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FLO.N - Q3 2025 Flowers Foods Inc Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**JT Rieck** *Flowers Foods Inc - Executive Vice President of Finance and Investor Relations*

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

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

## CONFERENCE CALL PARTICIPANTS

**Scott Marks** *Jefferies LLC - Equity Analyst*

**Steve Powers** *Deutsche Bank AG - Analyst*

**Jim Salera** *Stephens Inc - Equity Analyst*

**Max Gumpport** *Exane Bnp Paribas - Analyst*

**Mitchell Pinheiro** *Sturdivant & Co Inc - Equity Analyst*

## PRESENTATION

### Operator

Good morning, and thank you for standing by. Welcome to the Flowers Foods third quarter 2025 results conference call. Please be advised that today's event is being recorded. I would now like to hand the conference over to your opening speaker today, JT Rieck, Executive Vice President of Finance and Investor Relations. Please go ahead.

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**JT Rieck** - *Flowers Foods Inc - Executive Vice President of Finance and Investor Relations*

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

Please note that in this Q&A session, we may make forward-looking statements about the company's performance. Although we believe these statements to be reasonable, they are subject to risks and uncertainties that could cause actual results to differ materially.

In addition to what you hear in 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 Steve Kinsey, our CFO. Ryals, I'll turn it over to you.

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

Okay. Thanks, JT. Good morning, everybody. Welcome to our third quarter call. Our proactive efforts to strategically align our portfolio with consumer demand are yielding positive results. By effectively targeting areas of opportunity with differentiated offerings, we're finding pockets of growth amid ongoing pressures in the bread category. To address these challenges, we're redefining traditional loaf, incorporating value and better-for-you attributes that align with evolving consumer preferences.

While it will take time, we're confident our strong portfolio of brands will successfully enable this transformation. I'd like to take this opportunity to thank our dedicated Flowers team for their hard work and resilience during this period of change.

We are also grateful for the ongoing support of our shareholders as we strive to enhance long-term performance. And finally, I'd like to acknowledge that this will be Steve Kinsey's final earnings call after 18 years as our CFO. His contributions to Flowers have been invaluable, and we're deeply appreciative of his leadership throughout the years. We wish him all the best in his future endeavors. And with that, Daniel, we're ready for questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Scott Marks, Jefferies.

### Scott Marks - Jefferies LLC - Equity Analyst

First thing I wanted to ask about, you made some comments in the prepared remarks about consumer sentiment reaching a low point for the year in Q3, but you also made comments about expecting category demand to normalize as the economy strengthens. So maybe if you can just help us understand how you're thinking about that and maybe what gives you confidence in the recovery of the category and the normalization of demand?

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

Sure. Thanks, Scott. Of course, it's tough to pinpoint the exact time line, right? But we do think over time, the category will stabilize. This is a very large category. It's a staple in many households in the United States. I think we've just got to get some of this noise out of the way.

People are still very concerned about tariff situation. The job market now with the government shutdown and the disruption that, that has brought, I think it's going to take a little bit of time to work our way through that.

So we do see the weakness continuing at least partway into '26 from where we stand right now, but we do think over time, it will stabilize. I think in the meantime, it's important for us to continue focusing on the consumer, continuing to invest in the consumer, bringing those both value and better-for-you offerings to the consumer, which is clearly where they're going, and that's what we intend to do.

### Scott Marks - Jefferies LLC - Equity Analyst

Appreciate that and then the second question for me would be, you talked about some of your newer investments pressuring margins a little bit, just investing to kind of generate consumer trial and ramp volumes. Maybe how should we be thinking about offsets to that within whether it's the supply chain efficiencies or any other offsets that you can call out for us?

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

Yeah. You're spot on there, Scott. I mean we're focused on the long term. And so that means continuing to invest in the consumer. And we will continue to do that. I think you've seen us do that with all the innovation that we brought to market over the last several years.

But the truth of the matter is, I mean, all innovation tends to pressure margins in the short term. They're newer items. But as we build scale and as we make targeted CapEx investments to increase our throughput and efficiency, we expect those margins to improve.

### Operator

Steve Powers, Deutsche Bank.

**Steve Powers** - Deutsche Bank AG - Analyst

Okay. Congrats again to you, Steve, and thanks for your help over the years. So first question, just maybe to follow up on Scott's initial question, just around the consumer and I guess, your sort of your planning stance into '26.

You talked about some signs of stabilization in the category over the course of 3Q, but then some weakening as the quarter came to an end. So I guess, just thinking about fourth quarter and sizing up '26 scenarios, are you expecting more or less the status quo to prevail? Or are you building in allowances for things to maybe get a little bit worse before they get better?

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

More towards the status quo with some opportunity for improvement. I mean you're spot on that in Q3, periods eight and nine, we saw the category begin to stabilize. But comping what, five named storms last year and zero this year was a pretty tough comp in period 10. So you could see the category did fall off in period 10. But since then, it started to migrate back to where it was trending in periods eight and nine.

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**Steve Powers** - Deutsche Bank AG - Analyst

Yeah. Okay. Perfect. Yes. So more just the comparisons versus the storms of last year. Makes sense.

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

Yeah, that's right.

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**Steve Powers** - Deutsche Bank AG - Analyst

Okay. And then the other question I wanted to ask is it was just around Simple Mills. It was a point of upside, at least versus our estimates in the quarter. And in the prepared remarks, talked about general strength and performance in line with your own expectations. Maybe just go a little bit deeper and highlight some of the areas where you've seen the most progress since acquisition and where as you integrate and build further, you see the most opportunity?

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

Yeah. The first thing I would call out is just the collaboration effort between our teams. The integration is going exceedingly well. We're finding areas of opportunity in customer engagement, in procurement, among other areas, and across their categories, they still continue to perform very well, and as we noted in the prepared remarks, in line with our expectations.

We're very excited about next year for Simple Mills. Of course, we're not giving guidance today, but they do have quite a bit of new innovation coming for next year that we're all pretty fired up about, and so overall, Steve, we couldn't be more pleased.

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**Operator**

Jim Salera, Stephens.

**Jim Salera** - *Stephens Inc - Equity Analyst*

Steve, it's been a pleasure working with you. Hopefully, you have a long vacation planned as we get into the beginning of next year, taking advantage of some time off. Ryals, I wanted to maybe ask a little bit more detail around the other segment because branded retail actually came in ahead of what we were modeling and the other piece came a little bit behind.

I would assume that's foodservice, just given some of the headwinds that QSR and the industry has been facing. But can you offer any color there, maybe kind of foodservice and your private label business performance?

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

Yeah. Jim, the foodservice business has been under pressure, not surprisingly, given the economic environment and consumer sentiment. So that's really all that is. I would continue to note, though, that despite that weakness, the work that we've done over the last two to three years to improve the profitability of that business is still delivering very nicely on the bottom line. So that's good to see.

But look, we would expect that to recover as the economy recovers. It tends to ebb and flow with that. So nothing terribly unusual there. Volumes were a little bit better in that other category, primarily due to vending. So you may note that as well.

Private label is interesting because it has been weak. You can see that in the syndicated data, which may seem kind of strange given where we are economically. But the price gaps between private label and some of the lower-priced branded products have narrowed significantly. And so I would chalk it up to that.

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**Jim Salera** - *Stephens Inc - Equity Analyst*

Okay. Is it a fair way to think about just because we have a little bit less visibility on foodservice. Is that kind of run at the same pace of industry traffic? Or is there a way for us to think about kind of incorporating that into our model?

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

Yeah. You can look at traffic, would be a good indicator. And remember, our foodservice business is really broad, right? So it's broad line through the big distributors, but it's also QSR, which has clearly been under pressure. We compete across all those channels. So it's just general weakness across foodservice given the economic environment.

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**Jim Salera** - *Stephens Inc - Equity Analyst*

Okay. And then if I could sneak in one more. You guys brought down your expectations for headwinds from tariff, but we've also recently seen some step-up in ag commodity prices. Can you just offer any thoughts around how we should kind of be putting together puts and takes as we think about modeling your '26 gross margins, if there's maybe opportunity for upside there or with kind of all the moving pieces, that should probably be a little bit more conservative from our view.

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

I mean, Jim, Ryals has made a statement. Obviously, we're not prepared to give guidance for 2026 today. But what I would say, when you look kind of across the whole bucket, we are still expecting inflation. I mean wheat commodities are still very volatile.

There are other things that are going to be up next year. Obviously, we only had tariffs for part of the year this year. So when we give guidance on 2026, my guess is you'll see some inflationary pressure with regard to input costs.

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**Operator**

Max Gumport, BNP Paribas.

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**Max Gumport** - *Exane Bnp Paribas - Analyst*

Congrats, Steve. First, on the dividend and on cash. So you noted you're reducing your expectations for CapEx this year as you focus on returning to a more normalized leverage ratio. I was hoping you can talk about the balance between pulling this lever, pulling down CapEx versus reconsidering whether the dividend is at an appropriate level.

And I'm really asking because it feels like an acknowledgment or an early admission that this combination of your leverage and the dividend are restraining to some degree, your ability to invest in the business.

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

Yeah, I mean, obviously, every quarter or throughout the year, we consider capital allocation. It's very important to us. I mean we're very focused on delivering shareholder value. I would say from a CapEx perspective, the pullback, while we are focused on our deleveraging, and this is part of the -- would be part of the strategy, a lot of it has to do with project cadence.

We shifted some of the projects into next year. And then we did a reassessment of projects to make sure we're only doing the projects that deliver the best return. So I'd say it's exclusive of any consideration around dividends necessarily. And then on a quarterly basis, our Board considers the dividend. I don't want to get ahead of anything or speculate.

But the reality is the focus is always on delivering the shareholder value, and then based on the facts and circumstances at the time, the Board makes their decision from a dividend policy perspective. So I'd say really no difference in philosophically how we think about capital allocation. But obviously, we're aware of our leverage ratios, we're well aware of the payout ratio and all of that will go into consideration as we think about capital allocation going forward.

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**Max Gumport** - *Exane Bnp Paribas - Analyst*

Okay. And then coming back to margins. So this quarter, your gross margin was down 190 basis points. EBITDA margin was down 160 basis points, and that looks to be despite the tailwind you've actually had some lower ingredient costs as a percent of sales.

So it feels like negative price mix and lower volumes are really starting to pressure your margins, given the competitive environment and the consumer environment don't seem to be swinging to positive at least in the early part of '26. It's not clear that either of those pressures will be dissipating in the near term. So I'm just curious how you're thinking about the potential need to navigate through several more quarters of margin pressure.

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

Yeah. When you look at the gross margin, I mean, obviously, there is the top line pressure. I mean Ryals talked about the consumer, and you've seen that we've had more promotional activity. So that is causing some of the gross margin pressure.

But the largest item on gross margin actually has to do with Simple Mills and the fact they're 100% co-maned. So obviously, that's a higher cost product. So that is the key -- one of the key items that impacted gross margin overall for the quarter. We'll lap that February of next year.

So if the category were to stabilize or we would see some improvement in overall consumer sentiment, putting aside any inflationary environment, margins should benefit from that. And then on the SG&A side, if you recall, we converted a big part of our labor pool in California from independent distributors to company employees.

So that's a big driver of that. We'll lap that next year as well, and then overall labor costs have been up. So again, from SG&A as a percent of revenue, it does go back to kind of the pressure on the top line, but I'd say there's really no one item that I'd call out as overly impacting the overall EBITDA margin from SD&A except for labor.

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**Operator**

(Operator Instructions)

Mitchell Pinheiro, Sturdivant & Co.

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**Mitchell Pinheiro** - *Sturdivant & Co Inc - Equity Analyst*

Steve, yeah, I wanted to just congratulate you on a heck of a run. And yes, it's certainly great working with you. And I guess you were the third CFO of Flowers I've known. So -- and I guess the longest of those runs. So again, congrats.

So I have a question, Ryals. On one hand, we talked generational shift in your prepared remarks, and then we're also talking consumer weakness, especially at the low end, but they're still eating. They're still there, and bread has consistently evolved towards better for you. I mean it's just been a natural evolution. So nothing's really changed there. So I'm curious if you could try to tie sort of generational shift to the sort of economic weakness in your remarks.

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

Yeah, I think it's more than just the economic weakness. Certainly, that plays a role, Mitch. I mean you've been around a long time, and you've seen when we enter periods of economic uncertainty, there's always trade down from traditional loaf to more value-oriented brands like private label or otherwise.

So I do think that, that does play a role in this, but the shift that we're really talking about is centered around traditional loaf, meaning the traditional 20-ounce soft variety and white breads, and there has definitely been a shift, frankly, that's been underway for several years now, but it has just accelerated over the last 12 to 18 months, where the category is really bifurcated into premium, differentiated, or value, and traditional loaf has really taken it on the chin because of that.

That's very impactful for us, obviously, because we're very concentrated in that category, particularly given we have the number one brand and number one SKU in that category, but we are intent on redefining traditional loaf. We think we've got a great opportunity with the strength of our Nature's Own brand to lead the category in the transformation of that particular segment.

We clearly acknowledge the challenges that we're facing in the short term, given that consumer shift, but we have growing optimism in the longer term, and that's primarily due to two things: one, our team, which I think is the best in the industry; and two, our portfolio of number one brands.

So we will continue to invest in the consumer, continue to innovate. You've seen us do that over the last several years, we're making significant progress, and while at the same time, working to optimize our cost structure. I mean you look in the quarter, Mitch, and you see Canyon up 6% in units, Dave's Killer Bread, up 10% in units.

You've seen us enter into the small loaf category that definitely addresses a consumer need. And in the quarter, we gained 15 points, 15 full points of unit share, and we're already number two under that Nature's Own banner, and while that category is growing 85%, obviously, off of a small base, but significant growth. So I believe we're doing all the right things for the long pull while we try to mitigate the challenges in the short run.

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**Mitchell Pinheiro** - *Sturdivant & Co Inc - Equity Analyst*

So listen, I mean, Nature's Own has obviously been a tremendous success story, and it is weighted towards traditional loaf, but you also have Merita and Sunbeam and I don't know, Captain John Derst's bread and all these other breads underneath, where do they stand? I mean, is it -- I know they're important for regional shelf space and things like that, but I'm just curious, they seem to be left in the dust a little bit, and I'm curious if they're -- how strategic they are.

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

Yeah. That's been a change that's been underway for many years now, Mitch, and I would tell you that the regionals have been fairly deemphasized over the last eight years or so, 8 to 10 years, and the primary reason for that is retailer consolidation.

You can't run a national ad with Sunbeam, which you can with Wonder, and you can with Nature's Own. Now certainly, they do play important roles in particular markets like take Sunbeam in Atlanta or Bunny in Louisiana, they are still very important brands, but they're much smaller than they used to be. They've been supplanted by the likes of Nature's Own and Wonder over time.

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**Mitchell Pinheiro** - *Sturdivant & Co Inc - Equity Analyst*

So okay. And then just last question on that is, I mean, it certainly would add complexity to -- not that you want to get rid of brands, but it certainly adds sort of unnecessary complexity to have these smaller brands, and so is that not a problem? Is that not an issue? Or do you have sort of a solution for that?

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

Not so much with the regional brands, but I do agree with you overall regarding complexity, and that's one of the reasons we talk about a little bit of near-term margin pressure from all the innovation we're bringing forth because that does -- the small loafs are growing very, very fast, but it's still relatively small, right?

And you're introducing an additional complexity into a bakery that's accustomed to running really fast runs of Nature's Own Butter bread, for example. But it is what the consumer wants, and we're all about being there for today's and tomorrow's consumer, and over time, as I mentioned, as we make targeted investments in the bakeries to increase the efficiency and throughput of those products, those margins will begin to rise.

So it to me, I'm not very concerned about it. It's a short-term issue that I'm willing to undertake because I know I'm delivering for the consumer.

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**Mitchell Pinheiro** - *Sturdivant & Co Inc - Equity Analyst*

Okay. And just a couple of things. You're down to 44 bakeries. Is that going to be the right number for a while? Or are there opportunities for additional consolidation?



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

Mitch, we're always evaluating our cost structure, and we know that we have further supply chain optimization to take place, where and when that will occur is too speculative, but it is certainly top of mind that we need to -- particularly in this environment and going forward, we need to be as efficient as we can possibly be. So removing complexity, increasing focus and making sure that we're optimized from a cost structure standpoint is top of mind.

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**Operator**

I'm showing no further questions at this time. I would now like to turn it back to Ryals McMullian, Chairman and CEO, for closing remarks.

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

I want to thank everybody for taking time today and joining us for questions. We very much appreciate your interest in our company, and as always, we look forward to speaking with you again next year, actually. So take care. Thank you.

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**Operator**

This concludes today's conference call. Thank you for participating. You may now disconnect.

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