Flowers FOODS

FIRST QUARTER 2025 PREPARED REMARKS

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CORPORATE PARTICIPANTS

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PRESENTATION

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

Hello everyone. This is J.T. Rieck, EVP of finance and investor relations. Welcome to the pre-recorded discussion of Flowers Foods' 2025 first-quarter results. We will host a live Q&A session this morning 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 investors section of flowersfoods.com.

Before we get started, keep in mind that the information presented here may include forward-looking statements about the company's performance. Although we believe these statements to be reasonable, they are subject to risks and uncertainties that could cause actual results to differ materially. In addition to what you hear in these remarks, important factors relating to Flowers Foods' business are fully detailed in our SEC filings.

Providing remarks today are Ryals McMullian, chairman and CEO, and Steve Kinsey, our CFO. Ryals, I'll turn it over to you.

Ryals McMullian, *Chairman and CEO*

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

Our first quarter performance highlights the importance of our portfolio strategy and the strength of our leading brands. In a difficult environment, characterized by increased value-seeking behavior from consumers, we maintained unit share in the fresh packaged bread category, and each of our leading brands maintained or gained unit and dollar share.

Despite our solid relative performance, we are not satisfied with our absolute results, which suffered largely due to weaker than expected category trends. Overall food category units declined 1.4%, while bread and cake category units declined 2.4% and 6.4%, respectively.

In 2024, we successfully mitigated category headwinds with brand investments that drove growth in organics, keto, and gluten free. In the first quarter, our retail cake and bread sales weakened further, with softness in traditional loaf and cake more than offsetting strength in those other areas. After starting the year with some signs of potential strength, trends deteriorated as the quarter progressed. Weakness in parts of our private label and away-from-home businesses also pressured results.

We are responding to these pressures by continuing to invest in our brands—evolving our portfolio to enhance current performance and position Flowers to thrive over the long term. And I believe Flowers is in the best shape in its long history to do just that. We have revamped our team, adding new talent to a deep bench of experienced industry veterans. And we are capitalizing on the strongest brands in the category to target growth opportunities.

We are also focused on seeking out new white space for growth. Convenience stores, where our penetration rate is low, represent one of the most promising areas of opportunity. Our expanded snacking portfolio, with DKB snacks, Wonder cake, and now Simple Mills, better positions us to make inroads in this large and attractive channel. In recognition of the potential opportunity, we are investing in new capabilities, supplementing our team to accelerate our progress.

Now, I'll provide an overview of our first quarter performance in the context of our four strategic priorities: developing our team, focusing on our brands, prioritizing margins, and pursuing smart M&A. Following that, Steve will review our financial results and guidance, and then I'll come back and close with a discussion of key themes moving forward.

Our team, which is our first strategic priority, remains our greatest advantage. And that advantage was on full display at Flowers' recent national sales meeting, which I had the pleasure of attending. The event brought together team members from throughout the organization: sales, brands, supply chain, and a variety of other functions.

In addition to the exciting list of innovative products and new business wins, what struck me most was the deep sense of teamwork and dedication to improving our business and driving long-term growth. We have assembled an impressive group of talent with tremendous experience.

More importantly, our team is committed to each other and the advancement of our common goal of generating sustainable, long-term growth. We are collaborating to enhance our effectiveness—sharing best practices and pushing each other to improve every day. That collaboration is exemplified in our first quarter market share performance, which benefited from a team effort to drive improved display and promotional execution. The spirit of teamwork and drive for constant improvement bolsters my confidence in our future.

A common theme at the sales meeting was keeping the consumer at the core of everything we do. One group specifically tasked with that mission is our consumer insights team, which is dedicated to increasing the relevancy of our products to consumers.

As preferences evolve and shopping habits shift, companies that prioritize consumers' experiences can build deeper connections with shoppers and seize emerging opportunities in a competitive landscape. This team is aligning our products with consumer trends, and engaging consumers with innovative forms and flavors. That work is evident in our innovation pipeline and is a key to driving long-term growth.

To further enhance our best-in-class sales growth opportunities, we recently added a head of category management specifically responsible for driving growth and profitability within assigned product categories. Leveraging our deep understanding of consumer behavior, market trends, the competitive landscape, and retailer dynamics, this role leads a team of category managers and analysts. Collaborating closely with sales, marketing, supply chain, and innovation, these team members are tasked with developing actionable insights and executing category strategies that maximize market share, revenue, and profit.

Focusing on our brands is our second strategic priority and I have never seen our focus more heightened than now. From our robust innovation pipeline, to finding new white space for growth, we are focused on turning insights into action.

Two of the most notable recent consumer trends are the shift to better-for-you products and value seeking. And our brands are well positioned to meet that shift from a place of authenticity. Nature's Own is the original cleaner-label mainstream brand, established in 1977 with no artificial preservatives, colors, or flavors. We are building on that history by extending into Keto and other areas.

Some years later, the acquisitions of Dave's Killer Bread and Canyon Bakehouse further solidified our dominant position in better-for-you bread products. To extend that advantage, our recent acquisition of Simple Mills, a leading natural snacking brand, increases that potential even further.

Our leadership position is driving strong relative performance, as we gained 130 basis points of unit share in the specialty premium loaf category in the first quarter. I am also pleased to share that we captured the number one share in the keto subcategory for the first time.

To offset weakness in traditional loaf products, we are adapting quickly to further differentiate our other brands and meet consumers' desire for products aligned to their interest in health and wellness. For example, the Nature's Own Keto product line is one of the fastest growing brands in that segment of the category.

In the first quarter, we captured the number one share in Keto for the first time. To further our growth in this area, we recently introduced Keto hot dog buns and a multigrain loaf, with a pipeline of additional products following closely behind.

Similarly, consumer interest in sourdough bread has been particularly strong and we have introduced Nature's Own and Canyon versions of this popular product to meet that demand. As with Keto, although we are not the first to market in sourdough, we are confident that our product quality and unique brand attributes will appeal to consumers and fuel additional growth.

In other exciting news, our recently launched DKB snack bites are off to a great start, and we are on track to exceed our store distribution target this year. Encouragingly, a significant portion of buyers are new to the better-for-you snack category, implying that the bites are growing category sales incrementally. And we are building off that strength with the addition of single serving and new flavor options coming soon.

Our DKB snack and protein bars continue to grow distribution and velocities. To continue that momentum, we are focused on expanding our lineup with new flavors and increasing our use of displays to drive trial and awareness. Similar to the incrementality of DKB snack bites, more than 20% of DKB bar buyers are new to the category.

To target consumers looking to maximize the value of their purchases, we are growing our line of small loaves—expanding the two Nature's Own small loaves launched regionally last year to nationwide distribution and adding three new varieties to the lineup. Additionally, we recently launched the Wonder mini-loaf, featuring the brand's classic white bread.

And in our sweet baked goods business, the Wonder line of cake products is already benefitting our performance, contributing to a 10-basis point unit share gain in the cake category despite being introduced later in the quarter. We are on track to exceed our distribution goal for the year and we are optimistic about the product line's potential.

Our third strategic priority is margins, an area where we continue to make progress. We expanded EBITDA margins by 30 basis points in the quarter, helped by moderating input costs and the continuing benefit of prior actions to control SD&A expenses.

We are implementing our portfolio strategy of driving higher-margin, branded retail product sales responsibly, enabling us to maintain margins in the short term while offering positive operating leverage potential in the future.

We have also proactively adjusted our supply chain network and cost structure to adapt our production capacity to the current demand environment. The closure of a bakery in the first quarter is one of several we have rationalized in the last few years.

Tariffs have been top of mind for virtually all companies and we are following the news closely. Where possible, we have taken steps to mitigate the potential headwinds. But should tariffs be fully implemented, we expect some additional margin pressure, which Steve will touch on in his remarks.

Our fourth priority is smart M&A. We closed on our acquisition of Simple Mills in February, and we couldn't be more excited about the addition to our team and product portfolio.

As a leading natural snack company, Simple Mills is perfectly positioned to appeal to consumers looking for high quality, delicious, and better-for-you snacks. And Simple Mills intends to meet that growing demand, bringing innovation to extend its product portfolio and expanding distribution. That work is translating into strong results. For example, in the first quarter, Simple Mills was the fastest growing natural cracker brand and fourth fastest growing total cracker brand in tracked channels.

The integration is progressing well, as we find efficient, mutually productive ways to collaborate and connect. Our teams are working closely to leverage each other's strengths, and we are already making progress in areas such as procurement and enhanced retailer engagement.

Our capital allocation priority is to quickly return to a more-normalized leverage ratio, enabling us to explore further opportunities with a growthier, "better-for-you" nutritional profile. As always, we will remain disciplined in our approach and focused on growing shareholder value with an attractive risk/reward balance.

Now, I'll turn it over to Steve to review the details of the quarter, and then I'll close with our outlook for the current business environment. Steve?

Steve Kinsey*, CFO*

Thank you, Ryals – and hello everyone. Turning to our first quarter 2025 results.

Net sales decreased 1.4% from the prior-year period. Price/mix declined 0.3%, primarily impacted by increased promotional activity in branded retail. Volume declined 2.7% largely due to decreases in traditional loaf bread and cake. The Simple Mills acquisition added 1.6%.

Gross margin as a percentage of sales, excluding depreciation and amortization, increased 50 basis points to 49.9% over the same quarter last year. Moderating input costs were somewhat offset by lower production volumes, higher workforce-related costs, and increased outside purchases of product.

Selling, distribution, and administrative expenses as a percentage of sales were 40.8%, a 110-basis point increase over the prior year period due to higher workforce-related costs, including costs related to the conversion to company-owned territories in California, and $13.8 million of acquisition-related costs. These items were partially offset by lower distributor distribution fees and benefits of cost savings programs implemented subsequent to the first quarter of the prior year.

Excluding matters affecting comparability, adjusted SD&A was 39.5% of net sales, a 20 basis point increase.

GAAP diluted EPS for the quarter was 25 cents per share, a 9-cent decrease over the prior-year period. Excluding the items affecting comparability detailed in the release, adjusted diluted EPS in the quarter decreased 3 cents over the prior-year period to 35 cents, largely due to higher interest expense and amortization related to the acquisition, and a higher quarter over quarter tax rate.

As Ryals mentioned, we closed the acquisition of Simple Mills during the quarter. The acquisition contributed $24.3 million in net sales, $3.6 million to adjusted EBITDA, and a two cent adjusted diluted loss per share.

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

For the first quarter of fiscal 2025, cash flow from operating activities increased $30 million to $136 million. Capital expenditures decreased $8 million to $26 million and dividends paid increased $1 million to $52 million.

We remain confident in our overall financial position. Quarter end net debt to trailing twelve month adjusted EBITDA stood at approximately 3.3 times, increasing over the year-ago period due to the acquisition of Simple Mills. We held $7 million in cash and cash equivalents and had $585 million of remaining availability under our credit facilities.

We are adjusting our 2025 outlook due to greater than expected category weakness and better visibility into the potential impact of tariffs. Including the partial year benefits of Simple Mills, we now forecast net sales to be $5.297 to $5.395 billion, adjusted EBITDA of $534 to $562 million, and adjusted EPS of $1.05 to $1.15. Excluding Simple Mills, we expect sales of $5.079 to $5.170 billion, adjusted EBITDA of $504 to $529 million, and adjusted EPS in the range of $1.13 to $1.22.

It's important to note that the changes to Simple Mills' expected results are related to a reclassification of trade spend from SD&A to net sales, and headwinds from potential tariffs. The underlying business is performing in line with our expectations and, as Ryals noted, we remain enthusiastic about the brand's potential.

Given our weaker-than-expected first quarter results, we now expect a more balanced cadence for 2025. Second-half results should benefit from new business wins, shelf space gains, and additional cost savings initiatives, offset by the lapping of prior-year cost savings initiatives, tariff-driven expense increases, and continued challenging category trends.

The largest swing factors in our guidance are overall category performance and tariffs. The significant category volatility in the first quarter, which drove lower than expected sales, makes forecasting full-year results challenging. Our prior guidance had assumed some category stabilization, which did not materialize in the first quarter. We are assuming a range of scenarios that anticipate continued category weakness.

Our prior guidance assumed a tariff headwind of approximately $10 million for the Flowers standalone business. Given the extension of tariffs to additional countries, and provided there is no relief, we now estimate the in-year impact to be $27 to $30 million, which is incorporated in our guidance. The incremental in-year impact of tariffs on Simple Mills, for which no prior estimate was included in guidance, is expected to be $4 to $6 million.

Approximately 85% of our key raw materials are covered in 2025. To minimize volatility and provide adequate visibility into costs, we have maintained our historical hedging strategy in which we attempt to increase the certainty of our key ingredient costs 6 to 12 months out.

As previously disclosed, in fiscal year 2023 we reached an agreement to settle distributor-related class action litigation in California. As of April, we have successfully completed the process of repurchasing the distribution rights and converting our business model in California to a company-operated route sales team.

With our California distribution transition complete, we plan to resume the bakery rollout of our ERP system in the second quarter. To minimize the risk of operational disruptions, we are proceeding prudently and are confident in our ability to execute the transition smoothly.

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

Ryals McMullian, *Chairman and CEO*

Thank you, Steve.

Now I'd like to discuss some of the trends impacting our current performance, and the steps we are taking to maximize present and future opportunities. I'll first touch on consumer trends and then address the competitive environment.

Consumers continue to struggle with headwinds from inflation, labor market tightening, and escalating credit card debt. Lower-income consumers are particularly pressured as inflation has forced them to spend a greater portion of their income on food with resulting cutbacks in general merchandise and elsewhere. Though there seems to be little evidence of direct tariff impact yet, the prospect of the impact on costs appears to be pressuring consumer sentiment.

That pressure combined with widening price gaps has driven more consumers to choose at-home eating over away-from-home options. And any tangible inflationary impact from tariffs could further this move.

Consumers continue shifting food and beverage spend to value, club, and mass channels and away from small format channels like convenience, dollar, and drug stores. Within the store, consumers are allocating more of their budgets to perimeter items like proteins, produce, and dairy, and away from center store items like bakery, alcohol, and snacks.

As I mentioned earlier, bread category trends worsened throughout the quarter with particular weakness in traditional loaf. Purchases of sandwich fixings, sweet snacking, and convenient carbohydrates like frozen meals and salted snacks are declining as bread buyers spend more on basics like meat, beverages, and meal prep items.

Looking closer at the bread category, it remains bifurcated with relative strength in premium and private label products, while the middle-priced portion of the category is weak.

Center store bread is underperforming perimeter bread, as consumers that cut back on eating out seek more restaurant-like experiences.

As I mentioned earlier, we are adapting our portfolio to align with these trends. The better-for-you authenticity of our leading brands positions us well to capitalize on consumer demand for healthier eating and differentiated experiences.

Turning now to the competitive environment, we have seen increased consumer sensitivity to price in the bread category, leading to higher promotional frequency and depth. Despite that sensitivity, average price in the fresh packaged bread category rose three cents due to a combination of private label price increases and a mix shift to more-premium products.

In response to the higher lifts, we have increased our promotional intensity with a focus on areas of category strength like differentiated, better-for-you products. Our aim is to lean into these areas and further solidify our leading market positions. As always, we are guided by our enhanced trade promotion capabilities and remain prudent in our use of promotional spending, carefully monitoring the return on investment.

While price is always important to consumers, even more crucial is offering differentiated products that meet their evolving expectations. Which is why our innovation capability is so important to enabling current and future growth opportunities. We expect the unique products we are bringing to market today, in combination with a deep pipeline of upcoming innovations, to spur growth well into the future.

In closing, last quarter, we listed the five steps we are taking to mitigate headwinds and drive profitability, which include:

1. Aggressively innovate unique, premium products to offset the effects of a declining category.
2. Leverage the power of our top brands to move into other faster growing segments.
3. Use M&A to focus on new growing product segments to enhance our growth and margin profile.
4. Stabilize the cake business by leveraging the power of the Wonder brand; and
5. Optimize our supply chain and path to market to deliver industry leading operations and service.

By doing so, we aim to maximize near-term performance while developing our brands and capabilities to drive sustainable growth. The economic pressures and evolving consumer demands are challenging, but obstacles that we have overcome in the past. We are confident the initiatives we have in place will enable us to enhance shareholder value and grow in line with our long-term financial targets.

Thank you very much for your time. That concludes our prepared remarks.

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Forward-Looking Statements

Statements contained in this transcript and certain other written or oral statements made from time to time by Flowers Foods, Inc. (the "company", "Flowers Foods", "Flowers", "us", "we", or "our") and its representatives that are not historical facts are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to current expectations regarding our business and our future financial condition and results of operations and are often identified by the use of words and phrases such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "should," "will," "would," "is likely to," "is expected to" or "will continue," or the negative of these terms or other comparable terminology. These forward-looking statements are based upon assumptions we believe are reasonable. Forward-looking statements are based on current information and are subject to risks and uncertainties that could cause our actual results to differ materially from those projected. Certain factors that may cause actual results, performance, liquidity, and achievements to differ materially from those projected are discussed in our Annual Report on Form 10-K for the year ended December 28, 2024 (the "Form 10-K") and our 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 the impacts of tariffs); and (7) accounting standards or tax rates in the markets in which we operate, (b) the loss or financial instability of any significant customer(s), including as a result of product recalls or safety concerns related to our products, (c) changes in consumer behavior, trends and preferences, including health and whole grain trends, and the movement toward less expensive store branded products, (d) the level of success we achieve in developing and introducing new products and entering new markets, (e) our ability to implement new technology and customer requirements as required, (f) our ability to operate existing, and any new, manufacturing lines according to schedule, (g) our ability to implement and achieve our corporate responsibility goals in accordance with regulatory requirements and expectations of stakeholders, suppliers, and customers; (h) our ability to execute our business strategies which may involve, among other things, (1) the ability to realize the intended benefits of completed, planned or contemplated acquisitions, dispositions or joint ventures, such as the acquisition of Simple Mills, (2) the deployment of new systems (e.g., our enterprise resource planning ("ERP") system), distribution channels and technology, and (3) an enhanced organizational structure (e.g., our sales and supply chain reorganization), (i) consolidation within the baking industry and related industries, (j) changes in pricing, customer and consumer reaction to pricing actions (including decreased volumes), and the pricing environment among competitors within the industry, (k) our ability to adjust pricing to offset, or partially offset, inflationary pressure or tariffs on the cost of our products, including ingredient and packaging costs; (l) disruptions in our direct-store-delivery distribution model, including litigation or an adverse ruling by a court or regulatory or governmental body that could affect the independent contractor classifications of the independent distributor partners, and changes to our direct-store-delivery distribution model in California, (m) increasing legal complexity and legal proceedings that we are or may become subject to, (n) labor shortages and turnover or increases in employee and employee-related costs, (o) the credit, business, and legal risks associated with independent distributor partners and customers, which operate in the highly competitive retail food and foodservice industries, (p) any business disruptions due to political instability, pandemics, armed hostilities, incidents of terrorism, natural disasters, labor strikes or work stoppages, technological breakdowns, product contamination, product recalls or safety concerns related to our products, or the responses to or repercussions from any of these or similar events or conditions and our ability to insure against such events, (q) the failure of our information technology systems to perform adequately, including any interruptions, intrusions, cyber-attacks or security breaches of such systems or risks associated with the implementation of the upgrade of our ERP system; and (r) the potential impact of climate change on the company, including physical and transition risks, availability or restriction of resources, higher regulatory and compliance costs, reputational risks, and availability of capital on attractive terms. The foregoing list of important factors does not include all such factors, nor does it necessarily present them in order of importance. In addition, you should consult other disclosures made by the company (such as in our other filings with the SEC or in company press releases) for other factors that may cause actual results to differ materially from those projected by the company. Refer to Part I, Item 1A., Risk Factors, of the Form 10-K, Part II, Item 1A., Risk Factors, of the Form 10-Q for the quarter ended April 19, 2025 and subsequent filings with the SEC for additional information regarding factors that could affect the company's results of operations, financial condition and liquidity. We caution you not to place undue reliance on forward-looking statements, as they speak only as of the date made and are inherently uncertain. The company undertakes no obligation to publicly revise or update such statements, except as required by law. You are advised, however, to consult any further public disclosures by the company (such as in our filings with the SEC or in company press releases) on related subjects.

Information Regarding Non-GAAP Financial Measures

The company prepares its consolidated financial statements in accordance with U.S. Generally Accepted Accounting Principles (GAAP). However, from time to time, the company may present in its public statements, press releases and SEC filings, non-GAAP financial measures such as, EBITDA, adjusted EBITDA, adjusted EBITDA margin, adjusted net income, adjusted diluted EPS, adjusted income tax expense, adjusted selling, distribution and administrative expenses (SD&A), and gross margin excluding depreciation and amortization. The reconciliations attached provide reconciliations of the non-GAAP measures used in this presentation or release to the most comparable GAAP financial measure. The company's definitions of these non-GAAP measures may differ from similarly titled measures used by others. These non-GAAP measures should be considered supplemental to, and not a substitute for, financial information prepared in accordance with GAAP.

The company defines EBITDA as earnings before interest, taxes, depreciation and amortization. Earnings are net income. The company believes that EBITDA is a useful tool for managing the operations of its business and is an indicator of the company's ability to incur and service indebtedness and generate free cash flow. The company also believes that EBITDA measures are commonly reported and widely used by investors and other interested parties as measures of a company's operating performance and debt servicing ability because EBITDA measures assist in comparing performance on a consistent basis without regard to depreciation or amortization, which can vary significantly depending upon accounting methods and non-operating factors (such as historical cost). EBITDA is also a widely-accepted financial indicator of a company's ability to incur and service indebtedness.

EBITDA should not be considered an alternative to (a) income from operations or net income (loss) as a measure of operating performance; (b) cash flows provided by operating, investing and financing activities (as determined in accordance with GAAP) as a measure of the company's ability to meet its cash needs; or (c) any other indicator of performance or liquidity that has been determined in accordance with GAAP.

The company defines adjusted EBITDA, adjusted EBITDA margin, adjusted net income, adjusted diluted EPS, adjusted income tax expense and adjusted SD&A, respectively, to exclude additional costs that the company considers important to present to investors to increase the investors' insights about the company's core operations. These costs include, but are not limited to, the costs of closing a plant or costs associated with acquisition-related activities, restructuring activities, certain impairment charges, legal settlements, costs to implement an enterprise resource planning system and enhance bakery digital capabilities (business process improvement costs) to provide investors direct insight into these costs, and other costs impacting past and future comparability. The company believes that these measures, when considered together with its GAAP financial results, provides management and investors with a more complete understanding of its business operating results, including underlying trends, by excluding the effects of certain charges. Adjusted EBITDA is used as the primary performance measure in the company's 2014 Omnibus Equity and Incentive Compensation Plan (Amended and Restated Effective May 25, 2023).

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 release to the most comparable GAAP financial measure.