Flowers FOODS

SECOND QUARTER 2024 PREPARED REMARKS

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CORPORATE PARTICIPANTS

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

Ryals McMullian, *Chairman and CEO*

Steve Kinsey, *CFO*

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' 2024 second-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 investor section of flowersfoods.com.

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

Providing remarks today are Ryals McMullian, 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 our call.

Our strong second quarter results reflect the successful execution of our strategic plan. Guided by our portfolio strategy, we are driving growth and taking market share in our higher-margin branded bread products, while simultaneously improving the profitability of our private label and away-from-home businesses. This building momentum bolsters our confidence that we will deliver results in line with our 2024 guidance.

Second quarter financial performance was highlighted by growth in our retail businesses and strong sequential margin improvement aided by the successful execution of savings initiatives. Sales came in slightly better than we expected, helped by improving volume trends in the fresh packaged bread category, which turned positive toward the end of the quarter. We believe this improvement was influenced by consumers shifting more spending to at-home eating as they look to economize.

And we are capitalizing on that shift, driving unit growth of 1.5% in the fresh packaged bread category. That growth spurred share gains as our branded bread products continue to outperform the overall category, gaining 40 and 20 basis points respectively of dollar and unit market share, the most of any competitor.

For the second consecutive quarter, we grew both dollars and units in tracked channels, while the bread category was largely flat. Momentum built through the quarter with unit share gains peaking in the final four weeks, up 40 basis points. Particular areas of strength included sandwich buns and rolls, breakfast, and loaf where we gained 80, 30, and 20 basis points of unit share respectively. Importantly, our performance improved in both the mass and grocery channels.

Bread is a mature and stable category, but we are outperforming by focusing on subcategories that offer noteworthy growth potential for us, such as specialty/premium, sandwich buns and rolls, and breakfast. And the mix shift within our branded retail bread sales is benefitting margins.

From a geographic perspective, performance was particularly strong in underpenetrated regions such as the Northeast, Mid-Atlantic, and Upper-Midwest where new business wins and strong market execution drove continued growth.

We are also making substantial progress in our away-from-home and private label businesses. As we continue to margin up existing accounts and replace business exits with newer, higher margin accounts, profitability has improved meaningfully, and we have narrowed the margin gap relative to branded retail. Our confirmed new business wins and pipeline of potential additional wins give us confidence for continued improvement in the second half of the year and beyond.

Further, the headwinds from deliberate exits are waning. The impact of those exits peaked in the first quarter and will diminish significantly in the second half of the year with virtually no effect in the fourth quarter.

Now, I'll provide an overview of our second 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 close with a discussion of key themes moving forward.

The strength of our second quarter performance is the direct result of the hard work of our team. I am particularly proud of their ability to grow our market share in a dynamic and challenging environment, and successfully execute on our strategy to reduce costs and drive margin expansion.

As we adapt our team to the evolving competitive landscape with an eye toward becoming a best-in-class selling organization, we made exciting changes to our retail customer sales team. The new structure employs a channel-focused approach that allows us to better align with and service our largest customers.

Leading our restructured Retail Customer team is Meredith Wiktorowski, who has joined Flowers as senior vice president and chief customer officer. She is responsible for retail customer strategy and accountable for growing our revenue, market share, profitability, and reputation. With more than 26 years of sales experience, Meredith most recently served as vice president of retail sales for PepsiCo Beverages North America – North Division. I am excited about the benefits we expect from Meredith and her team, and believe these changes will help position us to drive sustainable, profitable growth.

Our second strategic priority is focusing on our brands, which were a critical component of our strong second quarter performance. Our leading brands posted exceptional results, with Wonder, DKB, and Canyon growing units 10%, 7%, and 5% respectively and Nature's Own maintaining its unit sales. That performance drove the largest dollar and unit share gain of all companies in the category, with each of our national bread brands gaining or maintaining dollar share.

Dave's Killer Bread and Wonder each gained 20 basis points of dollar share, while Nature's Own gained 10 basis points.

Nature's Own's success is particularly noteworthy given the impact of inflationary pressures on consumers. The brand's focus on the consumer's desire for both differentiation and value drove improved results despite that environment. Consumers are flocking to our Keto products, with dollar share in the subcategory up 710 basis points. We expect the introduction of Keto buns to maintain that momentum.

Recognizing the consumer desire for increased value, we introduced Nature's Own small loaves, which are off to a great start. These new products have helped the brand grow units versus the year-ago period in six of the last seven weeks.

And with the benefit of recent capacity additions, Canyon Bakehouse is reigniting its growth, increasing dollar share in the gluten free category by 260 basis points.

Innovation is a key part of our growth strategy, and our new products are driving strong results. The original DKB Snack Bars continue to receive solid support from consumers. Taking brands into new categories is rarely easy, but DKB's track record of successfully entering adjacencies like breakfast and sandwich buns and rolls gives us confidence that it can extend further into snacking. Early results at top accounts, where velocities are in excess of the category average, highlight the potential upside as we replicate best practices at other retailers.

The nationwide launch of DKB Amped-Up Protein Bars is underway, and we are executing a soft launch of DKB snack bites with a goal of more than two thousand points of distribution by the end of 2024. We expect to expand distribution nationwide in 2025, and I remain excited about the potential of these new and innovative products.

Our third strategic priority is margins, an area where we made significant progress. We spoke last quarter about the need to further improve our cost structure to better leverage our solid top-line results and deliver increased profitability. As part of that process, we redoubled our efforts and increased our expectations for savings initiatives for the year from $30 to $40 million to $40 to $50 million. Specific actions included select workforce reductions, reduced third-party spend, enhanced effectiveness of marketing investments, improvements in leased labor and indirect procurement spend, and efficiencies in our DSD network, among others. That work resulted in a significant sequential improvement in SD&A costs as a percentage of sales.

In addition to savings initiatives, we are improving our branded retail mix by successfully executing our portfolio strategy, growing premium brands like DKB and Canyon, and adding innovative products like Keto in core brands like Nature's Own.

We have also improved the profitability of our away-from-home and private label businesses through a deliberate process of ensuring each account meets our margin targets, which I touched on earlier.

Our second quarter performance highlights our growing culture of ownership and accountability. We are successfully instituting a mindset of continuous productivity improvement related to cost across the organization.

Our fourth priority is smart M&A.

In addition to strengthening our position in core categories by expanding our geographic reach and gaining share in underdeveloped markets, we are also focused on finding new revenue streams across the baked foods category. We seek compelling brands that complement our existing portfolio and that skew towards a "better for you" nutritional profile. Our strong balance sheet positions us well to act when we have financial, commercial, and operational conviction.

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 good morning everyone. Let me echo Ryals on congratulating the team on an outstanding quarter. We are pleased to present our solid second quarter results.

Total sales decreased 0.2% from the prior-year period. Price/mix improved 1.0%, driven primarily by mix, and was more than offset by volume declines of 1.2%. Those declines were largely due to targeted sales rationalizations and QSR market weakness. Branded Retail volumes were flat, with continued growth in bread products, offset by declines in cake.

Gross margin as a percentage of sales, excluding depreciation and amortization, increased 90 basis points to 49.9% over the same quarter last year. Comparisons benefitted from moderating ingredient and packaging costs, improved sales price/mix, and decreased product returns. The impact of lower production volumes, higher workforce-related and bakery maintenance costs, and increased outside purchases of product partially offset the overall improvement.

Selling, distribution, and administrative expenses as a percentage of sales were 38.5%, a 30-basis point decrease over the prior year period. Lower distributor distribution fees, marketing expense, and consulting costs, and an insurance liability claim in the prior period were partially offset by increased workforce-related costs, amortization of cloud-based applications, higher rent expense, and lower scrap-related income.

Excluding matters affecting comparability, adjusted SD&A expenses were 38.2% of sales, flat with the prior period.

GAAP diluted EPS for the quarter was 32 cents per share, a 2-cent increase over the prior-year period. Excluding the items affecting comparability detailed in the release, adjusted diluted EPS in the quarter increased 3 cents over the prior-year period to 36 cents.

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

Year-to-date, through the second quarter of fiscal 2024, cash flow from operating activities increased by $40 million to $168 million. Capital expenditures decreased $7 million to $61 million and included $3 million for the ongoing ERP upgrade. Dividends paid increased $4 million to $102 million.

We believe our financial position remains strong. At quarter end, net debt to trailing twelve month adjusted EBITDA stood at approximately 2.0-times. We held approximately $7 million in cash and cash equivalents and had approximately $517 million of remaining availability on our credit facilities.

Now, turning to our outlook for 2024.

As Ryals said, we are maintaining our previously issued guidance, which calls for sales to be flat to up 1.6%, adjusted EBITDA of $524 to $553 million, and adjusted EPS in the range of $1.20 to $1.30. We are updating our expectations for depreciation and amortization, interest expense, and share count, which are detailed in our earnings release and slide presentation.

We are pleased with the results of our cost savings initiatives and expect those benefits, in addition to new business wins, to build as we move into the fourth quarter. As Ryals noted, the effect of business exits remains a headwind in the third quarter and will be fully lapped by the end of the quarter.

Based on those factors, we are comfortable with the middle of our guidance range. Key factors that could shift results within our guidance range include the potential impact of an uncertain economy on the consumer and promotional environment, and the transition of our California distribution.

As previously disclosed, in fiscal year 2023 we reached an agreement to settle distributor-related class action litigation in California. We are making progress repurchasing the distribution rights, which is expected to be completed in 2025 in accordance with the settlement agreement.

Approximately 95% of our key raw materials are covered in 2024. Based on that coverage, our guidance incorporates a moderation in ingredient costs in 2024 relative to the prior year. 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.

Our ERP rollout went live in the second quarter of 2023, and we are proceeding deliberately in that implementation to ensure we continue to effectively meet market demand with our traditional high service levels. As noted previously, we have paused the bakery rollout to concentrate resources on our California distribution transition.

In fiscal 2024, we expect costs for the upgrade of our ERP system to be approximately $25 to $35 million, including $3 to $6 million expected to be capitalized. Costs related to the project year-to-date are $12.8 million, of which $3.4 million has been capitalized. Total costs for the life of the project are $226 million, of which $115 million has been capitalized.

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 the consumer trends and then address the competitive environment.

Consumer trends in the second quarter remained consistent with the recent past. To maximize the value of their spending, consumers have shifted more of their purchases to food at-home and specifically to value channels like mass and club stores, areas where we have a strong presence. And within the store, bread, which appeals to those seeking value, is outperforming the overall food category, with unit sales down only 0.2% compared to food category units, which declined 0.7%, as shown on slide 9.

We continue to see encouraging trends in the bread category. Premium products are performing well as consumers seek differentiation, best exemplified by DKB's strong results. Subcategories with more-differentiated offerings, such as dinner bread and rolls, sandwich buns and rolls, and specialty/premium, outperformed the less-differentiated traditional loaf.

At the lower end of the market, slide 10 highlights that private label lost unit share in the quarter, as price gaps with branded products compressed. Private label prices continued to increase at faster rates than the category, and consumers responded well to incremental promotion of branded products.

And as private label unit performance has deteriorated, slide 14 highlights that we grew branded retail bread volume in tracked channels for the second consecutive quarter, up 1.5%. Those results significantly outpaced the category, which declined 0.2%, as shown on slide 9. Consistent with our portfolio strategy, the result of that growth is that our branded retail category increased to 64.5% of sales in the quarter, up 40 basis points from the year earlier period.

Turning now to the competitive environment, which remains rational with promotions below prepandemic levels. As economic pressure drives many consumers to seek greater value, their response to promotions has increased, though off of a low base due to the pandemic impact. And in that environment, we have increased our promotional levels somewhat, resulting in a higher percentage of product sold on promotion. However, we are leveraging trade promotion management capabilities to do so more efficiently and with attractive returns on investment.

In addition to seeking greater value, consumers are also looking for differentiated products. And that desire is manifesting itself in the strong performance of our leading brands. Consumers are clearly recognizing our brands' differentiation, driving the largest dollar and unit share gain of any company in the category. We are investing to increase that differentiation, further aligning our brand portfolio with the consumer.

In closing, I am pleased with the improvement demonstrated by our second quarter results even as we acknowledge the potential impact that an uncertain economy could have on consumer behavior and the promotional environment. We continued to execute our portfolio strategy, investing in our brands and improving our mix. To better-leverage our top line performance, we improved our cost structure, significantly enhancing our margins. And we are leveraging technology to improve data visibility and drive better strategic decisions, while investing in our team to advance overall execution.

Results in the quarter demonstrated progress toward our long-term goals and we will continue working to drive further improvements. I look forward to continuing our progress throughout 2024.

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 30, 2023 (the "Form 10-K") and Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission ("SEC") and may include, but are not limited to, (a) unexpected changes in any of the following: (1) general economic and business conditions; (2) the competitive setting in which we operate, including advertising or promotional strategies by us or our competitors, as well as changes in consumer demand; (3) interest rates and other terms available to us on our borrowings; (4) supply chain conditions and any related impact on energy and raw materials costs and availability and hedging counter-party risks; (5) relationships with or increased costs related to our employees and third-party service providers; (6) laws and regulations (including environmental and health-related issues); and (7) accounting standards or tax rates in the markets in which we operate, (b) the 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, (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 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 (including the ongoing conflict between Russia and Ukraine and the conflict in the Middle East), 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 July 13, 2024 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 presentation or release to the most comparable GAAP financial measure.

No reconciliation of the forecasted range for adjusted EBITDA or adjusted EPS is included in this presentation because we are unable to quantify certain amounts that would be required to be included in the GAAP measure without unreasonable efforts. In addition, the company believes such reconciliations would imply a degree of precision that would be confusing or misleading to investors.