FOURTH 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' fourth-quarter and full year 2021 results. This is JT Rieck, SVP of finance and investor relations. As a reminder, we released our fourth-quarter and full year 2021 results on February 10, 2022. 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 flowersfoods.com. We will host a live Q&A session on Friday, February 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, JT.

It's a pleasure to welcome everyone to our fourth-quarter call.

I'm very proud of our performance last year in what was a challenging and dynamic environment. The situation leading into the year was unprecedented—with inflation, supply shortages, labor challenges, and shifting demand—as the pandemic changed the way people live and work, creating new shopping and eating habits that continue to evolve.

In the face of this uncertainty, our team rose to the challenge and delivered another strong financial performance. We exceeded our initial 2021 guidance and, on each measure—sales, EBITDA, and EPS growth—remain ahead of our long-term financial targets with 2019 as the base year.

It's important to note that, excluding the impact of the extra week in the prior year, we overcame difficult comps and increased sales in both the fourth quarter and the full year. Our leading brands continue to gain market share, driven by investments in innovation and marketing.

Building off those results, we move into 2022 with confidence. To offset the higher-than-expected costs in the fourth quarter, we implemented an across-the board price increase in January, which, along with continued growth from our leading brands, is driving strong early performance in 2022.

Now I'd like to focus on our four strategic priorities, starting with our team….

2021 was an extraordinary year that challenged us all, and I'm grateful to our Flowers team, particularly our front-line workers, for all their efforts. A scarcity of labor, and quarantines related to Covid-19 outbreaks and exposures, contributed to staffing shortages, making production difficult at times. Through it all, our Flowers team pulled together to overcome these headwinds, getting our category-leading products on the shelves to meet consumer demand. It's impossible to thank our team enough for this effort, but to recognize their commitment and hard work, we awarded $5.2 million of appreciation bonuses to our front-line workers in the fourth quarter.

One of the key learnings from the pandemic has been our ability to adapt to remote working. Beyond our bakeries, we've capitalized on this new virtual work environment, using it to expand the talent pool from which we recruit. This flexibility has allowed us to supplement an already strong team with talent from across the country, which is particularly important considering the additional capabilities our digital transformation requires.

Our second strategic priority is focusing on our brands.

Prior to the pandemic, we pivoted to become a more brand-focused company. And our leading brands continue to perform very well. Our household penetration grew significantly over the last two years. Importantly, we have held on to many of those new customers and further increased penetration of our leading brands in 2021. Since 2019, our household penetration has increased 300 basis points, with Nature's Own up 460 basis points, Dave's Killer Bread up 350 basis points, and Canyon Bakehouse up 70 basis points. And consumers are also increasing the number of times they buy our products, with repeat rates up 270 basis points since 2019.

These improved metrics are driving sales and market share gains. Nature's Own, Dave's Killer Bread, and Canyon Bakehouse grew 2021 tracked channel sales by 0.3%, 11%, and 16% respectively, despite the difficult prior year comparison. Those top brands also gained a combined 60 basis points of market share.

Innovation has been a key growth driver for our top brands, so we are making significant investments to continue that growth by bringing new products to market. Products such as Nature's Own Perfectly Crafted Flatbreads, and Dave's Killer Bread and Nature's Own Perfectly Crafted Rye filled market segments where we were unrepresented previously.

I've spoken on past calls about our new agile innovation group, which is tasked with accelerating the development of truly innovative, new products that are outside of our core categories. And I'd like to highlight our first product that we've commercialized as part of that effort, our DKB Snack Bars. The bars, which come in three flavors, offer the same killer taste, texture, and nutrition that DKB fans have come to love, with the ease of a grab-and-go product. They will also offer access to the direct-to-consumer channel that many of our products do not. You can see a representation of the bars in the slide deck.

DKB's brand strength enables it to expand to different categories in ways that other brands can't. When our loyal DKB consumers, affectionately known as BreadHeads, expressed a desire for DKB products beyond loaf bread, we introduced bagels, English muffins, and burger buns, all of which have been met with strong demand. That success gave us the confidence to expand the product line beyond bread. The snack bars are being tested in several markets and have shown strong initial results that are exceeding our own expectations.

We are excited about the promise of these new products and the potential for additional developments from our agile innovation group. Our pipeline is full, and we plan to bring more innovation to market later this year.

Our third strategic priority is margins, an area that has taken on particular importance in this period of rising inflation. In part, earnings declined in 2021 due to continued labor challenges and inflationary pressures. Fourth-quarter margins, in particular, compressed as we transitioned to higher-priced hedges, and our pricing actions lagged cost increases. However, we have plans in place to offset these pressures through a combination of internal efficiencies, price increases, and steps to improve our hiring processes and working conditions, particularly in the bakeries.

In 2020 and 2021, our portfolio optimization programs saved a total of $60 million. For 2022, we've initiated additional cost savings measures, primarily across operational efficiencies and procurement. We expect these programs to deliver an incremental $25 to $35 million in savings for the year.

Our digital transformation initiative is a crucial driver of improved data and efficiencies. When we launched this initiative, I highlighted some of the digital domains we were focusing on initially. These domains included bakery of the future, ecommerce, and autonomous planning.

The bakery of the future domain, among its many benefits, is expected to provide new business metrics, real-time performance management, and automate repetitive processes. We expect those changes to translate into meaningful benefits, such as reduced scrap and labor expenses, even-more-consistent product quality, and ultimately lower production cost-per-hour. We have already launched pilots at several bakeries, and we expect to deploy this program to half of our bakeries by the end of the year.

We expect the ecommerce domain to improve digital content and develop new partnerships to enhance the reach of our products. Our ultimate goal is to become the category leader, driving sales at traditional retailers' websites, online retailers, and last-mile delivery partners.

The goal of autonomous planning is to digitally connect the various pieces of our supply chain, allowing us to predict consumer demand with higher accuracy and integrate that insight from point-of-sale through the supply chain to ensure the right raw materials are on site at the right time, the right products are produced at the right bakery every day, and deliveries are optimized to achieve high on-shelf availability and customer service.

These digital domains, and others, are expected to drive greater sales and efficiencies, enabling us to meet or exceed our long-term financial targets. And of course, underpinning all of these digital initiatives is the upgrade of our ERP system. We have completed the design phase and moved into the build phase. This upgraded system will deliver better data, automate processes, and enable us to become a more digitally agile company with the ability to leverage data and technology to further improve efficiencies, operations, and service.

We've also talked about our focus on improving operations, particularly at our underperforming bakeries, including the Navy Yard. I'm pleased with the dramatic progress we've made in this regard, and, although we need to make further improvements, I'm confident that those results will continue to improve.

When internal initiatives are not sufficient to offset inflation, as in the current environment, we also turn to price increases. The first price increase in the current cycle came in July of 2021. However, as hedges transitioned to higher prices in the fourth quarter, the inflationary impact increased faster than expected.

To offset this cost pressure, we implemented a second price increase in January of this year. Input costs were volatile at the time we took that proposed pricing to the market, and since then our inflation expectations for 2022 have increased. Our early analysis of results so far in 2002 suggests that this price increase is covering much of the current inflationary pressure, though more pricing actions may be warranted in certain categories. We will continue to closely monitor the results and take any additional actions necessary.

Our fourth priority is smart M&A. We continue to monitor the deal market, which remains active. Valuations are high, but our steady free cash flow and strong balance sheet position us well 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.

As a reminder, 2021 was a 52-week year, one less week than in 2020, with the extra week falling in the fourth quarter. The impact of the extra week in 2020 was approximately 1.7% to the topline and 2 cents per share. Given the pandemic influence on year-over-year comparisons, in some circumstances we will also provide comparisons to the pre-pandemic results in the fourth quarter of 2019.

As Ryals mentioned, we are very pleased with our 2021 performance. In the fourth quarter, total sales decreased 3.9% from the prior-year period, but rose 3.8% excluding the extra week in 2020 and 7.2% compared to the fourth quarter of 2019. Improved price/mix drove the adjusted year-over-year increase, up 6.2%, 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 2.4% volume decrease mostly driven by declines in our retail business, particularly store branded retail.

Looking at sales by channel, branded retail sales decreased $26.9 million compared to the prior year, or 4.0%, to $649.9 million. This decrease was driven primarily by volume declines from the extra week in the prior year period and moderating at home food consumption, partially offset by favorable price/mix and improved promotional efficiency.

Despite the difficult prior-year comparisons, Flowers' fresh packaged bread gained 10 basis points of market share in tracked channels. Excluding the extra week in the prior-year period, sales of Nature's Own increased 4%, and Dave's Killer Bread and Canyon Bakehouse each rose 15%. Compared to the fourth quarter of 2019, branded retail sales increased 17.9% as our leading brands continued to benefit from pandemic-related demand increases and our initiatives to drive further growth.

Store branded retail sales decreased $20.0 million year over year, or 14.6% to $116.8 million, as consumers continued to express a preference for more-differentiated, branded products. The store branded category as a whole lost 120 basis points of market share in the fourth quarter compared to the prior-year period, declining to 18.8%, a downward trend that has endured for seven years. Compared to the 2019 fourth quarter, Flowers' store branded sales declined 17.0%.

Non-retail and other sales increased $7.4 million year over year, or 3.5%, to $216.8 million as we lapped pandemic-induced declines in the prior year period. Results benefitted from improved price/mix, partially offset by lower volume due to the extra week in the prior-year period. Non-retail and other sales overall remain below pre-pandemic levels, with sales down 4.0% compared to the 2019 fourth quarter. However, as non-retail sales continue their recovery, that business is coming back at higher margins due to the initiatives we've taken to improve the profitability of the business overall.

In the fourth quarter, gross margin as a percentage of sales, excluding depreciation and amortization, decreased 110 basis points to 47.9%. Gross margin comparisons were impacted by lower sales and higher ingredient and packaging costs, partially offset by lower incentive compensation expense and reduced outside purchases.

Selling distribution and administrative expenses increased 110 basis points as a percentage of sales in the fourth quarter. Excluding the items affecting comparability detailed in the press release, adjusted SD&A expenses

increased 100 basis points to 38.9%. Results were primarily impacted by a $3.9 million prior-year reimbursement for indirect losses associated with receiving inferior ingredients, and higher labor, logistics, and marketing costs.

GAAP diluted EPS for the quarter was 18 cents per share compared to 26 cents in the prior-year period. Excluding the items affecting comparability detailed in the release, adjusted diluted EPS in the quarter was 20 cents per share, down 8 cents from the prior-year period. The impact of the extra week in the prior year was 2 cents per share.

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

For fiscal 2021, cash flow from operating activities decreased by $109.9 million to $344.6 million largely due to lower adjusted earnings and greater working capital usage. Capital expenditures increased $38.0 million to $136.0 million, largely due to digital investments and production capacity additions. Dividends paid increased $8.6 million to $175.9 million. Additionally, to further optimize our distribution network, we purchased a portfolio of leased facilities for $64.7 million, which also impacted cash flow from investing activities.

Our financial position remains strong. At year-end, net debt to trailing twelve month adjusted EBITDA stood at approximately 1.4-times, compared to 1.1-times at the end of the third quarter. At year-end, we held approximately $186 million in cash and cash equivalents and had approximately $686 million of remaining availability on our credit facilities.

Turning to our adjusted outlook for 2022…

We are forecasting sales to increase 7.6% to 8.4% versus 2021, which, at the midpoint, implies a 4.3% compound annual growth rate off the 2019 base. Our guidance range for adjusted EPS is $1.25 to $1.35, which, at the midpoint, implies 4.8% growth compared to the prior year, and a 10.6% compound annual growth rate off the 2019 base. This guidance exceeds our long-term financial targets of 1% to 2% sales growth and 7% to 9% EPS growth off the 2019 base.

Regarding earnings cadence, while our January pricing initiatives will impact the full year, the benefits of many of our growth and efficiency initiatives are expected to occur in the back half of 2022.

Some of the factors we considered when setting guidance included inflationary pressures, our ability to take additional pricing, and the resulting demand elasticity. Variations among these factors could drive our actual results to the top and bottom of the ranges provided.

As we messaged last year, inflation is meaningfully higher in 2022. In total, we are expecting high-single-digit cost increases. Prices for commodities such as flour, fats and oils, and packaging have risen significantly, and we are doing everything in our power to offset these higher costs. Our hedging strategy, in which we attempt to lock in commodity prices 6 to 12 months out, provides visibility into future inflation. Approximately 70% of our key raw materials are covered for 2022.

So far, we've been successful in obtaining higher prices necessary to offset inflation with some lag effect in the fourth quarter. We remain optimistic that, combined with our internal actions, we should be able to mitigate the impact of higher costs in 2022.

As you are aware, we embarked on a robust digital transformation in 2021. Ryals discussed the investment we are making in our digital transformation initiatives and the benefit we expect from them. It's important to note that the largest portion of that initiative is upgrading our ERP system to S/4HANA. With the planning and design phases complete, we have good visibility into the overall size and expected financial magnitude of the investment.

We expect that the total cash investment for the design and implementation of our ERP program, from 2021 through 2026, will be approximately $275 million, of which approximately 40% will be capitalized. In fiscal 2021,

ERP spending was about $47 million, of which approximately $22 million was capitalized. For fiscal 2022, we anticipate approximately $85 to $95 million of ERP-related project costs. We expect to capitalize $65 to $75 million of that amount.

As we've discussed before, our digital strategy initiative is designed to transform how we operate our business, and we expect these investments to drive sustained efficiencies, enabling us to meet or exceed our long-term financial targets.

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

Ryals McMullian, *President and CEO*

Thank you, Steve.

As you've just heard, despite an inflationary outlook and the potential for demand elasticity, we head into 2022 with confidence. At the beginning of 2021, we highlighted three factors to watch: the amount of demand reversion, cost inflation and our ability to offset it, and changes in the promotional environment. Later in the year as inflation accelerated, we added one more factor, demand elasticity, which holds particular importance as we enter 2022.

The pandemic triggered a significant shift in our mix, driving demand for branded retail products, while curtailing non-retail sales, and accelerating the longstanding decline in private label. That mix shift boosted our margins significantly and highlighted the benefits of our brand-centric portfolio strategy, which we had begun implementing even prior to the onset of the pandemic.

During the second half of 2021, we started to see some signs of strength in our foodservice business, which is off its lows as consumers begin to eat more often outside of the home. But we've also been very pleased by the resiliency of our branded retail sales, which represented 60% of sales pre-pandemic, rose to 66% in 2020, and remained at that level in 2021. Part of this strength is due to the increase in at-home eating, as many workers remain remote, but we believe some is also attributable to the strength of our brands and consumers' demand for the differentiated attributes and quality of these products.

Store brand sales continue to lose share as consumers express their preference for differentiated products and are willing to spend more for what they see as greater value. As Steve noted, even with rising inflation, store brand share of the category continued to decline in the fourth quarter, losing 120 basis points compared to the prior year fourth quarter.

The second factor we are watching is inflation, which was picking up as we entered 2021 and then intensified throughout the year. We took measures to mitigate inflation, including our traditional hedging activity, internal efficiencies, and a price increase that was implemented last July. Those measures were successful, though as many of our older hedges ran off in the fourth quarter and were replaced by new hedges at higher prices, they were not sufficient to completely cover these higher costs.

We implemented a second price increase that took effect in January, which we expect, in conjunction with our other measures, will mitigate inflationary pressures in 2022. As I mentioned in my opening remarks, should inflationary pressure increase further, we stand ready to take additional action to offset it.

The third factor coming into 2021 was the promotional environment. Our markets are always competitive, but we have not detected any significant changes here. Overall, competition has remained rational as the benefits of aggressive widespread promotions are limited in a market where costs are increasing and supply is limited.

The final factor we are watching is demand elasticity. As we said last quarter, one of the primary factors influencing results in 2022 will be how much inflation consumers can absorb, as nearly every aspect of their household spend increases. So far, we have not seen a meaningful reduction in demand due to our two price increases, and we are hearing similar commentary from other companies in the consumer goods space.

The early indications this year are that units are holding up well and our trade promotion rate remains low. I have seen some research that suggests consumers are beginning to look for value as prices rise, but so far that dynamic has been less apparent in the bread category.

In fact, most of the category softness has been confined to lower-priced, less-differentiated products. Premium items, such as Nature's Own Perfectly Crafted, Dave's Killer Bread, and Canyon, continue to generate growth in dollars and units. That product mix gives us confidence that 2022 has the potential to be another very strong year. However, if consumers begin to trade down to lower-priced products, that could put some temporary pressure on margins until the current inflationary environment subsides.

Looking to 2022, we are focused on continued improvement with an emphasis on our four strategic priorities: our team, our brands, margins, and M&A.

I've said before that I think we have the best team in the industry, and we are working to strengthen that team and make our work environment the best that it can be. Our brands have never been stronger, and we are investing in them to continue their growth. We believe that brand strength is one reason we haven't seen much demand elasticity despite higher prices.

We are investing in our future margin profile, with our digital transformation initiative the foremost example of that. Think of our digital strategy as a key enabler of our overall strategic priorities. Successful implementation of digital will support our brand efforts, bringing us ever closer to the consumer, increase our efficiencies in operations, and deliver higher-quality, real-time insights to the team, which will in turn support faster, higher-quality business decisions. We believe that the near-term investment will drive sustained margin improvement. Finally, we aim to strengthen our existing business with M&A to bolster our already strong brand lineup and growth profile.

Before we close, I'd like to add a little bit more clarity around what is contemplated within our guidance range. As I said earlier, our 2022 guidance points to another strong year for Flowers, particularly at the upper end of the range. While we considered many factors in formulating our guidance, two factors will have the greatest impact on the year. The first is demand elasticity and the second is the timing of our efficiency initiatives.

As we said, our early analysis suggests that consumers are absorbing the price increases well, but we will need to get a bit further into the year for a more complete picture. Also, given the success of our portfolio optimization initiative, which generated $60 million in savings over the last two years, I am confident in our ability to deliver incremental value. However, a timing shift in those initiatives could impact overall results this year.

So, consumer trade down to lower-priced products, and a timing shift in our savings initiatives could move results toward the lower end of the range. But, continued strong demand for our premium brands and timely delivery of savings would help drive results toward the upper end of the range. At the end of the day, we are hard at work impacting the things within our control: investing in our top brands, managing our costs, building new capabilities, cultivating our culture, and celebrating our people.

In closing, I'm extremely proud of our 2021 performance and I'm optimistic about the initiatives we have in place to ensure our success in 2022 and beyond.

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 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) 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) 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) our ability to adjust pricing to offset, or partially offset, inflationary pressure on the cost of our products; (n) 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, (p) labor shortages and turnover or increases in employee and employee-related costs, (q) the credit, business, and legal risks associated with independent distributor partners and customers, which operate in the highly competitive retail food and foodservice industries, (r) 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, (s) 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 (t) 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 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 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 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.