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FLO.N - Q1 2025 Flowers Foods Inc Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**J.T. Rieck** *Flowers Foods Inc - Executive Vice President - Finance, Investor Relations*

**Ryals McMullian** *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

**R. Steve Kinsey** *Flowers Foods Inc - Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**James Salera** *Stephens Inc. - Analyst*

**Max Andrew Gumpert** *BNP Paribas Exane - Analyst*

**Mitchell Pinheiro** *Sturdivant & Co., Inc. - Analyst*

**Stephen Robert Powers** *Deutsche Bank AG - Analyst*

**Scott Marks** *Jefferies Financial Group Inc. - Analyst*

## PRESENTATION

### Operator

Good morning, and thank you for standing by. Welcome to the Flowers Foods first quarter 2025 results conference call. Please be advised that today's event is being recorded.

I would now like to hand the conference over to your opening speaker today, J. T. Rieck, Executive Vice President of Finance and Investor Relations. Please go ahead.

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**J.T. Rieck** - *Flowers Foods Inc - Executive Vice President - Finance, Investor Relations*

Thank you, and good morning. I hope everyone had the opportunity to review our earnings release, listen to our prepared remarks and view the slide presentation that were all posted earlier on our Investor Relations website. After today's Q&A session, we will also post an audio replay of this call.

Please note that in this Q&A session, we may make 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 remarks, important factors relating to Flowers Foods business are fully detailed in our SEC filings. We also provide non-GAAP financial measures for which disclosure and reconciliations are provided in the earnings release and at the end of the slide presentation on our website. Joining me today are Ryals McMullian, Chairman and CEO and Steve Kinsey, our CFO. Ryals, I'll turn it over to you.

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**Ryals McMullian** - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

Okay. Thanks, J.T. Good morning, everybody. While none of us here are satisfied with our absolute performance in the quarter, we did hold unit share in a category that faced greater-than-expected declines. Those results in an uncertain economic environment do highlight the importance of our portfolio strategy and the strength of our brands.

To mitigate this category weakness, we're continuing to invest in on-trend innovation and targeting significant opportunities in faster-growing categories and adjacencies. By aligning our portfolio with evolving consumer taste and targeting new white space for growth, we aim to maximize near-term performance while developing our brands and capabilities to drive sustainable growth over the long term.

I remain confident that the initiatives we have in place now will enable us to enhance shareholder value and grow in line with our long-term financial targets. Michelle, with that, we're ready to take questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Jim Salera, Stephens.

### James Salera - Stephens Inc. - Analyst

I wanted to start off and maybe just ask on the core package bread category. I appreciate some of the share holds that you guys highlighted and strength of some of the better for you, Dave's Killer and Keto obviously.

But if we think about what it takes to drive whether your brands in particular or the category back to kind of even just a stabilization point. What should we be looking for to see unit share kind of stabilize and ideally get back to positive. Is that something that can happen this year? Or are we looking more towards the '26 already at this point?

### Ryals McMullian - Flowers Foods Inc - Chairman of the Board, Chief Executive Officer

Thanks for the question. So there's a lot going on. Things remain quite dynamic and fluid from consumer health to economic uncertainty, the whole situation with tariffs, et cetera. And it makes it very, very difficult to forecast when you're in an environment like that.

I was asked a similar question. I think back in February, when I thought things might improve. And at that time, I said probably no sooner than the second half, but frankly, given the trends that we saw in the first quarter where things actually weakened further than we had anticipated. My mind is already moving to '26. So I don't know that we see a tremendous amount of improvement this year.

Now certainly for our business, specifically with the new business wins that we're getting that are just now coming online, significant space gains that we've won in the spring, resets are just out coming online. We think we have things there to mitigate some of those headwinds.

But I think the biggest positive influence on our results going forward are going to be better consumer health. If you look at what's going on in the category, there's definitely a premiumization versus a value play going on here. What's getting squeezed is the middle. And the middle, unfortunately, is where we have the most exposure. So that traditional loaf and white bread. Those traditional loaf and white bread segments of the category.

We believe that the key to reinvigorating that part of the business is further differentiation. And we have plans in that regard that we're putting in place. That's a huge segment for us. We need to address it and further differentiate ourselves from the competition.

Our philosophy is when we're in economic situations like this, the way out of it is not to try to promote your way out of it. We believe in using promotion primarily to drive trial, particularly as we bring out new innovative products and brands and not necessarily to drive volumes because that can devalue our business and the category.

So we're focused on smart promotions certainly but heavily focused on brand investment and innovation. When we get that improved consumer health, the way we positioned ourselves and our brands, I think we're going to be in a great position to benefit when consumer health returns and it eventually will. So long answer, Jim, but that's how we're thinking about it.

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**James Salera** - *Stephens Inc. - Analyst*

And maybe a follow-up question drilling down a little bit on the Wonder cake innovation. I believe in the prepared remarks, you said that's pacing ahead of your expectations on the distribution front and actually contributed to the unit share gain.

In the retailers that are adding that lineup on to shelves. Do you find that it's incremental to your other offerings? Or is that kind of a swap for your legacy cake business and the one that just performed better. So net-net, it gained unit share? Just any details you could offer there would be helpful.

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**Ryals McMullian** - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

Yes. It's a little early to call. Right now, it's sort of more than offset the other part of the cake business. Again, it just launched, one retailer went a little bit early, but it's only been in that retailer for a few weeks. So I think we need a little more time to see how that all shapes out. So hopefully, by next quarter, I think we'll have probably a bit of a clearer picture on what that trade-off looks like.

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**Operator**

Max Gumport, BNP Paribas.

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**Max Andrew Gumport** - *BNP Paribas Exane - Analyst*

It sounds like there's been a change in your stance on promotions a bit, particularly in the prepared remarks, where it sounds like you're seeing higher lifts more recently. And that's led to you maybe to lean-in on promotions a bit heavier than you would have previously anticipated. I think particularly for Dave's Killer Bread and some of your other differentiated offerings.

Can you talk a bit about what you're seeing from the consumer and how that's getting you to maybe be lean-in promotions a bit more? And then what that could mean for price mix, particularly in branded retail this year?

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**Ryals McMullian** - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

So most of that increase in promotional activity was around our more differentiated offerings like Dave's Killer Bread, and a lot of that came towards the end of the quarter and period 4. As I just responded to Jim, we've never been the most highly promoted player in the fresh packaged bread category. We like to use it selectively, and we primarily use it to drive trial.

Certainly, there are sometimes opportunities to get some volume lift from promotions. But when you look at category and understand that 93% of the sales are base sales, there's not a lot of opportunity for incrementality from a volume standpoint on top of that.

And so promoting at very high levels from our perspective. Our philosophy has always been, that's just going to get you lower volumes and lower sales over time and devalue your brands. So we talk a lot about our trade promotion system capabilities that have enhanced our understanding of how promotions work and their effectiveness so that we can be a lot more granular in how we think about our promotional strategy to ensure that we're getting a good return on that investment.

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**Max Andrew Gumport** - *BNP Paribas Exane - Analyst*

Got it. And then going back to Jim's question on the bread category. I realize a lot of what we're seeing is due to the consumer health leading to value-seeking behavior, which is weighing on the category, which, as you said, should improve at some point, but you're also attributing the weakness to this broader shift to healthier eating.

I'd imagine GLP-1 rise in penetration is a factor as well. So curious on that piece. How do you see the bread category getting out of its current slump with those headwinds likely to be more structural in nature?

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**Ryals McMullian** - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

Yes. That's part of what I was alluding to in answer to Jim's question. I can't say too much about it right now, but we have plans to directly address that. We're already doing a lot of things from a health and wellness standpoint. When you think about our offerings under DKB, Canyon Bakehouse, obviously, our Keto offerings and now with the Simple Mills acquisition coming on, those are outstanding choices for people who are interested in health and wellness.

The largest part of the category, soft variety and white brands are less oriented that way. And we see ourselves as an innovation leader in the category. We intend to continue to be an innovation leader in the category and address those consumer needs as we go forward.

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**Operator**

Mitchell Pinheiro, Sturdivant & Company.

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**Mitchell Pinheiro** - *Sturdivant & Co., Inc. - Analyst*

So I'm just looking at your EBITDA margin guidance. It's down about 30 basis points or 40 basis points from the prior. Where is that -- how do you think that's going to be distributed between that gross margin and SD&A?

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**R. Steve Kinsey** - *Flowers Foods Inc - Chief Financial Officer*

I mean when you look at kind of what's impacting that, obviously, we said category trends are big consideration when we pulled together our guidance change. So obviously, that's going to impact the gross margin line tariffs, obviously impact the input cost. So that's primarily gross margin.

We're doing some things from a cost saving perspective, primarily in SD&A to try to offset some of the -- and mitigate some of the impact of the top line challenge as well as the tariffs. So I would say the majority of that we would expect to see flow through the gross margin line versus the SD&A.

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**Mitchell Pinheiro** - *Sturdivant & Co., Inc. - Analyst*

Got you. And then so as you look your long-term targets between 12% and 14% EBITDA margin, and we're going to be in the low 10s. Ryals, how is your confidence in getting there? And any changes to how you're going to get there, i.e., fixed cost leverage more branded, et cetera? Any change in your view of your long-term EBITDA margin?

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**Ryals McMullian** - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

Mitch, there's no change in the longer-term outlook, but we have to acknowledge that the environment that we find ourselves in is a bit of a setback, right? So it may take us a little longer as we all together as a country we work our way out of this current situation. But the building blocks of that strategy and our path to get there remain the same.

**Mitchell Pinheiro** - *Sturdivant & Co., Inc. - Analyst*

Okay. And then -- and I guess just back again, not to harp on healthy eating or those trends. But as you look the bifurcated consumer bread and sandwiches and the portability, convenience aspect of fresh bread is always been, it's always been sort of a benefit in growth to, let's say, the lower income cohorts.

And I think why wouldn't you be seeing that now? Is there really a healthy eating switch? Is that in the lower -- even in the lower income to what traditional, I guess, would be higher cost items. So I was just curious, any more color that you could add there?

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**Ryals McMullian** - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

Yes, I certainly think -- I mean, we're focused on the lower income. I certainly think there is some of that. But I also think that given the environment, I mean, we have seen an overall pullback in consumption across income groups. And so I think that's playing a role as well.

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**Operator**

Steve Powers, Deutsche Bank.

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**Stephen Robert Powers** - *Deutsche Bank AG - Analyst*

Ryals, it sounds like overall initiatives like DKB snacking and Simple Mills overall are trending more in line with your expectations despite everything we've been talking about in terms of where the consumer is and value-seeking behavior. And I'm setting aside the accounting change, obviously, in Simple Mills. First off, is that the correct read?

And then secondly, if it is, is there -- how do you assess the risk that maybe those initiatives as well kind of fall victim to some of these macro pressures as the year progresses? And is that sort of encapsulated in the new guidance range?

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**Ryals McMullian** - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

Yes. Thanks for the question, Steve. Well, first of all, let's remember that both Simple Mills and our new snacking business are just that. They're very new. And so you're still picking up a lot of distribution gains, ACV gains, velocities picking up, that kind of thing. They're helping to drive growth.

Having said that, both are performing very, very well, but we've also incorporated some of the caution around the consumer and to the outlooks for both of those businesses. And all of that is reflected in the numbers you've already seen.

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**Stephen Robert Powers** - *Deutsche Bank AG - Analyst*

And then Steve, you quantified the incremental tariff impact. I guess beyond obviously kind of layering in the impact on Simple Mills. Can you just give a little bit more color as to where that incrementality is coming from? That would help. That would be helpful.

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**R. Steve Kinsey** - *Flowers Foods Inc - Chief Financial Officer*

Yes. I mean obviously, when we gave guidance back in February, the focus was on Canada and Mexico. There really wasn't much focus beyond that from a tariff perspective. And then things changed. And obviously, Canada and Mexico are exempt, and we moved to other countries kind of in the supply chain. So that's really where the big impact is coming in.

If you set aside you set aside China, I mean, we either -- there's a variety of ingredients to come from outside the US, even though we're wholly domestic. And those are pretty impactful overall within our products. A lot of it's sugar, wheat gluten, palm oil, cocoa. So those are coming from countries with a decent tariff percentage. So those are really the impacts that are driving the change from back in February.

What I would say when you look at our guidance and forecast, we're taking a fairly conservative view in that tariffs began at the end of April for 10% until for 90 days, roughly August 1, setting China aside, and then they go to 100% of the forecasted rate. And that's how we built the tariff impact into our model.

If there's any change to that, there will be some benefit. But not knowing what's going to happen until we get closer to that date. We just thought it was more prudent to just go ahead and lay out what we thought the worst case scenario could be.

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**Stephen Robert Powers** - Deutsche Bank AG - Analyst

Yes, that's helpful. And just on -- do you have much exposure to imports or inputs from China specifically? Or are you just using that as an example?

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**R. Steve Kinsey** - Flowers Foods Inc - Chief Financial Officer

No, we do. We do get some things from China. There are some ingredients that are specific actually to China. Obviously, we're working on other sources, but right now, they primarily come from China. And I would say when I look at the overall impact, they're probably in the top 4 or 5 countries.

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**Operator**

Scott Marks, Jefferies.

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**Scott Marks** - Jefferies Financial Group Inc. - Analyst

Wanted to ask quickly about the kind of the private label and away-from-home business. I think you mentioned some weakness in both of those segments in the prepared remarks. So just wondering if you can kind of share some color on what you're seeing there and how that's impacting the business?

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**Ryals McMullian** - Flowers Foods Inc - Chairman of the Board, Chief Executive Officer

Sure. I'll start with the away-from-home. It's sort of a continuation of the story from the last couple of quarters. There has been continued weakness in overall food service sales, and we're experiencing that just like everyone else. So that's just an overall theme for the Food Service business.

We'll continue to point out, though, that with the restructuring that we've done in our Food Service business, our profitability continues to improve and margins were up, yet again in the first quarter. So that's the good news on that front.

And we continue to work to refill some of the exited business that we've talked about in the last couple of years that we're now passed with higher-margin Food Service business. So we've been very pleased with the progress on that front.

For private label, private label has -- from a market share standpoint, has marginally reversed its downward trends over the last couple of quarters. I think it was up 10 basis points or so in the last quarter. Units -- total units in private label are still down, just not as much as the category was down, thus the pickup in unit share.

And for us, -- remember that a lot of our private label business is bid business, and it comes in and out from time to time. And a lot of our decline was that lost business and a little bit of price mix. However, as I mentioned earlier, a lot of the new business that we are pulling on is good private label business at good margins that will help refill that volume as we move through the year.

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**Scott Marks** - Jefferies Financial Group Inc. - Analyst

Understood. And then I think also during the prepared remarks, if I'm not mistaken, I saw a call out that your team closed one of your bakeries. Was that related to the Food Service business? Or is that on the branded side?

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**Ryals McMullian** - Flowers Foods Inc - Chairman of the Board, Chief Executive Officer

That's -- well, I mean, a lot of our bakeries do both, but it was a fresh bread button roll plant, an old one. And we've been undergoing the supply chain optimization work for a number of years now. So that's just part of that program.

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**Scott Marks** - Jefferies Financial Group Inc. - Analyst

Got it. And just last one for me. I know you called out some more push into smaller loaves. Just wondering if you can kind of share some color on how those have been performing thus far relative to what you're seeing on the more traditional sized products?

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**Ryals McMullian** - Flowers Foods Inc - Chairman of the Board, Chief Executive Officer

Yes. So I mean, this is all about addressing consumer needs, right? I mean, both from a value standpoint, but also acknowledging that households are smaller. A lot of single individuals and households, family starting later, that kind of thing, and having that smaller loaf that you can consume without half of it going stale is something that consumers want.

So we've had two SKUs out for a while. We just added three new SKUs, which is going to be great for us, obviously, improving our shelf presence and visibility. And early returns are good. Also, we have a Wonder mini-half loaves as well that directly addresses both the smaller household and that value-oriented consumer.

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**Operator**

I'm showing no further questions at this time. I'd like to turn the call back over to Ryals McMullian, Chairman and CEO, for any closing remarks.

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**Ryals McMullian** - Flowers Foods Inc - Chairman of the Board, Chief Executive Officer

Okay, Michelle, thanks. Thanks, everybody, for joining us for questions. As always, we appreciate your interest in our company, and we look forward to speaking with you again next quarter. Take care.

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**Operator**

This does conclude the program. You may now disconnect. Everyone, have a great day.

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