakehouse both held unit share flat in the fresh packaged bread category, while Dave's Killer Bread gained 20 basis points.

Results benefitted from our commitment to innovation, as we initiated nationwide launches of Nature's Own Keto Net One loaf, Nature's Own Perfectly Crafted Everything buns, and Wonder Hawaiian buns.

And the nationwide rollout of our DKB snack bars continued. The bars are currently on the shelf in almost twelve thousand stores, and we expect that number to grow to more than 13 thousand by year end—slightly more than

originally planned. Velocities have been in line with some of the leading competitors, and our team is working hard to drive trial and repeat sales through a multifaceted marketing campaign.

The DKB snack bars are just the first item in a deep pipeline of innovation that we expect to expand our addressable market and meaningfully grow sales outside of the bread category. Our DKB Amped-Up Protein Bars are in test markets currently, with plans for a nationwide launch in 2024. And our DKB Crunchy Snack Bites are also in test markets. As we have discussed, the financial benefit of these rollouts will be limited in the near term as we invest in a robust marketing plan, but we are encouraged by the preliminary results.

On the other end of the spectrum, although Canyon Bakehouse held unit share in the overall fresh packaged bread category, it lost 230 basis points of gluten free unit share. Canyon has had a couple quarters of uncharacteristic weakness in tracked channels, which was caused by two factors. First, a mix shift to channels that aren't comprehensively measured by syndicated data. And second, a shortage of gluten-free capacity that impacted our ability to meet consumer demand.

Additional capacity is expected to come online in the second half of this year, and we have aggressive plans to reaccelerate our growth. We remain optimistic about the potential for Canyon, which remains solidly in the number one market share position. In addition to initiatives to grow its core products, we are also exploring plans to add new products through our agile innovation team.

Our third strategic priority is margins, an area where we saw progress in the second quarter. The combination of foodservice and private label price increases to start the year and selected branded retail pricing in May helped offset inflationary pressures and higher expenses related to our ERP implementation.

Our margin improvement plan goes beyond price increases. We are also focused on maximizing efficiencies, in part through our digital initiatives like bakery of the future, which continue to benefit operations. Cost savings initiatives are on track to meet our savings goal of $20 to $30 million for 2023. And the Papa Pita acquisition also benefitted margins, as we brought more production in house, and expanded our sales footprint.

Lastly, we continue to execute our portfolio strategy. Branded retail products increased to 64.1% of sales, up 30 basis points sequentially, despite continued pressure from private label. And that branded retail performance was particularly strong in the branded bread category.

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. Moving forward, we also expect M&A to help move us into faster-growing, adjacent categories beyond bread.

We continue to monitor the deal market, actively vetting potential acquisitions and investments that could add capabilities, brands, or products to our robust existing lineup. 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 come back a little bit later to discuss our outlook for the current business environment. Steve?

Steve Kinsey, *CFO*

Thank you, Ryals – and hello everyone.

Moving on to our results, total sales in the second quarter increased 8.8% from the prior-year period. Improved price/mix drove the adjusted year-over-year increase, up 13.3%, primarily due to price increases to mitigate inflationary pressures. Volume decreased 6.1%, partly due to targeted sales rationalizations in cake and foodservice. The Papa Pita acquisition added 1.6%.

Gross margin as a percentage of sales, excluding depreciation and amortization, increased 90 basis points to 49.0%. Comparisons were impacted by inflation-driven pricing actions more than offsetting input cost inflation, lower production volumes, increased product returns, and increased maintenance costs.

Selling, distribution, and administrative expenses as a percentage of sales were 38.8%, consistent with the prior year period. Lower consulting costs and distributor distribution fees as a percentage of sales were offset by greater marketing expenses, reduced scrap dough income, and an insurance liability reserve. Excluding matters affecting comparability, adjusted SD&A expenses increased 70 basis points to 38.2%, due to the factors listed above with the exception of the consulting costs.

GAAP diluted EPS for the quarter was 30 cents per share compared to 25 cents in the prior-year period. Excluding the items affecting comparability detailed in the release, adjusted diluted EPS in the quarter was 33 cents per share, up 2 cents from the prior-year period.

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

For the first half of fiscal 2023, cash flow from operating activities decreased by $54.9 million to $128.9 million, which included business process improvement costs of $12.8 million related to the ongoing transformation strategy initiatives. Cash flow from operating activities was affected by working capital increases of $47 million, largely due to decreased accounts payable resulting from higher ERP-related capital expenditures in the prior year. Capital expenditures decreased $29.5 million to $68.4 million and included $19.1 million for the ongoing ERP upgrade. Dividends paid increased $4.7 million to $98.1 million.

Our financial position remains strong. At quarter end, net debt to trailing twelve month adjusted EBITDA stood at approximately 2.1-times. At quarter end, we held approximately $12 million in cash and cash equivalents and had approximately $510 million of remaining availability on our credit facilities.

As Ryals mentioned, we are adjusting our 2023 forecast to reflect the second quarter results. We are raising the bottom end of our sales, adjusted EBITDA, and adjusted diluted EPS guidance. Our updated expectation is for sales in the range of $5.095 to $5.141 billion, adjusted EBITDA in the range of $503 million to $528 million, and adjusted diluted EPS in the range of $1.18 to $1.25.

Results in the second quarter were roughly in line with our expectations when we adjusted guidance last quarter. For the remainder of 2023, we expect a quarterly cadence similar to historic trends. Key factors that could shift results within our guidance range include demand reversion, price elasticities, consumer resilience, and continued inflationary pressure. We are maintaining the top end of our guidance ranges as overall demand elasticity has been in line with our expectations, remaining below historical levels.

As a reminder, our adjusted EBITDA guidance incorporates approximately $26 million (or 9 cents per share) of incremental costs related to the ERP project. Those incremental costs were $2.5 million (or 1 cent per share) in the second quarter. We anticipate these costs to moderate substantially by project completion in 2026. Additionally,

we expect a 2023 impact of 8-10 cents per share from an increase in interest, depreciation, and amortization expense associated with the ERP implementation and Papa Pita acquisition.

Our ERP program, which went live in the second quarter, remains on track, and we are confident in our ability to complete the project within the financial guidance. In Fiscal 2023, we expect costs for the upgrade of our ERP system to be approximately $95 million to $105 million, including $30 to $40 million expected to be capitalized. As of July 15, 2023, we have incurred costs related to the project of approximately $190 million, of which $103 million has been capitalized.

Approximately 93% of our key raw materials are covered in 2023. To minimize volatility and provide adequate visibility into costs, we strive to maintain our historical hedging strategy in which we attempt to increase the certainty of our key commodity costs 6 to 12 months out. Based on current coverage, our guidance incorporates a moderate decline in commodity costs in the second half of 2023 relative to our initial expectations. However, inflation remains persistent, and we expect continued inflationary pressures into 2024. We continue to monitor the commodity markets, exploring opportunities to extend coverage at lower values that could benefit our future results.

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

Ryals McMullian, *Chairman, CEO, and President*

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.

The three primary themes we've been watching are: consumer health and behavior, inflationary impacts, and the ability to take price to offset cost pressures.

Consumers remain pressured from higher costs, and in response they are trading down to lower-priced products and shifting more of their shopping trips to value-focused retailers. Private label sales have benefitted from this recent trend, gaining 50 basis points of fresh packaged bread unit share in the second quarter. However, those share gains were confined to loaf and traditional loaf products, the most commoditized part of the category. Private label lost unit share in specialty premium loaf, sandwich, buns and rolls, breakfast, and dinner breads and rolls, areas with greater product differentiation.

Importantly, those share gains continue to be largely concentrated in the mass channel. Private label products lost 40 basis points of unit share in the grocery channel, where Flowers' branded retail bread products gained 20 basis points. Perhaps most notable, private label share gains have slowed throughout 2023, and dropped to the lowest level of the year late in the second quarter.

Our leading brands fared well in this environment. Dave's Killer Bread's performance was noteworthy, gaining 290 basis points of unit share in the organic category and 20 basis points in the larger fresh packaged bread category, as units grew 7%. And as I mentioned earlier, Nature's Own and Canyon Bakehouse each held market share despite taking selected price increases in a tough competitive environment.

Earlier on the call, I highlighted data showing improved demand for DKB products among lower- and middle-income customers. Although it's too early to know whether that improvement will continue, these data may be

signaling a trend reversal from the year-ago quarter. At that time, we noted lower-income consumers reducing their number of purchases and trading down to less-expensive products. It's possible that consumers are acclimating to higher price levels and resuming prior purchasing behavior.

Inflation has impacted both consumer demand, as I've just highlighted, and our cost structure. That cost pressure became acute following the start of the Ukraine war, when commodity prices spiked. While commodity prices, particularly wheat, have declined from those highs, they remain elevated relative to recent years.

More recently, other commodities, most notably sugar, have seen rapid price increases. Given our consistent hedging policy, such increases are expected to have minimal impact on 2023 results, and we caution investors from expecting a downward step change if commodity prices remain at current levels.

I spoke earlier about initiatives we are taking to mitigate inflation, and pricing is one such measure. Our successful implementation of price increases in the second quarter, despite market concerns about increasing pressure from retailers and consumers, highlights our advantaged value proposition.

We and our retail customers are particularly sensitive to affordability in the current environment, but we recognize that mitigating inflationary pressures is necessary to deliver a fair return to our shareholders. I believe our leading brands provide significant differentiation, which combined with the exceptional service we provide, including managing the shelf and retaining inventory risk, justifies margin expansion from current levels.

The present environment is challenging, with consumers shifting more to value, and with volatile inflationary pressures. However, we believe many these headwinds are temporary and we expect to benefit over the long-term from premiumization and the continuation of work-from-home. I am confident that we are taking the necessary steps to thrive now and in the future.

Our team is the best in the industry, and we are enabling them to perform even better. Our leading brands are proving their value, holding their own in a tough consumer environment. We are implementing the right initiatives to improve our margin profile. And we will supplement those initiatives with shareholder friendly capital allocation, including our long track record of successful M&A. I remain extraordinarily confident in our ability to grow shareholder value far into the future.

Thank you very much for your time. This 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 (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 environmental, social, and governance 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, (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), 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, Part II, Item 1A., Risk Factors, of the Form 10-Q for the quarter ended July 15, 2023 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. 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, 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. These costs include, but are not limited to, the costs of closing a plant or costs associated with acquisition-related activities, certain impairment charges, legal settlements 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.

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.