Flowers Foods

Third Quarter 2021 Prepared Remarks

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CORPORATE PARTICIPANTS

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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' third quarter 2021 results. This is JT Rieck, SVP of finance and investor relations. As a reminder, we released our third quarter results on November 11, 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, November 12 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 welcome everyone to our third quarter call. And I'm happy to share our record third quarter results with you today.

Flowers continues to perform exceptionally well in a dynamic and challenging environment. In fact, our performance has been so strong that we are increasing our 2021 guidance for the third consecutive quarter.

When we provided our initial guidance back in February, we thought it reasonable to assume that a portion of the pandemic impact would wane throughout the year. However, we've been very pleased to see how well demand for our branded retail products has held up. In fact, sales of our top brands have continued to grow, even surpassing last year's record third quarter numbers. I'll address these trends in more detail a little bit later on the call.

As always, 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 the team….

I'd like to begin by once again expressing my appreciation to the entire Flowers team for their dedication to producing quality products for our consumers and faithfully serving our markets. The labor market remains challenging. Unemployment claims are declining, and job openings are at record levels. Despite this difficult environment, our bakery teams are working tirelessly, and I'd like to commend them for their perseverance. Everyone on the production lines and in the shipping departments are pitching in wherever needed to get the job done. And we as a company are doing everything in our power to fill open positions and keep our bakeries running efficiently. To recognize the efforts of our frontline workers, I'm pleased to announce that we will be awarding them with appreciation bonuses in the fourth quarter of this year.

Our second strategic priority is focusing on our brands.

We are increasing demand for our leading products by investing in marketing and advertising, innovation, and expanding penetration. These initiatives drove our market share to 18%, up 50 basis points year over year and up 100 basis points compared to the third quarter of 2019. Our top brands are leading the way, with Dave's Killer Bread gaining 50 basis points of market share, the most of any bread brand in the category, and Nature's Own and Canyon Bakehouse up 20 and 10 basis points, respectively.

Consumers continue to express their preference for differentiated branded products. That premiumization trend, which we've discussed previously, is not a recent phenomenon. According to IRI, market share of branded fresh packaged bread is up 480 basis points since 2017, and now stands at 80.6%. Over that same period, Flowers' share has expanded 210 basis points, substantially more than any competitor. The rate of branded share gains has increased during the pandemic, but we believe the underlying drivers of the gains, innovation and differentiation, appear sustainable. The impact of potential sustained inflation on this premiumization trend is unclear, but our aim is to continue growing our brands by introducing unique and delicious products and then marketing and distributing those products to reach a variety of consumers.

Our third strategic priority is margins, and third quarter results continue to demonstrate our success in that area. Our portfolio strategy has increased the percentage of higher-margin branded retail sales and our portfolio optimization work remains on track to reach our target savings of $30-40 million this year, making the full value of this program over the last two years close to $60 million. We believe those initiatives have enabled us to minimize the pressure on EBITDA margins. Although margins are down slightly compared to last year's tough comparison, they are up 170 basis points over pre-pandemic levels.

Many of our digital transformation initiatives, which are intended to improve data visibility and efficiencies while automating processes, are progressing from the design to the build phase. And some of our key domains, such as ecommerce, autonomous planning, and bakery of the future, have progressed to the implementation phase and we are excited about the benefits we expect these investments will bring.

Our fourth priority is smart M&A. Deal flow is picking up and as always, we are proactively exploring our options. Our steady free cash flow and strong balance sheet provide the flexibility to act when we have 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 a little bit 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 on our incredible team and express my sincere thanks for their outstanding efforts. Now, turning to the quarterly results…

Because of the uniqueness of the year over year comparison due to the pandemic, in some circumstances we will also provide comparisons to the pre-pandemic results in the third quarter of 2019.

As Ryals mentioned, we are very pleased with our third quarter performance. Total sales increased 3.9% from the prior year period and 6.3% compared to the third quarter of 2019. Improved price/mix drove the year over year increase, up 6.4%, more heavily weighted to price than mix. The primary factors were price increases to mitigate inflationary pressures and growth in our more-profitable branded retail products. Partially offsetting the sales increase was a 2.5% volume decrease driven by declines in our retail volumes offset somewhat by increases in non-retail volume.

Looking at sales by channel, branded retail sales increased $31.6 million compared to the prior year, or 4.8%, to $689.1 million. This increase was driven by price/mix. Despite the difficult comparisons, Flowers' fresh packaged bread sales gained 50 basis points of market share in tracked channels, with sales of Nature's Own up 4%, Dave's Killer Bread up 14%, and Canyon Bakehouse up 17%.

Compared to the third quarter of 2019, branded retail sales increased 17.6%, higher than comparable second quarter 2021 growth of 15.2%, as our leading brands continue to benefit from pandemic-related demand increases and our initiatives to drive further growth. And, as Ryals mentioned, our total market share increased 100 basis points over pre-pandemic levels to 18%.

Store branded retail sales decreased $11.5 million year over year, or 8.5%, to $124.6 million, as consumers continued to express a preference for more-differentiated, branded products. The store branded category as a whole lost 160 basis points of market share, declining to 18.8%, a downward trend that has endured for more than five years.

Our consumer research clearly shows that the bread category is undergoing a premiumization process, shifting away from store brand, which Ryals spoke about earlier. The ability to manage that shift in demand highlights the flexibility of our bakery network.

In addition to the store brand category trends, initiatives such as our portfolio strategy, which aims to shift more of our sales to higher margin branded products, and our initiative to increase the profitability of some of our underperforming accounts, have also impacted sales. In situations where we are unable to attain satisfactory margins, we have walked away from some accounts. Compared to the 2019 third quarter, Flowers' store branded sales declined 17.5%.

Non-retail and other sales increased $18.1 million, or 9.2%, year over year to $214.2 million as we lapped significant pandemic-induced declines in the prior year period. Non-retail results benefitted from improved price/mix and volume increases. Non-retail and other sales overall remain below pre-pandemic levels, with sales down 6.8% compared to the 2019 third quarter. However, 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, increased 20 basis points to 49.9%. Gross margin comparisons benefitted from higher sales and $1.9 million of start-up costs in the year-ago period related to the conversion of our Lynchburg, Virginia facility to an organic bakery. More favorable price/mix mitigated rising commodity costs, partially offset by reduced outside purchases.

Selling distribution and administrative expenses increased 240 basis points as a percentage of sales in the third quarter. Excluding the items affecting comparability detailed in the press release, adjusted SD&A expenses increased 40 basis points to 38.4% as higher logistics costs and increased marketing investment were partly offset by lower distributor distribution fees.

GAAP diluted EPS for the quarter was 18 cents per share compared to 21 cents in the prior year period. Excluding the items affecting comparability detailed in the release, adjusted diluted EPS in the quarter was 30 cents per share, up 1 cent from the prior year period.

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

Year-to-date, through the third quarter of fiscal 2021, cash flow from operating activities decreased by $49.2 million to $315.2 million largely due to higher bonus payments in the first quarter this year and other changes in working capital. Capital expenditures increased $18.5 million to $86.7 million, and dividends paid increased $6.6 million to $131.5 million.

Our financial position remains strong. At quarter-end, net debt to trailing twelve month adjusted EBITDA stood at approximately 1.1-times, down from 1.2-times at the end of the second quarter. At quarter-end, we held approximately $308 million in cash and cash equivalents and had approximately $679 million of remaining availability on our credit facilities.

Now, turning to our adjusted outlook for 2021.

We are forecasting sales to decline between 1% to 2% versus 2020, an increase from prior guidance of down 2% to 3%. Relative to 2019 results, our guidance implies growth of 4.3% to 5.3%. For earnings, we are raising our guidance range to adjusted EPS of $1.22 to $1.26, compared to our prior guidance of $1.17 to $1.22 and 2019 adjusted EPS of $0.96. EPS guidance includes a 1 cent impact in the fourth quarter for appreciation bonuses to be paid to our frontline workers that Ryals mentioned earlier.

Our updated guidance range is above our long-term financial targets of 1% to 2% sales growth and 7% to 9% EPS growth 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. We continue to expect strong free cash flow generation, and our capital allocation priorities and philosophy remain consistent with our focus on maximizing return on invested capital and growing shareholder value.

Some of the factors we considered when setting guidance included the timing and magnitude of demand reversion, as well as inflationary pressures. The operating environment remains stronger than our initial forecasts. Our most profitable segment, branded retail, has largely maintained its increased percentage of total sales despite the partial recovery in our non-retail and other business. The back-to-school season, which we are monitoring closely, thus far has not driven significant changes in demand.

Regarding inflation, there are three general buckets on which we are focused: commodities, logistics and freight, and labor. We are doing everything in our power to offset higher commodity costs, looking ahead so we can proactively navigate through this period successfully. Our hedging strategy, in which we attempt to lock in commodity prices 6 to 12 months out, provides visibility into future inflation and enables us to be proactive in offsetting potential cost increases.

We've noted that should commodity prices remain at current market levels, we would expect more meaningful inflation in 2022. So far, we've been successful in obtaining the higher prices necessary to offset inflation in the current year and we remain optimistic that, combined with other internal actions, we should be able to use pricing to mitigate the impact of inflation into 2022 if necessary.

Logistics and freight costs have increased as our contract carrier rates repriced. Our closed loop system stabilizes costs over the short-term, but pricing over longer periods will adjust to market levels. On the bright side, the strong relationships we've developed with our carriers has allowed us to maintain adequate capacity despite driver shortages and other challenges.

In addition to higher prices on our inputs, availability also became more of a focus. Although sourcing items has been challenging, generally we are not seeing significant supply chain disruptions. So far, we've been able to get what we need, and with the hard work of our procurement team we expect to continue to do so going forward.

Ryals addressed the labor situation earlier, but to date we have been successfully navigating labor shortages and turnover and mitigating the financial impact. Although the competitive labor market continues to impact our operations and we expect this trend to continue, workforce-related costs were relatively unchanged as a percent of sales quarter over quarter. In a moment, Ryals will share more color on the factors we are watching in 2021.

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

Ryals McMullian, *President and CEO*

Thank you, Steve.

As you've just heard, our financial performance remains above expectations. We are generating strong sales and margins and transforming our company to maintain our growth over the long-term.

In our conversations with the investment community, their primary concerns are inflation and the potential demand reversion as the pandemic recedes.

Steve has covered inflation already and the confidence we have in our ability to mitigate it. But I'd like to reemphasize the importance of our brands in this environment. We believe the strength of our leading brands increases consumers' willingness to pay a bit more to enjoy the differentiated attributes of our products.

So far, our pricing activities this year have not led to any meaningful declines in demand. And I believe the primary reason for that limited demand elasticity is the power of our brands, so we are continuing to invest in them to grow our market share and household penetration.

Going forward, should the current inflationary environment hold, we believe further pricing combined with in-flight and future efficiency initiatives will mitigate those headwinds. Furthermore, it is important to bear in mind that inflation comes and goes, and while it might prove to be a headwind in the short-term, over the long-term, we are confident in the transformational strategies we have in place and our ability to meet or exceed our long-term targets.

Newer products from our innovation function are helping to drive our performance. Dave's Killer Bread has been growing rapidly in breakfast and buns and we have rolled out the popular Powerseed Thin-Sliced bread nationwide. Canyon Bakehouse continues to gain market share, which is now almost 32% of the gluten-free category, helped by strong growth from new products, including multi-grain bread, sub rolls and Hawaiian bread. And Nature's Own is growing with its Perfectly Crafted sub-brand, whose sales are now almost $150 million at retail.

And we are using those leading brands to increase our sales in underpenetrated markets like the Northeast. We hope you've seen our new ad campaigns for Dave's Killer Bread, "Bread, Amplified," and Nature's Own Perfectly Crafted, "You're Fancy Now." Those ads, along with other initiatives, are driving sales in the region. In the Northeast, we gained 110 basis points of share in the third quarter and 240 basis points over the last three years. And our recent conversion of the Lynchburg bakery has provided the capacity necessary to meet that new demand.

Now I'd like to go into a little bit more detail on the demand environment. As evidenced by our increased 2021 guidance, pandemic-related reversion has been less material than expected. In fact, the third quarter represented the first time our branded retail sales increased this year compared to elevated 2020 sales.

We have seen some recovery in our non-retail business. Third quarter sales were down 7% compared to pre-pandemic levels versus the 15% decline we saw in the third quarter of 2020.

And our store branded business has continued its multi-year decline, with the pandemic perhaps exacerbating that trend.

It's difficult to predict how much reversion to expect going forward. It seems reasonable to assume some movement toward prior demand patterns as the economy reopens. But we believe certain factors, such as more flexible work-from-home policies, lower rates of travel, and consumers' demonstrated preference for differentiated branded products, point to a sustainable benefit from eat-at-home demand.

In the meantime, we are focused on what we can control. No matter the demand environment, our initiatives are designed to continue growing our top brands.

In closing, I'm extremely proud of our year-to-date performance and I'm quite optimistic about the initiatives we have in place to ensure our future success. Our best-in-class team combined with our top brands, sound strategies for continuing to drive branded growth, investments in digital and other capabilities to enable our future success, and a pristine balance sheet that will allow us to take advantage of smart M&A opportunities, 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. Take care.

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Forward-Looking Statements

Statements contained in this filing 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 this 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, the efficacy and distribution of vaccines, and the impact of federal vaccine mandates on our business, workforce, results of operations and financial condition, which are highly uncertain and are difficult to predict, (c) our ability to manage the demand, supply and operational challenges with the actual or perceived effects of the COVID-19 pandemic; (d) the loss or financial instability of any significant customer(s), including as a result of product recalls or safety concerns related to our products, (e) changes in consumer behavior, trends and preferences, including health and whole grain trends, and the movement toward more inexpensive store branded products, (f) the level of success we achieve in developing and introducing new products and entering new markets, (g) our ability to implement new technology and customer requirements as required, (h) our ability to operate existing, and any new, manufacturing lines according to schedule, (i) our ability to implement and achieve our environmental, social, and governance ("ESG") goals in accordance with suppliers, regulations, and customers; (j) 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, (k) consolidation within the baking industry and related industries, (l) changes in pricing, customer and consumer reaction to pricing actions (including decreased volumes), and the pricing environment among competitors within the industry, (m) 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 distributor partners, (n) increasing legal complexity and legal proceedings that we are or may become subject to, (o) labor shortages and turnover or increases in employee and employee-related costs, (p) the credit, business, and legal risks associated with independent distributor partners and customers, which operate in the highly competitive retail food and foodservice industries, (q) 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, (r) 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 (s) the potential impact of climate change on the company, including physical and transition risks, 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 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 October 9, 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.