EDITED TRANSCRIPT

FLO.N – Q2 2026 Flowers Foods Inc Earnings Call

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

JT Rieck Flowers Foods Inc - Vice President - Investor Relations, Treasurer

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 Second 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. Good morning, everybody. As noted in our prepared remarks, our second quarter results did not meet our expectations. The fresh packaged bread category remained challenging, reflecting pressure on household budgets, shifting consumer preferences, and sustained competitive activity.

Against this backdrop, we're accelerating initiatives to better align our resources and value proposition with where the market is heading. This includes advancing innovation in smaller formats, sourdough and protein, improving our in-store execution, pursuing new business and continuing to invest behind our leading brands.

As the Nature's Own relaunch, new business wins and innovation initiatives build momentum, we expect them to support greater stability and improved performance. We have work to do, but we remain confident in our strategy, our brands, and the actions that we are taking.

Shannon, we can go ahead and open up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Operator: Our first question comes from the line of **Stephen Powers with Deutsche Bank**

Stephen Powers – Deutsche Bank AG - Equity Analyst

Ryals, maybe we can pick up a bit where you left off in the intro. I mean if I think about the implied -- your performance and your updated guidance for the back half, even at the low end, it seems to imply some acceleration and some improvement, certainly versus the exit rate of consumption that we saw coming out of 2Q. So maybe a bit more detail on the building blocks that you see to create that sequential improvement, because it doesn't sound like you're expecting the category to improve, it sounds like you're expecting your own standing versus the category to improve. So which of the initiatives are expected to be the most impactful? And I guess a little bit of how quickly we should expect them to manifest over the remainder of the year?

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

Okay. Yes. A few things, and I'll let Anthony chime in here as well in terms of guidance. But I would call out three primary factors to address the question you asked. One is we do have some pretty significant new business wins that are coming on in the back half. In addition to that, we took additional cost savings measures that will benefit the back half. That's in addition to the roughly $200 million we've taken out of the business over the last several years. And I'd also call out innovation, which is a particularly important factor when you think about where the category is going, the speed of the shift in consumer preferences, frankly, got a little bit ahead of our innovation pipeline. But the good news is we have those things coming to fill those gaps in our offerings, whether you're thinking about protein, half loaves, sourdough, et cetera, all that's coming in the back half and then as we move into the spring of next year.

Anthony, anything you want to add?

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

No. I think you covered it. I would say, Steve, if you look at it for the back half, it’s a little skewed. We expect some year-over-year declines in Q3, but then normalization for all the factors that Ryals mentioned related to the new business wins, reduced elasticities as we're lapping prior year pricing in Q4, and a bit of stabilization in Nature's Own from our marketing investments continue to take hold.

Stephen Powers – Deutsche Bank AG - Equity Analyst

Great. Maybe a little bit, if you could, a little bit more color. It sounds like you expect improvement both across the branded retail business and the other segment where I would expect those new business wins to exist. So maybe a little bit more color as to where you see -- which side of the business you see more improvement? Then, yes, I'd love a little bit more color on what you're seeing with the Nature's Own relaunch and kind of reasons for optimism with that.

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

So Steve, I think from the way we're looking at it, it's really split between our Away-from-Home business as well as our retail branded business. So I would say we're seeing good opportunities and realization in both those areas, the timing of which, some of it's going to come in Q3 and some of it will come in Q4. So it's balanced wins across the portfolio.

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

And Steve, just to address your question on the Nature's Own relaunch. Recall we just started this a couple of months ago. I would say it's going well. It's a little bit too early to see the actual results read through, but we're getting really good feedback from customers, social media, et cetera. So there's some early indicators that it will be a successful campaign. But I think we've got to give it -- as I said on the last call, we're going to have to give it a little bit more time for it to read through. That said, we do feel really good about the campaign and where we're headed with it.

Operator: Our next question comes from the line of **Scott Marks with Jefferies**

Scott Marks Jefferies LLC - Equity Analyst

First thing I wanted to ask about, you noted in the prepared remarks rising competition, rising promotional intensity. Obviously you guys took some pricing earlier in the year with the expectation that you might see competitors follow, and it doesn't sound like that's happened quite yet. So just wondering if you can kind of give us an update on your thoughts around the pricing dynamics in the category and where you are? And any thoughts of changes to some of the actions you've taken to maintain maybe more competitiveness versus peers in traditional.

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

Sure. I'll take a stab at that first. I think it's important to remember that the dynamics in the category are about a lot more than price. I think in certain segments of the portfolio that may be a factor. And as we noted in the prepared remarks, we're taking a pretty intensive review of our pricing and promotional strategy. However it is more than just price. I would point more to consumer preference shifts. Certainly, there has been some amount of trade down to private label and lower-priced items. But I think the bigger factor, at least in our performance relative to the category has to do with those gaps in our portfolio, the under penetration in half loaves, sourdough, protein fiber, some of these more functional attributes that consumers are looking for.

So that's where our primary focus is. That is not to say that we're ignoring the price equation. We are taking a hard look at that. And my initial thesis is there probably are some pockets of the portfolio where that's a factor, but I don't think it's the overall driving force of our performance.

Scott Marks Jefferies LLC - Equity Analyst

Appreciate the thoughts there. Then maybe there are some comments in the prepared remarks, I think from Anthony about 2027 seeing some inflationary costs potentially ticking up, notably from commodity and fuel exposure. So just wondering if you can give us an update on where you're seeing inflation right now how you're thinking about the exit rate in '26? Then maybe what you're assuming at this point for '27 as well as any other color you can share about '27 to help us frame your thinking.

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

Sure, Scott. Let me take it in two parts. As we mentioned in Q1, most of our commodities for the balance of this year are fully hedged. We had some exposure which I alluded to in oil and diesel and indirectly in resin, and that's primarily in our packaging area. So our current guide didn't change because we saw added pressure from a commodity perspective. We assume that pressure in Q1, and it hasn't really changed materially from where we were back in Q1. As I pivot to '27, we're still in the middle of our planning process for fiscal '27. So I can't provide further color on that in isolation. To Ryals point, input costs are just one of many variables that we have to factor as it relates to price mix and the architecture and new innovation.

So I can't look at it in isolation. That being said, overall inflation has gone up in many of our categories from a pricing index perspective is something that we need to definitely address as we look at '27, and the exit velocity, as you mentioned, coming out of '26. It's something we're working to address going forward. And as I mentioned in my prepared remarks, more to come. But at this point, that's all we could say as it relates to '27.

Operator: Our next question comes from the line of **Jim Salera with Stephens**

Jim Salera - Stephens Inc - Equity Analyst.

I wanted to follow up on your commentary to Steve and Scott's questions there. If I look back to 2022, that was, I think the last time we had kind of a significant commodity cycle. If my model serves me correct, net price/mix across the business was up kind of mid-teens in 2022 which was a big factor in helping to offset that. Correct me if I'm wrong, but it sounds like there's maybe not as much flexibility on a go-forward basis around pricing given some of the competitive dynamics. So could you just walk us through what other levers you might have in the business to help offset that commodity inflation that we're seeing and kind of anticipating to continue to roll through in 2027?

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

Yes. Let me start on that, Jim. I would say clearly, we have to look at productivity measures which is part of our annual process, and throughout the year, we're looking at ways to be more efficient in the bakeries, in the network, et cetera. We took action coming out of Q1 when we saw softness on the top line that will accrue from a tailwind perspective as we exit 2026 into 2027. And as we said on the prepared remarks, that's roughly around the $20 million tailwind we'll have going into 2027.

The other area is going to be the price pack architecture. As Ryals mentioned, coming together with new products around small loaves, bring to market innovation in sourdough, areas where the consumer has headed and where the consumer is, we're probably underpenetrated on a portfolio basis. We have great products coming to market in the near term, but we're probably underpenetrated today. So, when we look at those factors, it gives us confidence that, yes, price probably is not going to be the only lever to overcome the inflation. And as I mentioned earlier, a lot more work to do around that as we continue the '27 planning process.

Jim Salera - Stephens Inc - Equity Analyst.

My follow-up question is on DKB. In the prepared remarks, you guys touched on marketing pullback there. I would just love some more commentary around -- is that kind of a temporary re-shift where maybe other brands need some more support? Are you guys reworking the marketing plan there? Did it shift kind of within the portfolio, maybe towards some of the innovation versus kind of the core fresh bread offering? Any thoughts there would be great.

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

Yes, Jim, it's temporary. I mean it's the way we laid out the cadence of our marketing and promo spend this year. So we focused a lot at the beginning of the year with -- you may recall the Rock Your Reset campaign that we did with DKB. Then also, to your point, also a focus on back-to-school. So we should see more normalized levels of promo and marketing spend with DKB for the balance of the year.

Operator

Our next question comes from the line of **Mitchell Pinheiro with Sturdivant**

Mitchell Pinheiro Sturdivant & Co Inc - Equity Analyst

I was looking at your fresh bread volume decline which was 9.5%, and that's a big number. But I was surprised at how well the gross margin held up despite the unit volume decline in fresh bread. How can you -- how do you manage that?

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

Mitch, this is Anthony. I mean clearly, price had a big contributor in the price/mix from a volume decline. So our pricing definitely was a positive contributor as it relates to overall. But as we look forward into the earlier comments, there's other variables that we are looking towards as we think about the balance of this year in '27 and price pack architecture, one that I mentioned earlier. But price was definitely the contributing factor to answer your question.

Mitchell Pinheiro Sturdivant & Co Inc - Equity Analyst

And so sort of negative fixed asset leverage, you've been able to manage that? Or how should we think about that?

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

Yes. So from -- obviously the restructuring had some cost out in COGS. We've had good productivity as it relates to the in bakery network. But clearly, that's our highest fixed cost. While we're looking at network optimization, that is more complicated and takes much longer to execute. But we're clearly constantly looking at ways to be more efficient within the four walls of our bakery and our network, and that drove some benefit, but that becomes harder and harder with the volume declines. So as you can imagine, that's something that we're looking at and continue to look at as ways to optimize going forward.

Mitchell Pinheiro Sturdivant & Co Inc - Equity Analyst

Okay. Then as you look at the third quarter, do you expect volume declines to moderate?

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

Yes. We don't break that out. As I mentioned, we expect Q3 year-on-year to be down from an overall sales perspective. So that's going to be price and volume based and then Q4 to have a little bit more stabilization as the new wins get more fully ramped. That's probably the most color I can give you in terms of the near term.

Mitchell Pinheiro Sturdivant & Co Inc - Equity Analyst

Okay. Then I guess two more questions. One with Dave's Killer Bread. You mentioned that shifts in consumer preferences as a reason that helped pressure the unit volume decline. What are you referring to?

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

Yes. Mitch, it's Ryals. Mostly, we think that it's the growth of sourdough. It's pretty remarkable actually. I mean that subsegment of the category has already grown to be a $1.3 billion subcategory. So it's been pretty tremendous growth. In DKB, we only have sourdough on the West Coast currently. But as we mentioned earlier in the innovation pipeline, we have plans for all that. I would say that is certainly one area and probably at least some amount of price sensitivity relative to Dave's. But I don't -- as I said earlier, I don't think it's all price. It's a combination of price for some consumers, but also offering and product attributes that are driving some of that decline.

Mitchell Pinheiro Sturdivant & Co Inc - Equity Analyst

Okay. Then just final question is just where do we stand with the comprehensive review? Where are we in that process? Are we close to the end? Is this a continuous improvement, comprehensive review? Can you shed a little light on that?

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

Yes. Well I think we're always in the mode of continuous improvement. But in terms of the formal initiative of the comprehensive review, yes, we're finished with that and beginning to execute on it. So a lot of the things we've talked about today, whether it's innovation or focus or better execution, all of those are folded in and are the result of that comprehensive review.

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. Thank you, Shannon. I just want to thank everybody for taking time today and joining us for questions. We very much appreciate your interest and support of our company. And as always, we look forward to speaking with you again next quarter. Take care.

Operator

This concludes today's conference. Thank you for your participation. You may now disconnect.

Forward-Looking Statements

Statements contained in this press release 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 July 18, 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 a performance measure in the company's incentive compensation program.

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.