Flowers FOODS

FOURTH QUARTER 2022 PREPARED REMARKS

February 9, 2023

CORPORATE PARTICIPANTS

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

Ryals McMullian, *President and CEO*

Steve Kinsey, *CFO*

PRESENTATION

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

Hello everyone. This is J.T. Rieck, executive vice president of finance and investor relations. Welcome to the pre-recorded discussion of Flowers Foods' fourth-quarter and full-year 2022 results, which we announced in a press release on February 9, 2023. We will host a live Q&A session on Friday, February 10 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, 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.

Our record sales in fiscal 2022 reflect the strong performance of our leading brands and outstanding execution by the Flowers team. Those results were achieved despite high inflation, which is pressuring consumers and encouraging trade down to lower-priced products. Faced with these and other challenges throughout the year, we continued to advance our strategic plans, and we were able to achieve respectable top and bottom-line performance.

As we look ahead to 2023, we expect an environment featuring continued high (but hopefully declining) inflation, and the possibility of a recession. Despite these challenges, we intend to continue investing in our business, bringing more innovation to market while also implementing our digital transformation and supply chain initiatives.

While these investments will impact our near-term results and contribute to a below-algorithm year, I am confident that they will enhance an already strong foundation and position us for future growth once these headwinds subside.

We are taking proactive measures not only to mitigate short-term inflationary pressures, but to reestablish ourselves as a low-cost producer in the industry for the long pull. I have challenged our team to redouble their efforts with specific actions to drive savings and improve efficiencies so that we emerge from this period even stronger. In a moment, I'll give more detail on some of the steps we're taking to position ourselves for continued long-term success.

Now, I'll provide an overview of our 2022 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 fourth quarter financial results and our 2023 guidance, and then I'll come back with a discussion on key themes moving forward and our plan to drive growth in 2023 and beyond.

I'd like to start by recognizing the incredible contributions of our team, whose dedication and resiliency in this challenging environment continue to inspire me. Their performance in the face of inflation, supply chain disruptions, labor shortages, and severe weather enabled us to push through the challenges and deliver solid results.

We have made progress in reducing job openings in our bakeries and the labor environment seems to be improving. However, we will continue to invest in what I believe is the best team in the industry and we are working hard to ensure that Flowers continues to be recognized as a destination workplace. In addition to implementing programs with our current workforce to be sure that we have the right people in the right jobs, we are taking steps to showcase the attractive career path available to new employees. Although many of our internal initiatives are in their infancy, we are optimistic about their potential to drive further improvement in recruitment and retention.

Our second strategic priority is focusing on our brands.

The current inflationary environment underscores the importance of strong brands. Nature's Own, Dave's Killer Bread, and Canyon Bakehouse all maintained unit share in the fourth quarter as consumers continued to recognize their differentiated attributes. That performance came despite a challenging environment where private label gained 90 basis points of share. And our portfolio strategy is working as expected. The two portfolio roles we are focused on, "Aggressive Growth" and "Learn and Prove," both grew at rates exceeding our company average.

Further, we are capitalizing on our strong brands to bring new and innovative products to market. Following their outstanding performance in test markets, we are expanding distribution of DKB bars nationally. The rollout to retailers began in January and will continue throughout the year. While it's still too early to report any initial results, we are excited about their potential, and feedback from retailers and consumers alike has been positive. To support what we believe is the first step in the establishment of a DKB snack portfolio, we are placing significant marketing support behind the introduction. That expense will contribute to the headwinds for 2023 I mentioned earlier. In addition to the bars, we have an exciting pipeline of other innovative products, including DKB Crunchy Snack Bites and Nature's Own Breakfast Pastries, which are available for trial on our site: creationsbyflowersfoods.com.

Our third strategic priority is margins, which remain a particular focus given the inflationary environment. We have mitigated much of the impact of higher costs through a combination of price increases and efficiency initiatives. Our cost savings initiatives generated $24 million in benefits for the year, and we expect to achieve another $20 to $30 million in 2023. Although our margin percentage declined in the fourth quarter and fiscal year, we grew adjusted EBITDA in dollars by 8.5% and 2.3% respectively.

Moving forward, we are focused on implementing further initiatives to drive margin improvement. Bakery of the future is one such program that is making progress. In 2022, it went live in 14 bakeries, and we expect to add another 18 this year. As bakery of the future hits critical mass, we anticipate the benefits of real-time data to begin flowing through.

Importantly, in 2023 we are committed to investing further in supply chain capabilities to support these and other initiatives. We expect these added capabilities to drive a greater emphasis on preventative maintenance, waste reduction, logistics efficiencies, and overall equipment effectiveness. Furthermore, capital investments to upgrade equipment and increase automation should contribute to our gains.

In addition to these specific programs, we are instilling a culture of continuous productivity improvement that is intended to endure beyond this inflationary period. And over the long-term, we expect that culture shift, in combination with our portfolio strategy, to drive meaningful improvement in our margins.

Our fourth priority is smart M&A. In December, we announced an agreement to acquire Papa Pita Bakery, a manufacturer and distributor of high-quality bagels, tortillas, breads, buns, English muffins, and flat breads. Papa Pita has been an important co-manufacturer of Flowers products for many years, and we expect the acquisition to drive further manufacturing and distribution synergies. We anticipate this transaction will close in the first quarter of this year.

As always, we continue to monitor the deal market, actively seeking potential acquisitions and investments that 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.

I am pleased to report that, in keeping with our track record of shareholder-friendly capital allocation, Flowers was recently added to the S&P High Yield Dividend Aristocrats Index, which includes companies that have increased their dividend every year for at least 20 years. Enabled by our strong free cash flow, we are proud of our long track record of dividend payments.

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*

Thank you, Ryals – and hello everyone. Let me echo your comments on our incredible team and express my sincere thanks for their outstanding efforts in a challenging environment.

Before I get into the Q4 results, I'd like to highlight a change in our sales presentation. Consistent with our portfolio strategy to drive greater sales of higher-margin branded retail products, beginning with the fourth quarter and full year 2022 report, we are disaggregating our sales into two categories: "Branded Retail" and "Other." The latter category encompasses what we formerly referred to as "Store Branded Retail" and "Non-Retail and Other." We will also provide price/mix and volume detail for both categories. In addition to being better aligned with our strategy, we hope that this additional detail will provide more insight into our business.

Moving on to our results, total sales in the fourth quarter increased 10.1% from the prior-year period. Improved price/mix drove the adjusted year-over-year increase, up 16.7%, primarily due to price increases to mitigate inflationary pressures. Volume decreased 6.6%, a significant portion of which was due to targeted sales rationalizations in cake and foodservice.

Gross margin as a percentage of sales, excluding depreciation and amortization, decreased 110 basis points to 46.8%. Comparisons were impacted by higher ingredient and packaging costs, partly offset by lower incentive compensation, and reduced outside purchases of product.

Selling, distribution, and administrative expenses decreased 110 basis points as a percentage of sales to 37.9% in the fourth quarter. Results benefited from lower incentive compensation expense, reduced distributor distribution fees as a percent of sales, lower rent expense due to the purchase of 27 leased warehouses in the prior year, and an increased gain on sale of assets. These items were partly offset by higher logistics and bad debt expense. Excluding matters affecting comparability, adjusted SD&A expenses decreased 100 basis points to 37.9%.

GAAP diluted EPS for the quarter was 23 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 23 cents per share, up 3 cents from the prior-year period.

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

For fiscal 2022, cash flow from operating activities increased by $16.3 million to $360.9 million, which included business process improvement consulting costs of $33.2 million related to the ongoing transformation strategy initiatives. Capital expenditures increased $33.1 million to $169.1 million, including $61.3 million for the ongoing ERP upgrade. Dividends paid increased $10.6 million to $186.5 million.

In the second quarter, our board of directors increased the company's share repurchase authorization by 20 million shares. In fiscal 2022, we repurchased $34.6 million of common stock, 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 fiscal 2022, net debt to trailing twelve month adjusted EBITDA stood at approximately 1.4-times. At fiscal year end, we held approximately $165 million in cash and cash equivalents and had approximately $687 million of remaining availability on our credit facilities.

Now, turning to our outlook for 2023, which reflects significant investments in our strategic priorities and actions to address the inflationary environment.

We are forecasting sales to increase 7.7% to 9.1%. Adjusted EBITDA is expected to be $513 million to $543 million, with adjusted EPS in the range of $1.20 to $1.30. A significant portion of our investments in 2023 relate to the ongoing upgrade of our ERP system. We expect the impact of these costs to peak in 2023 as we begin to roll-out the system across our network. Our adjusted EBITDA guidance incorporates approximately $26 million (or approximately 9 cents per share) of incremental costs related to this project. We anticipate these costs to moderate substantially by project completion in 2026.

Additionally, we expect an 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. We expect 2023 D&A in the range of $160 to $165 million compared to $142 million in 2022.

Capital expenditures are expected to range from $140 to $150 million, $20 to $30 million of which is related to the upgrade of our ERP system.

Key factors that could shift results within our guidance range include pricing, consumer resilience, and continued inflationary pressure. We implemented significant price increases in 2022, some of which will not be lapped until mid-year of 2023. We are also implementing additional price increases in 2023, particularly to improve the profitability of our lower-margin foodservice and private label businesses, as well as to address higher commodity costs across our product portfolio. Overall, demand elasticity has been in line with our expectations, remaining below historical levels.

We expect significant inflation in 2023 across our basket of input costs. Though we have seen some pull back in wheat futures from the highs, prices remain elevated. In addition to flour, we are experiencing inflationary pressure in virtually all major categories of ingredients, packaging, and natural gas. Due to the timing of inflation in 2022, a significant portion of the inflationary costs will impact the first half of 2023. We anticipate mitigating those inflationary pressures through a combination of price increases and the efficiency initiatives that Ryals discussed. Approximately 60% of our key raw materials are covered in 2023. To minimize volatility and provide adequate visibility into costs, we have maintained our historical hedging strategy, buying and hedging 6 to 12 months out.

In Fiscal 2023, we expect costs for the upgrade of our ERP system to be approximately $80 million to $90 million, $20 to $30 million of which will be capitalized. We anticipate the upgrade of our ERP system will cost in total approximately $350 million–of which approximately 32% is anticipated to be capitalized. We expect the upgrade to be completed in 2026. This amount exceeds our initial estimate of approximately $275 million, driven primarily by expanding the project scope as we moved through the build phase, and anticipation of greater reliance on external resources for implementation and bakery deployments due to labor constraints. As of December 31, 2022, we have incurred costs related to the project of approximately $153 million. Our ERP program remains on track, and we are confident in our ability to implement it as planned and within the updated financial guidance.

Regarding earnings cadence, the first quarter will have the most difficult year-ago comparisons due to our strong start in fiscal 2022.

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

Ryals McMullian, *President and CEO*

Thank you, Steve.

You've just heard details about our fourth quarter financial results and our financial expectations for fiscal 2023. Now I'd like to address some of the key factors impacting the current environment, including macroeconomic pressures, the consumer response to these pressures, and competitive market dynamics in the bread category.

The macroeconomic backdrop remains challenging, as continuing inflationary pressures and recessionary fears have impacted consumer spending. And, although unemployment remains low, recent signs point to an increase in layoffs, as higher interest rates may be taking a toll on economic growth. On the other hand, as the Fed noted this week, stronger than expected job growth may cause inflation to be harder to tamp down.

In response, some consumers are trading down to lower-priced products and shifting more of their purchases to value-focused retailers. For example, specialty premium bread lost 50 basis points of unit share in the quarter, more than any other category within fresh packaged bread, while the more economical white and soft variety loaf categories were among the largest share gainers, up 40 and 30 basis points respectively. And the mass channel gained 130 basis points of unit share in the second half of 2022, while the grocery channel lost 170 basis points.

In keeping with these trends, private label gained market share in the second half of 2022, although those gains plateaued toward the end of the year. In past quarters, we've discussed the divergence in results between the mass and grocery channels, and that phenomenon has continued. Private label results remain much stronger in the mass channel, where the price gap between private label and branded products is wider than in grocery, but flattened out toward the end of the year. In grocery, private label share gains remain muted and actually declined toward the end of the year. It’s important to note that beginning in January we have begun to see the mass channel implement price increases in private label. Price gaps remain wider than in grocery, but we interpret the move as a positive first step for the health of branded products.

Looking ahead to 2023, in addition to the effect of difficult comparisons in the first quarter due to Omicron and winter storms last year, we expect the big swing factors in our performance to be changes in inflation, consumer spending patterns, the competitive environment, and our ability to offset inflation with price increases and cost savings measures. Although these macro level trends are largely beyond our control, we are focused on proactively strengthening the controllable parts of our business in the current environment and beyond. Specific actions include effecting our portfolio strategy of shifting a greater percentage of sales to our higher-margin branded products via innovation and advertising, and investing in capabilities like supply chain, our agile innovation team, and digital and ERP initiatives.

These investments we are making in our business—innovation, marketing, supply chain, digital and ERP—are laying the foundation for our future growth. As we’ve seen with our digital and ERP programs, upfront costs are required before the benefits flow through. But we remain steadfast in our belief that these investments in our business will pay strong dividends in the future. While we are committed to maximizing our performance in the current environment, our focus is on long-term value creation.

So, while we expect the macro environment to remain challenging in 2023, the Flowers team is nonetheless committed to pushing aggressively ahead and positioning ourselves to outperform in 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 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 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 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, 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 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 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, 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, legal settlements, acquisition-related costs, and pension plan settlements. 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.