EDITED TRANSCRIPT

FLO.N – Q1 2026 Flowers Foods Inc Earnings Call

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

D. Anthony Scaglione Flowers Foods Inc - Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Steve Powers Deutsche Bank AG - Analyst

Jim Salera Stephens Inc - Equity Analyst

Max Gumport BNP Paribas - Analyst

Mitchell Pinheiro Sturdivant & Co Inc - Equity Analyst

Scott Marks Jefferies LLC - Equity Analyst

PRESENTATION

Operator

Good day. And thank you for standing by.

Welcome to the Flowers Foods First Quarter 2026 Results Conference Call. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, J.T. Rieck, Executive Vice President of Finance and Investor Relations. Please go ahead.

JT Rieck - Flowers Foods Inc – Executive Vice President – Finance & Investor Relations

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 these 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 Anthony Scaglione, our CFO. Ryals, I'll turn it over to you.

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

Okay. Thanks, J.T. Good morning, everybody. Our team continued to execute against a challenging backdrop and softer top-line trends in the quarter, delivering bottom line results ahead of expectations. We advanced the comprehensive review of our brand portfolio, supply chain and financial strategy, and I'm very encouraged by the progress we're making there.

We sharpened our focus on our core brands including our nationwide relaunch of Nature's Own, while continuing to strengthen our position in Better-For-You segments. We also saw positive trends in premium bread and cake categories, helping us offset some of the ongoing softness in the traditional loaf category where we underperformed in the quarter.

In addition, we took initiatives to drive efficiencies across our supply chain while further strengthening our balance sheet and our financial flexibility. Together, these efforts are positioning us to deliver more consistent and sustainable growth and profitability over the long term.

Looking ahead, we'll remain focused on executing this strategy and positioning the business to drive value for shareholders. And I want to thank our team for their continued focus and commitment. And so with that, Marvin, we can open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jim Salera - Stephens Inc - Equity Analyst

Jim Salera - Stephens Inc – Equity Analyst

Good morning thanks for taking my question. I wanted to start off with your view on inflation, given how much commodities have moved since the start of the Iran conflict. Can you just walk us through your outlook on inflation, how that's changed since the beginning of the year? And any details you can share around your hedging program and maybe internal inflation expectations for the remainder of the year?

D. Anthony Scaglione - Flowers Foods Inc - Chief Financial Officer

Sure. I'll take that. First off, recall our hedging program really builds the cadence as we progress through the year. So we're virtually fully hedged for the balance of the year on the commodities in the program.

So as we look forward, we see pressure primarily in other commodities and the impact that the price of oil has had on our distribution and resin which has significantly impacted our packaging costs, and that's an area we didn't see as a cost concern when we started the year. That being said, the teams are looking at ways to mitigate that increase including packaging configurations, alternatives, along with other productivity measures.

So overall, I would say we're assuming a level of increase stays elevated, and that's built into our outlook. But if they should further increase, we'll probably look at other productivity measures to counter that.

Jim Salera - Stephens Inc - Equity Analyst

Particularly if we think about on the productivity side, are you talking about costs that can come out of SG&A? Is that pulling back on promotional spend or maybe some other efficiencies you can find in the gross margin line? Can you just kind of walk us through how you think the offsets where they would come in the model?

D. Anthony Scaglione - Flowers Foods Inc - Chief Financial Officer

I think it will mostly come out of SG&A. And to the extent that we make progress on some of the packaging, as I mentioned, clearly, that would be productivity as it relates to the cost going into COGS.

Jim Salera - Stephens Inc - Equity Analyst

Great. I'll pass it on thanks.

Operator

Steve Powers - Deutsche Bank AG - Analyst

Steve Powers - Deutsche Bank AG - Analyst

Great thank you very much. Maybe just to follow up on Jim's question. Is there a way to size or dimension the higher diesel and packaging costs that you're now seeing for the balance of '26 versus before? And I guess also, should costs remain high, is there a way to think about how much carryover inflation we're now accruing into '27 versus before?

D. Anthony Scaglione - Flowers Foods Inc - Chief Financial Officer

Yes. So we haven't started our planning process. We're just in the process of kicking it off for '27, so I can't provide further color on that in isolation. Clearly, there's a lot of puts and takes as it relates to what we would address as we look into '27. For '26, as I mentioned, most of our core commodities that could have the highest impact are fully hedged. So we feel pretty good about the outlook as it relates to our position going into the back half.

But as I mentioned, as it relates to oil, it's really a tale of two cities. There's the impact of oil on the consumer and that will have from a consumer sentiment which we are obviously looking at providing value at price points and making sure that we're meeting the consumer demand.

On the input side, it's primarily impacting resin which is not a direct corollary to oil. It's a downstream impact. And then that, as I mentioned earlier, we're looking at ways through productivity to drive some of that headwind out in the back half. And that's all baked into our reaffirmation of guidance.

Steve Powers - Deutsche Bank AG – Analyst

Okay thank you. And then, Anthony, while have you, on the dividend reset, you're freeing up about $100 million of cash which I think could reduce leverage by about 0.2 turns if fully directed there. Is that the right way to frame it? Or how should we think about the split between deleveraging versus other reinvestment priorities of that incremental cash?

D. Anthony Scaglione - Flowers Foods Inc - Chief Financial Officer

I think you nailed it in terms of the split. I mean clearly, our first priority is to deleverage and the goal is to be below three times by the end of fiscal '27. So we're looking at that as the primary lever with the reset of the dividend but continue to invest in the brands similar to what we did with the relaunch of our Nature's Own this quarter.

Steve Powers - Deutsche Bank AG – Analyst

Yes. Yes. And actually, if I could squeeze one more in. On that relaunch, Ryals, it very much makes sense relative to your strategy, broadly speaking, in terms of the consumer is simple ingredients, non-GMO, big marketing push behind all that. I guess how -- what are your expectations? And what would success look like over the next two to three quarters, whether in terms of velocity or household penetration? Just how you're thinking about the impact of this relaunch and how it may help the organic growth trajectory at all?

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

Yes. Sure. Good question. Well first of all, I just want to say we're tremendously excited about this. This was a huge pivot that the team made took a lot of work to get this done, reformulating, taking out another third of the ingredients, essentially being the cleanest label traditional loaf brand at scale in the country and non-GMO verified.

So it's a big deal for us. It took a lot of investment. And of course, as we said, we've got the 360-degree marketing campaign behind it, leveraging John Cena's celebrity. We just actually launched that yesterday. Some of you may have seen it. In terms of what success looks like, I mean obviously the traditional loaf category has been the soft spot for us.

We've been talking about this for a number of quarters now. The rest of the business essentially is doing quite well on the premium and the value end. But traditional loaf is approximately 38% of our branded retail. So it's a big segment for us. And getting that part of the category stabilized, Steve, is how I would describe success. So at a minimum, getting our volume stabilized in traditional loaf will do more for the business than any other lever that we can pull.

Now there is a lag. I don't necessarily expect this to have an immediate impact. When you start a marketing campaign like this, you've got to get six months, a year down the road before you can then look back and see how effective it was.

But I do think between the increased marketing spend, so higher visibility, remembering that Nature's Own has the highest loyalty rate in the category, and it's the number one brand, and we have the number one SKU getting consumers' attention and bringing them back to that segment by delivering value in the sense of attributes that resonate with consumers. To me, that's what will drive ultimately our success. But to directly answer your question, success to me is stabilizing volumes in traditional loaf.

Steve Powers - Deutsche Bank AG – Analyst

Yes perfect. Thank you for that perspective. Very helpful. Appreciate it.

Operator

Scott Marks - Jefferies LLC - Equity Analyst

Scott Marks - Jefferies LLC - Equity Analyst

Hey good morning guys thanks very much thanks for taking our questions. First thing I wanted to ask about, in the prepared remarks, you noted a number of times about some of the consumer pressures and expectations for kind of headwinds to the top line to persist a bit. So just wondering if you can help us understand within your guidance for the year, what are you embedding in terms of assumptions for volume versus pricing? And how should we be thinking about maybe cadence as we move through the year?

D. Anthony Scaglione - Flowers Foods Inc - Chief Financial Officer

Great question. We don't guide to volume, but our guidance assumes easier volume comps as we progress through the year. We do see some back-half increased costs related to some of the input costs that I mentioned both in my prepared remarks and on the last call -- I mean the last question. But we expect to continue to have good overhead and other cost management to help mitigate some of that risk which is not hedged on the input side. So I would look at it as we don't expect a recovery necessarily from a volume perspective, but we do have easier comps as we progress throughout the year.

Scott Marks - Jefferies LLC - Equity Analyst

Understood. Appreciate that. And then another question would be just on the promotional environment. You made a number of references in the prepared remarks, talked about a little bit more of an intense promotional environment that you believe is unsustainable. And I think you called out some improving trends in certain markets where that has eased a bit.

So just wondering if you can dive a little bit deeper into that and help us understand maybe what supports your view that competitors will pull back on promotions? And how long should we be thinking about this irrational environment to persist?

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

Right. Well first of all, I would say this. I mean we've been through periods like this before. I mean this is -- it's not our first rodeo, as they say. We've seen this happen before. It typically has not been sustainable in the past. I think we're all familiar with the affordability issues that the country seems to be going through right now particularly with the recent spike in gas prices. There was some commentary yesterday from a large retailer on softening consumer sentiment.

We saw the Michigan's Consumer Sentiment report come out at a record low. And so it is a concern, and it's something that we're just going to have to navigate our way through. Having said that, we're taking a long-term view. This company is about building strong brands that deliver significant value to consumers. And when I say value, I don't mean heavily leaning into price.

I mean delivering quality, great service, innovation and differentiation to the consumer. That's our play. We'll continue to run it. Having said that, I know you all have been watching the share and volume dynamics in the syndicated data. I would just remind everyone, we did take pricing late last year, and the pricing gaps have remained a bit wider than we would like in the short term, and that has somewhat affected our volume performance, particularly as you look in the traditional loaf category.

However we did pull back some on promotions and marketing spend in the first quarter because we were saving our dry powder for this big relaunch of Nature's Own. So our calendar will start to heat up to a more normal level as we move through the remainder of the year. And I would expect some of those share trends to begin to improve. And in fact, where we have seen in a few channels where we have seen the price gap start to narrow to a more normalized level, we're already beginning to see those share improvements.

Scott Marks - Jefferies LLC - Equity Analyst

Appreciate the color. I'll pass it on.

Operator

Max Gumport - BNP Paribas

Max Gumport - BNP Paribas

Thanks. Appreciate the questions. You mentioned you're largely covered for commodities that you hedge for in '26. I'm not sure that would include diesel fuel, I don't think it would include transportation. So can you talk about the impact of those rising costs on your P&L and what's embedded in your outlook for '26 on that front?

D. Anthony Scaglione - Flowers Foods Inc - Chief Financial Officer

So it's fully embedded in our outlook. And as I mentioned, you're correct. The diesel does have an impact primarily for our fleet. But recall from a DSD network, that cost is actually in our partners, not that we ignore it, but it's not something that's going to show up necessarily on our P&L.

As it relates to the hedging programs, we are looking at potentially hedging that on a go-forward basis is not included in our guide. So everything right now as it relates to the oil impact, again, it's twofold. It's both on the distribution side as well as on the resin side, fully captured in the guide that we provided.

Max Gumport - BNP Paribas

Okay. And any way to just help provide investors with some context in terms of the magnitude we're talking about in terms of how much incremental costs you are now working to mitigate given everything that's changed since your fourth quarter results when you first gave us 2026 outlook?

D. Anthony Scaglione - Flowers Foods Inc - Chief Financial Officer

I would say, I mean there's a lot of puts and takes, as I mentioned, we have productivity measures as it relates to the packaging which is an area that entering the year, we didn't expect cost increases. And as you can imagine, we have inventory that we're burning through at a much lower cost. I would say it's roughly about $0.02 or $0.03 of headwind in the back half of the year associated with, generally speaking, oil and derivatives of oil.

Max Gumport - BNP Paribas

Okay. Got it. And then similar line of thinking, but I just want to finish out this line of thinking should be -- since you gave guidance, the top line environment has gotten much more challenging as you've noted, you just talked about how these key commodity costs are rising.

It feels like you're saying you're covered for a lot of it. There's some incremental costs coming in the back half, but that you are reaffirming the outlook. And I'm just trying to get a sense for what's allowing you to do so. It sounds like it's maybe a little bit more visibility on productivity, but anything else I'm missing there?

D. Anthony Scaglione - Flowers Foods Inc - Chief Financial Officer

Yes. I would -- and I'll pass it to Ryals. I think our confidence in reaffirming is anchored on a couple of things, the Nature's Own relaunch, expansion of half loaf with variety that are going to be coming out in the back half of the year which is an area that we've seen good growth, continued growth in our snack and Better For You options. The pricing, to Ryals' point, the pricing promotional environment stabilizing.

So there's a lot of things that we have in the back half assumed within our guidance, but we are also looking at the margin pressure as it relates to the commodity increase. We also recognize there's going to be near-term margin pressure. We were very clear at year-end with our marketing investments. So we have captured what we feel are all the relevant inputs as well as the relevant tailwinds as it relates to the balance of the year.

Max Gumport - BNP Paribas

Okay. Thanks Very much. I can leave it there.

Operator

Mitchell Pinheiro, Sturdivant & Company

Mitchell Pinheiro - Sturdivant & Co Inc

Yes hey good morning.

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

Good morning.

Mitchell Pinheiro - Sturdivant & Co Inc

Hey. On the cost management side and your supply chain savings, is that the extent of your cost efforts? Or are there also maybe some fixed asset or capacity changes that you're looking at? So anything more substantial to your sort of baking platform?

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

Yes. Mitch, it's Ryals. I think Anthony covered it well. There's cost opportunities in SG&A. Obviously there's productivity gains that we expect to deliver this year. And I would just, first of all, like to commend the team for their cost management efforts, frankly, over the last two or three years, I think they've done a remarkable job of managing our costs in a difficult environment. In terms of the overall supply chain optimization work, not anticipating anything major this year, Mitch, but that is -- as we've discussed in the past, that is in our longer-term plans.

Mitchell Pinheiro - Sturdivant & Co Inc

Okay. And then on the CapEx, $115 million to $125 million, what are the -- could you break that down in the buckets of how that's going to be used this year?

D. Anthony Scaglione - Flowers Foods Inc - Chief Financial Officer

Sure. I think I mentioned it on the last call. So the way to think about it is roughly plus or minus around $2 million per bakery on maintenance. So that should be viewed on a consistent basis as we continue to provide productivity measures within our bakery, maintenance measures is around $2 million. The remaining CapEx is going to be dedicated to growth, and we see opportunities around product line extensions where we can drive additional value to the customer as well as productivity measures. So that's the way I would break out the bucket of the guide as it relates to CapEx.

Mitchell Pinheiro - Sturdivant & Co Inc

Okay. And then I guess just final question on foodservice. Can you just talk about what's going on in your food service business?

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

Sure. I think just like everything else, Mitch, the consumer is pressured, and so there's certainly some traffic pressure. As you know we've done a lot of work over the last several years to improve the profitability of our foodservice business, and that continues. So it continues to do well. I would say more recently, it has done a bit better from an overall top line standpoint. So we believe we've got a very solid business -- as you know it's a scale business for us. We think we've got a very solid foodservice/away-from-home business, and we'll continue to work to grow it.

Mitchell Pinheiro - Sturdivant & Co Inc

Are you -- so are you seeing any improvement there? Or is it just sort of same pressure and maybe anticipate -- would you anticipate potential improvement sort of coinciding with what you see on the branded retail side?

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

Yes. I mean like I said, I think more recently, from a top line standpoint, it has improved a little bit. And again, the profitability work that we've done over the last several years has definitely paid some dividends because profitability is quite a bit better than it was. I think what we'll be watching overall is overall restaurant traffic and where the trends are headed that way, just given the overall inflationary pressures that the consumer is feeling today.

Mitchell Pinheiro - Sturdivant & Co Inc

Okay. All right that's all for me. Thank you very much.

Operator

Thank you. I'm showing no further questions at this time. I'll now turn the call back to Ryals McMullian, Chairman and CEO, for closing remarks.

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

Okay. Great. Thanks everybody, for taking time today and joining us for questions. And we very much appreciate your interest in our company. And as always, we look forward to talking to you again next quarter. Take care.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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 January 3, 2026 (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, including retaliatory 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 consumer buying habits, the movement toward less expensive store branded products, and the continued reduction of purchases in the fresh packaged bread category, (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 the expectations of our 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 (including retaliatory 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 (“IDPs”), 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 IDPs 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, our availability or restriction of resources, higher regulatory and compliance costs, reputational risks, and our 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 our Form 10-K, Part II, Item 1A., Risk Factors, of the Form 10-Q for the quarter ended April 25, 2026 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 and integration-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, provide 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.