Flowers FOODS

THIRD QUARTER 2022 PREPARED REMARKS

November 10, 2022

CORPORATE PARTICIPANTS

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

Ryals McMullian, *President and CEO*

Steve Kinsey, *CFO*

PRESENTATION

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

Hello everyone and welcome to the pre-recorded discussion of Flowers Foods' third-quarter 2022 results. This is J.T. Rieck, SVP of finance and investor relations. We released earnings on November 10, 2022. Along with a transcript of these recorded remarks, you can find the earnings release and related slide presentation in the investor section of flowersfoods.com. We will host a live Q&A session on Friday, November 11 at 8:30 a.m. Eastern. Further details are posted in the investor section of our website.

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

We continued to execute well in the third quarter of 2022, driving quarterly sales to record levels. I am particularly proud of our performance given the unique challenges presented by the current environment. Recessionary economic forces and inflation remain significant factors, and I'll discuss those topics in more detail a little bit later in the call.

Rest assured that those near-term issues will not distract us from our focus on the tremendous longer-term opportunities in front of us. Despite widespread inflationary pressures, the strong performance of our leading brands continues to underscore consumers' preference for differentiated products.

As measured by IRI, Nature's Own grew sales dollars more than any other brand in the fresh packaged bread category and added 10 basis points of unit share in tracked channels, the most out of all major brands. Our premium brands, Dave's Killer Bread and Canyon Bakehouse, both maintained unit share in the fresh packaged bread category as measured in tracked channels, even with double digit price increases meant to offset inflation. Such a performance, in an environment where the private label bread category gained share in tracked channels, highlights the strength of our product portfolio and the resilience of demand.

Supply chain pressures, which affected results in the first half of the year, were less impactful in the third quarter. Our procurement team is doing extraordinary work amid heightened volatility, securing additional sources of supply and mitigating cost increases when possible.

Now I'll address our four strategic priorities, which we expect to drive our results in 2022 and beyond: developing our team, focusing on our brands, prioritizing margins, and pursuing smart M&A.

First, as always, I'd like to thank our Flowers team for their hard work and dedication, which has made our strong performance possible. Many of our team members were impacted by the destruction of Hurricane Ian, though I am relieved to report that all made it through safely. As they have done countless times in similar situations, our team stepped up to support those affected by the hurricane, offering supplies and increasing production at sister bakeries to meet consumers' heightened demand. I am proud of our response, which demonstrates the passion of our team and their commitment to serving our customers.

Our second strategic priority is focusing on our brands. Our Accelerate Growth and Learn and Prove portfolio roles are driving continued growth. Tracked channel dollar sales of our leading brands in the quarter were strong, with Nature's Own up 13.2%, Dave's Killer Bread up 11.1%, and Canyon Bakehouse up 18.5%. Our pipeline of new and innovative products is performing even better than expected. Recent launches are delivering promising results, and include DKB Epic Everything breakfast bread, Nature's Own Hawaiian loaf, Canyon Bakehouse Brioche rolls, and Nature's Own Perfectly Crafted Sourdough.

Looking ahead, it's critical that we develop new sources of revenue outside of our core business. We are making substantial investments in our agile innovation group, which is leveraging the power of our number one brands to extend our reach beyond the traditional bread aisle. This team, led by our Chief Marketing Officer, Debo Mukherjee, is dedicated to commercializing innovative products using an asset-light model that enables quicker responsiveness to consumer insights without significant up-front capital expenditures.

DKB snack bars are the first products developed with this new capability and their success in test markets has encouraged us to expand distribution nationally beginning in January 2023. We are also testing a line of high-protein DKB snack bars in select markets and have a robust pipeline of additional new products planned. We could not be more excited about this new innovation capability and the prospect it holds for driving future growth. If you'd like to sample these new products before they become widely available in stores, we've launched a direct-to-consumer website at creationsbyflowersfoods.com. This new channel allows us to test products directly with consumers and gather feedback ahead of formal product launches.

Another exciting development for one of our brands is a new three-year partnership with Wonder bread and the Macy's Thanksgiving Day parade. This is the first time Wonder is participating in the parade, and we are capitalizing on that event with a series of promotions on social media and in-store displays. The programs have already generated an enthusiastic response from media and consumers, and we expect the partnership to further strengthen Wonder's national brand recognition.

Our third strategic priority is margins, which remain a particular focus given the inflationary environment. The price increases we began implementing in June have served to mitigate much of the impact of higher input costs. Although higher costs are dilutive to margin percentages, I would note that our adjusted EBITDA increased on a dollar basis in the quarter, helped by those price increases.

Price increases were particularly impactful in non-branded products, where we are focused on improving profitability. As we've highlighted previously, enhancing the contributions of our Balance Growth and Maximize Profitability portfolio roles is a key part of our margin enhancement strategy.

But pricing is only one part of our plan to drive margin expansion. Other measures include our portfolio strategy, which aims to shift our mix to a greater portion of higher-margin, branded retail products, along with cost savings and operational efficiency programs. We continue to expect significant benefits from operational efficiencies and procurement in 2022, though we are revising our cost savings target from $25 to $35 million to $20 to $30 million.

You may recall that a portion of these savings were planned to come from our digital efforts. We believe the investments we are making in digital will lead to meaningful efficiency improvements and be a key driver of improved margins. However, as our ERP implementation progressed, it became clear that we needed to dedicate additional internal resources to ensure its success. At the same time, adoption of these new digital technologies at some of our bakeries was a bit slower than expected and continued operational inefficiencies somewhat hampered our efforts. So, while we remain excited about the long-term potential of digital, some of the cost savings benefits we expected in the second half of 2022 will be pushed into 2023 as we focus our resources on ERP implementation and improved operational performance. Meanwhile, our ERP program remains on track, and we are confident in our ability to implement it as planned.

Our fourth priority is smart M&A. We continue to monitor the deal market, actively seeking potential acquisitions that add capabilities, brands, or products to our robust existing lineup. We believe our strong balance sheet positions us well to act when we have financial, commercial, and operational conviction. As part of that process, in the third quarter, we incurred $11.6 million in costs from the pursuit of a potential acquisition that failed to materialize. Although we are disappointed in the result, we remain committed to our disciplined approach as we consider additional acquisition targets.

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. I'd like to echo your comments on our incredible team and express my sincere thanks for their outstanding efforts. As Ryals mentioned, we are very pleased with our third quarter performance.

Total sales increased 12.7% from the prior-year period. Improved price/mix drove the adjusted year-over-year increase, up 17.8%, primarily due to price increases to mitigate inflationary pressures. Volume decreased 5.1%, mostly due to targeted sales rationalizations in cake and foodservice.

Gross margin as a percentage of sales, excluding depreciation and amortization, decreased 310 basis points to 46.8%. Comparisons were impacted by higher ingredient and packaging costs, partly offset by higher sales that leveraged labor expenses, and lower production volumes and outside purchases of product.

Selling distribution and administrative expenses decreased 290 basis points as a percentage of sales to 38.6% in the third quarter. Results benefited from price increases that leveraged workforce-related expenses, lower employee fringe costs and distributor distribution fees as a percent of sales, and decreased legal settlement and consulting costs, partly offset by acquisition-related costs. Excluding matters affecting comparability, adjusted SD&A expenses decreased 200 basis points to 36.4%.

GAAP diluted EPS for the quarter was 19 cents per share compared to 18 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, consistent with the prior-year period.

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

Year-to-date, through the third quarter of fiscal 2022, cash flow from operating activities decreased by $23.7 million to $291.5 million. Capital expenditures increased $41.6 million to $128.4 million, largely due to the ongoing ERP upgrade, digital investments, and production capacity additions. Dividends paid increased $8.5 million to $140.1 million.

In the second quarter, our board of directors increased the company's share repurchase authorization by 20 million shares. Year-to-date, we repurchased $34.6 million of common stock, including $18.1 million in the third quarter, leaving 24.4 million shares remaining for repurchase under the company's current share repurchase plan.

Our financial position remains strong. At the end of the third quarter of fiscal 2022, net debt to trailing twelve month adjusted EBITDA stood at approximately 1.5-times. At quarter end, we held approximately $173 million in cash and cash equivalents and had approximately $692 million of remaining availability on our credit facilities.

Now, turning to our outlook for 2022.

Our updated sales guidance calls for an increase to the bottom end of the range. We now expect sales to be approximately $4.807 billion to $4.850 billion, representing an increase of 11% to 12% compared to prior guidance of 10% to 12%. Adjusted EPS is expected to be in the range of $1.25 to $1.30, implying a 9.9% compound annual growth rate off the 2019 base. The midpoint of this guidance exceeds our long-term financial targets of 1% to 2% sales growth and 7% to 9% EPS growth off the 2019 base.

At the end of the third quarter, virtually all our key commodities were covered for the remainder of 2022. To minimize volatility and provide adequate forewarning to allow for price adjustments, we have maintained our historical hedging strategy in which we attempt to increase the certainty of our key commodity costs 6 to 12 months out.

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

Ryals McMullian, *President and CEO*

Thank you, Steve.

You've just heard details on our strong financial results in the quarter. Now I'd like to address some of the key factors impacting the current environment, including inflationary pressures and the state of the U.S. consumer.

Inflation remains high, with the consumer price index showing food and energy prices up 11% and 20% respectively over the last twelve months ended September. Those price increases are pressuring consumers and encouraging some to trade down to lower-priced products and shift more of their food purchases to value-oriented merchants such as mass, dollar, and club stores.

As a result, in tracked channels measuring fresh packaged bread, overall private label sales gained 100 basis points of unit share in the third quarter. But as we noted on our last earnings call, that private label strength has been driven by concentrated activity in the mass merchandise channel where some private label retail prices have not adjusted to reflect inflationary pressures. In areas of retail where private label pricing generally reflects the higher costs, particularly in the grocery channel, brands are performing better. Our branded retail products gained unit share in tracked grocery channels for each quarter this year.

At the same time, inflation is also pressuring the foodservice category. Consumers are eating more meals at home than prior to the pandemic and that trend is expected to continue due to the cost advantages of eating in-home compared to out-of-home. We expect to benefit from these trends as we focus our efforts on growing branded retail sales.

Overall, demand elasticity has been in line with our expectations, remaining below historical levels. The bread category has proven resilient over time and that has been borne out even in the current environment. Our broad product lineup enables us to capture consumer demand at all price points and in a variety of distribution outlets.

We are monitoring inflation and demand elasticity closely and remain confident that we will emerge from this period even stronger. We expect our relentless focus on developing new and innovative products for consumers and providing excellent service to our customers will continue to drive growth.

The entire Flowers team remains committed to enhancing shareholder value and we expect to continue to deliver results in line with, or better than, our long-term financial targets. Thank you very much for your time. This concludes our prepared remarks.

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.

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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 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 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 ultimate impact of the COVID-19 pandemic and future responses and/or measures taken in response thereto, including, but not limited to, new and emerging variants of the virus and the efficacy and distribution of vaccines, 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 less expensive 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 implement and achieve our environmental, social, and governance ("ESG") goals in accordance with regulatory requirements and expectations of stakeholders, suppliers, and customers; (i) our ability to execute our business strategies which may involve, among other things, (1) the ability to realize the intended benefits of 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, (j) consolidation within the baking industry and related industries, (k) changes in pricing, customer and consumer reaction to pricing actions (including decreased volumes), and the pricing environment among competitors within the industry, (l) our ability to adjust pricing to offset, or partially offset, inflationary pressure on the cost of our products, including ingredient and packaging costs; (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 (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, (r) the failure of our information technology ("IT") systems to perform adequately, including any interruptions, intrusions, cyber-attacks or security breaches of such systems or risks associated with the planned implementation of the upgrade of our 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 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 October 8, 2022 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, 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 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 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 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 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.

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