Flowers Foods, Inc.(FLO)

$22.37 (As of 05/08/20)

Price Target (6-12 Months): **$23.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/06/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: C | Growth: A | Momentum: A	

Summary

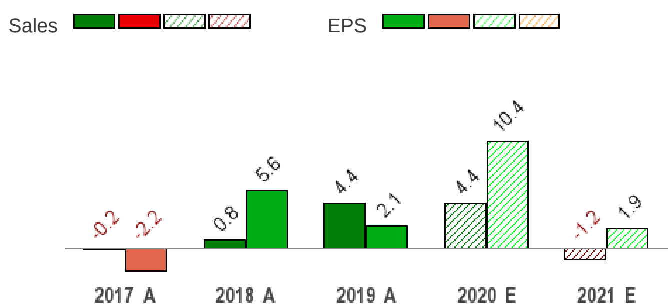
Shares of Flowers Foods have outpaced the industry in the past six months. The company is benefiting from focus on buyouts and market share gains, which drove the top line in the fourth quarter of 2019. Markedly, the company has successfully integrated Canyon Bakehouse, which is yielding results. Also, brands like DKB, Nature's Own and Wonder brands are driving market share, with DKB having emerged as the company's second-largest brand. Additionally, Flowers Foods is gaining from a solid price mix. However, the company has been grappling with soft food service, store branded cake and breakfast bread volumes for a while. Also, reduced manufacturing efficiencies and increased workforce-related costs have been a concern. Nonetheless, the company is set to offset these odds through savings and productivity plans like Project Centennial.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$25.08 - $17.42
20 Day Average Volume (sh)	1,303,634
Market Cap	$4.7 B
YTD Price Change	2.9%
Beta	0.37
Dividend / Div Yld	$0.76 / 3.4%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 11% (27 out of 253)
Last EPS Surprise	5.9%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/13/2020
Earnings ESP	0.0%
P/E TTM	23.1
P/E F1	21.1
PEG F1	NA
P/S TTM	1.2

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,302 E	1,007 E	996 E	951 E	4,254 E
2020	1,318 E	1,012 E	981 E	994 E	4,305 E
2019	1,264 A	976 A	967 A	918 A	4,124 A

EPS Estimates

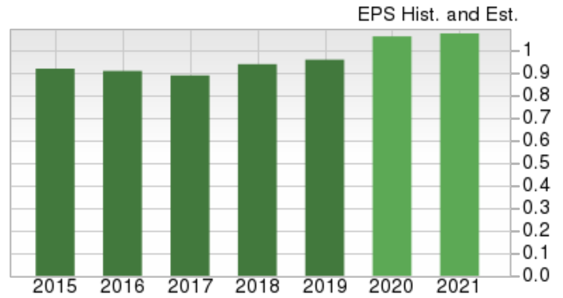
	Q1	Q2	Q3	Q4	Annual*
2021	$0.34 E	$0.27 E	$0.25 E	$0.22 E	$1.08 E
2020	$0.34 E	$0.26 E	$0.24 E	$0.21 E	$1.06 E
2019	$0.32 A	$0.25 A	$0.22 A	$0.18 A	$0.96 A

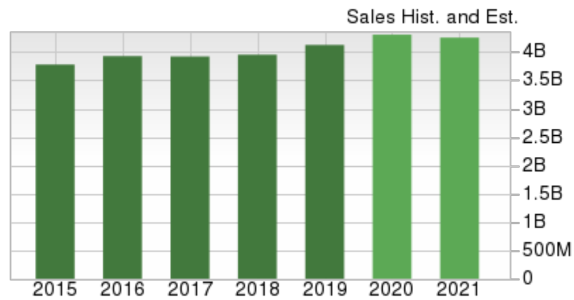
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/08/2020. The reports text is as of 05/11/2020.

Overview

Headquartered in Thomasville, Georgia, Flowers Foods, Inc. (FLO) produces packaged bakery foods in the United States. The company specializes in baked food products as well as produces a wide range of breads, buns, rolls, snack cakes and tortillas





Flowers Foods emphasizes on providing high-quality baked items, developing strong brands, making innovations to improve capabilities and undertaking prudent acquisitions. Along with these, the company strives toward developing technology advanced bakeries.

Some of the most popular brands of the company include — Nature's Own, Wonder, Dave's Killer Bread and Tastykake. The company supports brands through advertising and marketing across diverse social media platforms. It also provides store coupons. Additionally, the company focuses on providing exceptional customer services.

Earlier, Flowers Foods had two operating segments, namely, Direct-Store-Delivery Segment (the DSD Segment) and Warehouse Delivery Segment (the Warehouse Segment). DSD Segment consisted of fresh breads, buns, rolls, tortillas and snack cakes. Nature's Own, Wonder, Cobblestone Bread Company, Tastykake and Dave's Killer Bread were the top brands in this segment. The Warehouse Segment included fresh snack cakes and frozen breads and rolls. Mrs. Freshley's, Alpine Valley Bread, and European Bakers were the top brands in this segment.

Following Project Centennial's organizational restructuring, the company has consolidated all its operations under a single segment, which was reflected in the company's first-quarter 2019 results.

Additionally, the company identifies sales under three categories — branded retail sales, Store branded retail sales and Non-retail and other sales.

Reasons To Buy:

> Flowers Foods is progressing well with Project Centennial and is focusing on acquisitions to strengthen its product portfolio. Also, the company is undertaking efforts to revive its core business.

▲ **Expansion & Acquisitions Fuel Market Share:** Flowers Foods' shares have increased 1.9% in the past six months against the industry's decline of 9.7%. The company has been focusing on acquisitions to strengthen its product portfolio and expand in untapped markets. Notably, the company has acquired more than 100 companies since 1968 and 16 companies since 2003. In 2015, the company bought Dave's Killer Bread (DKB) and Alpine Valley Bread company. With the acquisition of DKB, the company got access to the Pacific Northwest market.

In December 2018, the company completed the acquisition of Canyon Bakehouse, which has helped Flowers Foods foray into the growing gluten-free bakery space. Well, Flowers Foods has successfully integrated Canyon Bakehouse, which is yielding positive results. Additionally, brands like DKB, Nature's Own and Wonder brands continue to drive market share, with DKB having emerged as the company's second-largest brand. Contributions from Sun-Maid breakfast bread have also been boosting performance. All said, the company expects sales of $4.206-$4.289 billion for 2020, suggesting 2-4% growth from the year-ago period's reported figure. Adjusted EPS is projected to be $1.00-$1.08, indicating growth of 4.2-12.5% from the year-ago period's reported figure.

▲ **Project Centennial on Track:** Flowers Foods is progressing well with Project Centennial, and is also undertaking several efforts to revive its core business, lower costs, make use of product advances and develop leading capacities. The company launched "Project Centennial" in 2017, which is an enterprise-wide multi-year initiative. The plan is aimed at streamlining operations, fueling efficiencies, improving margins by curtailing cost, optimizing supply chain and making prudent investments to solidify Flowers Foods' competitive position, aid revenue growth, and return value to stockholders.

The project has propelled the company to become more brand and consumer-focused. In fact, based on the restructuring endeavors related to Project Centennial, the company has consolidated all operations under a single segment. Going into the second phase, the company expects the project to attain greater supply chain optimization. This will enable the company to achieve greater organizational efficiencies and profitability.

▲ **Impressive Price/Mix to Boost Top Line:** Flowers Foods is progressing well with its efficient pricing strategy. This helped the company counter inflation in the fourth quarter of 2019. In fact, price mix contributed 2.1% to base business sales in the said quarter. Price mix improved across most channels and product classes. Continuation of such trends is likely to aid the top line.

▲ **Strategic Priorities Bode Well:** Management is on track with its three core priorities in 2019. These include refreshing key brands to aid profitably and boost market share, making use of adjacencies, and enhancing supply-chain productivity to lift margins. Apart from Project Centennial, the company is also executing a multi-year supply-chain optimization plan to reduce fixed costs. This is essential for the company to achieve its margin targets for the long term. The company earlier set goals of 3-4% sales growth and EBITDA margins of 13-14% by 2021. Further, management expects to see long-term EPS CAGR of 8-10%.

▲ **Debt Analysis:** Although Flowers Foods' debt-to-capitalization ratio of 0.5 (as of Dec 28, 2019) was higher than the industry's ratio of 0.43, we note that the company's long-term debt declined sequentially as of the end of the fourth quarter of 2019. Notably, as of the end of the quarter (Dec 28, 2019), the company's long-term debt dipped 1.5% to $1,206 million. Apart from this, Flowers Foods' net interest expense declined 7% to $2.2 million quarter over quarter. We also note that the company's times interest earned ratio (as of the fourth-quarter end) of 6.5 was better than the industry's ratio of 4. Incidentally, the times-interest-earned ratio is very important for companies, as it measures a company's ability to meet its debt obligations based on its current income.

Additionally, as of Dec 28, 2019, Flowers Foods' had $613.3 million available for borrowing under its credit and AR facility. The company then notified that its cash position, cash flow from operating activities and available credit capacity are sufficient to help it meet current obligations.

Reasons To Sell:

> The company's performance is being challenged by higher materials, supplies, labor and other production costs. Additionally, soft foodservice volumes are a concern.

- **Stock Appears Stretched:** Flowers Foods stock looks quite stretched when compared to peers, which means the stock has limited room to run in the days ahead. A comparative analysis of the company's forward P/E ratio over the past year reflects a relatively gloomy picture that might be a concern for investors. The ratio currently stands at 22.2, which looks stretched when compared with its industry's 16.06 and the S&P 500's 18.42.

- **Materials, Supplies, Labor and Other Production Costs:** Flowers Foods' materials, supplies, labor and other production costs (exclusive of depreciation and amortization) have been bearing the brunt of reduced manufacturing efficiencies and increased workforce-related costs for quite some time now. The trend persisted in fourth-quarter 2019, wherein materials, labor, supplies and other production expenses (net of depreciation and amortization), as a percentage of sales, remained flat year over year.

  This is because gains from pricing/mix and reduced ingredient expenses, as a percentage of sales, were countered by reduced manufacturing efficiencies and increased workforce-related costs. Prior to this, the metric rose year over year for eight straight quarters. In fact, increase in workforce-related costs and marketing costs also weighed on selling, distribution and administrative expenses (as a percentage of sales), which rose 260 bps to 41.1% on a reported basis.

- **Soft Volumes:** Flowers Foods' base business sales were hurt by soft volumes to the tune of 90 basis points. This was a result of lower promotional activity for traditional loaf bread along with the lost foodservice business. Notably, volumes for foodservice, store branded cake and breakfast breads businesses have been soft for a while now. In the fourth quarter of 2019, foodservice and other non-retail sales dropped 80 basis points due to reduced volumes. This, in turn, resulted from the business lost due to inferior yeast and soft institutional volumes.

  While the company is undertaking endeavors to improve volumes, it is conservative regarding volume growth for 2019 when it reported third-quarter 2019 results.

- **Competition:** The bakery industry in the United States is intensely competitive. Flowers Foods competes with largely advertised branded products as well as with store branded products that are generally sold at lower prices. Flowers Foods primarily competes with Bimbo Bakeries USA and Campbell Soup Company (Pepperidge Farm) along with smaller independent regional bakers, local bakeries, and retailer-owned bakeries.

  Hence, the company undertakes aggressive pricing strategies and promotional activities to counter competition. The intense competitive pressure may result in loss of market share as well as decline in sales and operating margins. Competitors with greater market presence and better financial resources will continue to weigh on Flowers Foods' results.

Last Earnings Report

Flowers Foods Q4 Earnings & Sales Top Estimates, Up Y/Y

Quarter Ending	12/2019
Report Date	**Feb 05, 2020**
Sales Surprise	**0.86%**
EPS Surprise	**5.88%**
Quarterly EPS	**0.18**
Annual EPS (TTM)	**0.97**

Flowers Foods posted fourth-quarter 2019 results, wherein both top and bottom lines improved year over year and came ahead of the Zacks Consensus Estimate. Results were backed by improvements in core brands along with significant progress in portfolio and supply-chain optimization.

Adjusted earnings per share (EPS) of 18 cents came a penny ahead of the Zacks Consensus Estimate. Moreover, the bottom line increased 12.5% year over year.

Net sales advanced 4.2% to $917.8 million, which beat the Zacks Consensus Estimate of $910 million. Excluding the Canyon Bakehouse buyout, net sales grew 1.2%. Sales were backed by increased branded retail and store-branded retail sales, somewhat offset by lower non-retail and other sales.

Costs & Margins

Materials, labor, supplies and other production expenses (net of depreciation and amortization) as a percentage of sales remained flat year over year at 53%. Lower manufacturing efficiencies and increased workforce-related costs were negated by better pricing/mix and reduced ingredient expenses as a percentage of sales.

Adjusted selling, distribution and administrative expenses (as a percentage of sales) declined 20 bps, courtesy of lower distribution fees, which were somewhat countered by an increase in workforce-related costs and marketing costs. Meanwhile, the metric rose 260 bps to 41.1% on a reported basis.

Adjusted EBITDA rose 7.3% to $84.5 million, whereas adjusted EBITDA margin expanded 30 bps to 9.2%.

Category Performance

Branded retail sales rose 5.5% to $551.7 million, backed by contributions from the Canyon Bakehouse buyout, constant gains from DKB and Nature's Own Perfectly Crafted products, and improved price/mix. This was partly countered by soft volumes for traditional loaf bread, cake products and bakery deli items.

Store branded retail sales rose 7.5% to $140.3 million, owing to contributions from the Canyon Bakehouse buyout, increased distributions and better price/mix. This was somewhat countered by weak volumes in store-branded cake and breakfast bread.

Non-retail and other sales dropped 0.8% to $225.8 million, thanks to lower institutional products, and foodservice and vending volumes.

More Financial Aspects

The company ended the quarter with cash and cash equivalents of roughly $11 million, and long-term debt and capital leases (including current portion) of $866.5 million. Further, stockholders' equity amounted to $1,263.4 million.

In 2019, the company's cash flow from operating activities amounted to $367 million, while it incurred capital expenditure of $103.7 million. Capital expenditure is envisioned at $105-$115 million for 2020.

Flowers Foods paid out dividends worth $160 million in 2019 and has 6.2 million shares remaining under the ongoing repurchase program.

Guidance

Management is impressed with the company's performance, marked by solid sales and record cash flows. In 2020, the company intends to remain committed toward its value-creation strategies, which focus on brand enhancement, cost management and prudent buyouts. The company expects sales growth in 2020 to be backed by national brands' strength along with the anticipated growth in foodservice and cake businesses. Further, Flowers Foods expects earnings per share growth in 2020, backed by initiatives to fuel manufacturing efficiencies, optimize portfolio and supply-chain network, and curtail fixed costs.

All said, the company expects sales of $4.206 -$4.289 billion for 2020, suggesting 2-4% growth from the year-ago period's reported figure. Adjusted EPS is projected to be $1.00-$1.08, indicating growth of 4.2-12.5% from the year-ago period's reported figure.

Recent News

Flowers Foods Temporarily Shuts Tucker Bakery Amid Coronavirus - Apr 14, 2020

Flowers Foods informed that it has temporarily closed production at its bakery in Tucker, GA, which mainly produces frozen, non-retail specialty, and foodservice bun and bread items. The facility was expected to restart production around Apr 27, 2020. Incidentally, an increased number of confirmed cases of COVID-19 at the bakery along with a decision to go under self-quarantine led to this move.

However, this is not likely to impact food quality or safety, as even the U.S. Food and Drug Administration has not found any evidence of food packaging being associated with virus transfer. Further, the temporary halt in production will have a limited impact on the service to markets, as the company anticipates its other bakeries to compensate for the lost production over the near term.

Flowers Foods further stated that it will pay its furloughed production workers and take all measures to enhance safety and sanitization. In fact, the company recently informed that it has adopted some concrete steps to offer bonuses and protection to its employees as the world continues to strive against coronavirus. The company, which has been witnessing a major surge in food demand due to the coronavirus-induced stockpiling, announced on Apr 9 that it had paid nearly $5.6 million as an appreciation bonus.

Flowers Foods Announces Dividend – Feb 14, 2020

Flowers Foods announced a quarterly dividend of 19 cents per share. This is payable on Mar 13, 2020, to shareholders of record as on Feb 28, 2020.

Valuation

Flowers Foods shares are down 1% in the year-to-date period and up 0.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 14.1% in the year-to-date period, while the Zacks Consumer Staples sector is down 17.7%. Over the past year, the Zacks sub-industry is down 6.5%, while the sector declined 13.1%.

The S&P 500 index is down 10.4% in the year-to-date period and 0.1% in the past year.

The stock is currently trading at 20.16X forward 12-month earnings, which compares to 17.59X for the Zacks sub-industry, 18.45X for the Zacks sector and 20.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.69X and as low as 14.05X, with a 5-year median of 20.3X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $23 price target reflects 21.54X forward 12-month earnings.

The table below shows summary valuation data for FLO

Valuation Multiples - FLO

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.16	17.59	18.45	20.81
	5-Year High	24.69	22.9	22.37	20.81
	5-Year Low	14.05	14.82	16.5	15.19
	5-Year Median	20.3	18.87	19.68	17.44
P/S F12M	Current	1.06	1.57	8.63	3.25
	5-Year High	1.42	2.05	11.16	3.44
	5-Year Low	0.76	1.41	8.1	2.54
	5-Year Median	1.06	1.81	9.89	3.01
EV/EBITDA F12M	Current	13.38	13.82	34.16	12.29
	5-Year High	13.8	16.59	37.75	12.64
	5-Year Low	8.43	11.67	29.77	9.09
	5-Year Median	10.54	13.25	34.08	10.82

As of 05/07/2020

Industry Analysis Zacks Industry Rank: Top 11% (27 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Campbell Soup Company **(CPB)**	Outperform	2
Darling Ingredients Inc **(DAR)**	Neutral	3
General Mills Inc **(GIS)**	Neutral	2
McCormickCompany Incorporated **(MKC)**	Neutral	2
Nomad Foods Limited **(NOMD)**	Neutral	2
TateLyle PLC **(TATYY)**	Neutral	4
TreeHouse Foods Inc **(THS)**	Neutral	1
Lamb Weston Holdings Inc **(LW)**	Underperform	5

Industry Comparison Industry: Food - Miscellaneous

Industry Peers

	FLO	X Industry	S&P 500	GIS	LW	MKC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	2	5	2
VGM Score	A	-	-	B	C	D
Market Cap	4.73 B	3.59 B	20.19 B	36.22 B	8.99 B	21.80 B
# of Analysts	3	3	14	8	4	6
Dividend Yield	3.40%	0.00%	2.12%	3.28%	1.49%	1.51%
Value Score	C	-	-	B	D	D
Cash/Price	0.00	0.05	0.06	0.02	0.00	0.01
EV/EBITDA	15.00	12.96	11.95	14.64	13.42	22.09
PEG Ratio	NA	3.74	2.60	2.29	6.93	6.41
Price/Book (P/B)	3.74	2.18	2.75	4.61	33.25	6.10
Price/Cash Flow (P/CF)	13.57	12.51	10.78	14.02	14.13	24.88
P/E (F1)	21.10	18.35	19.85	17.16	23.56	31.53
Price/Sales (P/S)	1.15	1.15	2.03	2.16	2.28	4.09
Earnings Yield	4.74%	5.01%	4.83%	5.82%	4.24%	3.17%
Debt/Equity	0.95	0.64	0.75	1.47	8.12	1.01
Cash Flow ($/share)	1.65	2.68	7.01	4.26	4.36	6.59
Growth Score	A	-	-	C	B	D
Hist. EPS Growth (3-5 yrs)	0.73%	5.03%	10.87%	2.74%	18.82%	11.68%
Proj. EPS Growth (F1/F0)	10.76%	-0.31%	-9.87%	8.15%	-18.87%	-2.77%
Curr. Cash Flow Growth	1.85%	5.12%	5.88%	5.47%	18.57%	7.80%
Hist. Cash Flow Growth (3-5 yrs)	1.66%	5.35%	8.55%	1.32%	12.76%	9.99%
Current Ratio	1.05	1.75	1.24	0.64	1.85	0.74
Debt/Capital	48.84%	39.19%	44.23%	59.59%	89.03%	50.37%
Net Margin	3.99%	4.20%	10.68%	12.68%	12.12%	13.13%
Return on Equity	16.03%	10.75%	16.36%	26.40%	342.27%	20.53%
Sales/Assets	1.28	1.13	0.55	0.55	1.20	0.51
Proj. Sales Growth (F1/F0)	4.39%	0.00%	-2.26%	2.81%	-1.01%	-1.33%
Momentum Score	A	-	-	B	A	C
Daily Price Chg	3.90%	1.89%	2.40%	1.68%	11.04%	1.97%
1 Week Price Chg	-0.04%	0.00%	0.53%	-1.49%	0.99%	0.10%
4 Week Price Chg	0.90%	5.83%	2.68%	4.11%	5.38%	6.31%
12 Week Price Chg	-0.09%	-6.69%	-19.20%	12.78%	-35.28%	-1.83%
52 Week Price Chg	3.85%	-7.84%	-8.44%	16.24%	-10.33%	5.87%
20 Day Average Volume	1,303,634	222,356	2,398,409	3,194,355	1,336,454	643,073
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-6.95%	0.65%	-1.69%	0.64%
(F1) EPS Est 12 week change	1.92%	-8.84%	-15.68%	2.69%	-25.68%	-1.73%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-13.12%	2.55%	-30.51%	0.73%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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