

Flowers Foods, Inc.(FLO)

\$22.15 (As of 01/16/20)

Price Target (6-12 Months): **\$24.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

Shares of Flowers Foods have outpaced the industry in the past year. The company is benefiting from focus on buyouts and market share gains, which drove the top line in the third quarter of 2019. Markedly, the company has successfully integrated Canyon Bakehouse, which is yielding results. Additionally, Flowers Foods is gaining from solid price mix, which enables it to counter inflationary pressures. Further, management raised its earnings view for the year. However, the company has been battling high costs for long. It expects commodity, transport and labor cost inflation to persist in 2019. Management is also skeptical about its base business volumes, which have been weak for a while. Nonetheless, the company is set to offset these odds through savings and productivity plans like Project Centennial.

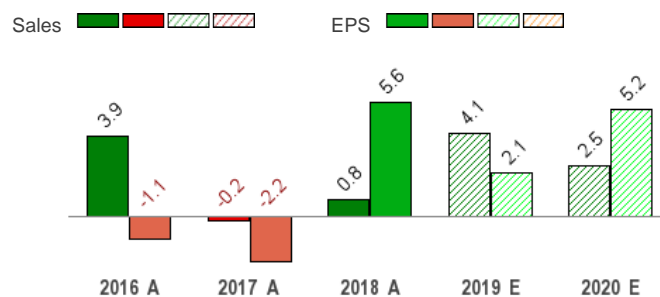
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$24.36 - \$19.06
20 Day Average Volume (sh)	1,049,717
Market Cap	\$4.7 B
YTD Price Change	1.9%
Beta	0.37
Dividend / Div Yld	\$0.76 / 3.4%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 43% (109 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	2.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/05/2020
Earnings ESP	0.0%
P/E TTM	23.3
P/E F1	21.9
PEG F1	NA
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,285 E	994 E	984 E	954 E	4,217 E
2019	1,264 A	976 A	967 A	910 E	4,116 E
2018	1,206 A	941 A	923 A	881 A	3,952 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.34 E	\$0.27 E	\$0.23 E	\$0.19 E	\$1.01 E
2019	\$0.32 A	\$0.25 A	\$0.22 A	\$0.17 E	\$0.96 E
2018	\$0.30 A	\$0.25 A	\$0.23 A	\$0.16 A	\$0.94 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 01/16/2020. The reports text is as of 01/17/2020.

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

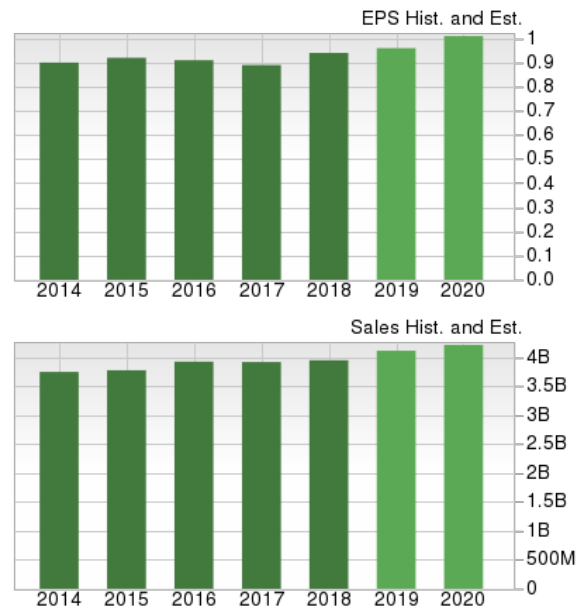
Flowers Foods emphasizes on providing high-quality baked items, developing strong brands, making innovations to improve capabilities and undertaking prudent acquisitions. Along with these, the company strives toward developing technology advanced bakeries.

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:

- ▲ **Expansion & Acquisitions Fuel Market Share:** Flowers Foods' shares have increased 16.9% in the past year compared with the industry's gain of 14.6%. 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 continued to drive market share. Contributions from Sun-Maid breakfast bread also boosted performance. Notably, the company has been gaining market share for quite some time. Further, management has raised its guidance for 2019 and expects sales in the range of \$4.11-\$4.13 billion. The projected figure calls for 4-4.5% growth from the year-ago period's reported figure. Markedly, this includes nearly \$75-\$80 million contribution from Canyon's buyout.

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.

- ▲ **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 third quarter. In fact, price mix contributed nearly 2.1% to overall top line in the said quarter. Price mix improved in both branded retail and Store branded retail categories. Further, management expects its base business to continue gaining from improved price/mix.

- ▲ **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.

Long-Term Target: Flowers Foods is well on track with project Centennial and its initiatives to focus more on consumers. This has made the company confident about achieving its earlier stated goals of 3-4% sales growth and EBITDA margins of 13% to 14% by 2021. Further, management expects to see long-term EPS CAGR of 8-10% and increase in dividend yield of 2-3% for 2019 and beyond.

Reasons To Sell:

- ▼ **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 23.32, which looks stretched when compared with its industry's 19.23 and the S&P 500's 20.57.
- ▼ **Rising Materials, Supplies, Labor and Other Production Costs:** Materials, supplies, labor and other production costs (exclusive of depreciation and amortization) have been rising for eight straight quarters. In the third quarter of 2019, these costs (as a percentage of sales) increased 10 basis points (bps) to 52.7%. Lower volumes in certain categories, reduced manufacturing efficiencies and increased workforce-related costs mainly resulted in this downside.

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

Such rising expenses have been exerting pressure on Flowers Foods' margins for quite some time. In third-quarter 2019, adjusted EBITDA margin contracted 70 bps to 9.8%. Management had earlier projected cost inflation of commodity, transport and labor of roughly 150 bps as a percentage of sales, for 2019.

- ▼ **Soft Volumes:** Flowers Foods' volumes for food service, store branded cake and breakfast breads business have been soft for a while now. In the third quarter, the decline mainly stemmed from lower foodservice and vending volumes and partly from business losses related to the yeast disruption last year. Also, weak branded cake volumes were a drag. 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 Q3 Earnings Meet, Sales Beat Estimates

Flowers Foods posted third-quarter 2019 results, wherein the bottom line was in line with the Zacks Consensus Estimate, while it fell on a year-over-year basis. It continues to face headwinds related to the tight labor market.

Nevertheless, Flowers Foods' top line improved year over year and surpassed the consensus mark. Further, contributions from the Canyon Bakehouse buyout aided top-line growth.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	2.55%
EPS Surprise	0.00%
Quarterly EPS	0.22
Annual EPS (TTM)	0.95

Earnings & Sales

The company's adjusted earnings per share (EPS) of 22 cents were in line with the Zacks Consensus Estimate. The bottom line declined 4.3% year over year.

Net sales advanced 4.7% to \$966.6 million, which beat the Zacks Consensus Estimate of \$943 million. Excluding the Canyon Bakehouse buyout, net sales grew 2.5%. 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 escalated 10 basis points (bps) to 52.7%. This resulted from reduced manufacturing efficiencies and increased workforce-related costs. Better pricing/mix and reduced ingredient expenses offered some respite.

Selling, distribution and administrative expenses declined 70 bps to 37.5% of sales, courtesy of reduced transportation costs and lower distribution fees, which more than offset increase in workforce-related costs and marketing expenses. Meanwhile, the metric rose 60 bps on an adjusted basis.

Adjusted EBITDA declined 2.3% to \$95.1 million, whereas adjusted EBITDA margin contracted 70 bps to 9.8%.

Category Performance

Branded retail sales rose 6.7% to \$586.1 million, backed by constant gains from DKB organic products, Wonder, Nature's Own Perfectly Crafted and Sun-Maid breakfast bread, contributions from the Canyon Bakehouse buyout, and improved price/mix.

Store branded retail sales rose 8.7% to \$150.8 million, owing to contributions from the Canyon Bakehouse buyout, increased distributions and better price/mix. This was somewhat countered by weakness in store-branded cake and breakfast bread.

Non-retail and other sales dropped 2.4% to \$229.6 million, thanks to lower institutional products and vending volume along with adverse price/mix in foodservice.

More Financial Aspects

The company ended the quarter with cash and cash equivalents of roughly \$7 million, and long-term debt and capital leases (including current portion) of \$878 million. Further, stockholders' equity amounted to \$1,293.3 million.

Until the third quarter of 2019, the company's cash flow from operating activities amounted to \$278.1 million while it incurred capital expenditure of \$70.6 million. Capital expenditure is envisioned at \$110-\$120 million for 2019.

Flowers Foods paid out dividends worth \$119.8 million in the third quarter and had 6.2 million shares remaining under the ongoing repurchase program.

Guidance

Management remains impressed with its performance, marked by solid sales. The company is pleased with the success of its acquisitions, product innovations and cost-effective endeavors. It launched another initiative, which aims at optimizing its portfolio and enhancing the supply-chain network to lower fixed costs and improve product margins.

All said, the company now expects sales of \$4.110-\$4.130 billion for 2019, suggesting 4-4.5% growth from the year-ago period's reported figure. This is likely to include sales of nearly \$75-\$80 million from Canyon Bakehouse. Earlier, the company projected sales growth of 2-4%.

Adjusted EPS is still projected to be 94-99 cents.

Recent News

Flowers Foods Announces Dividend – Nov 15, 2019

Flowers Foods announced a quarterly dividend of 19 cents per share. This is payable on Dec 13, 2019, to shareholders of record as on Nov 29, 2019.

Valuation

Flowers Foods shares are up 16.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 14.6% and 19.7%, respectively over the past year.

The S&P 500 index is up 24.9% in the past year.

The stock is currently trading at 21.28X forward 12-month earnings, which compares to 18.41X for the Zacks sub-industry, 19.91X for the Zacks sector and 18.96X 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 20.31X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$24 price target reflects 23.72X 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	21.89	18.41	19.91	18.96
	5-Year High	24.69	22.9	22.38	19.34
	5-Year Low	14.05	14.82	16.66	15.17
	5-Year Median	20.31	19.19	19.76	17.44
P/S F12M	Current	1.11	1.75	10.21	3.53
	5-Year High	1.42	2.05	11.13	3.53
	5-Year Low	0.76	1.44	8.09	2.54
	5-Year Median	1.06	1.81	9.87	3
EV/EBITDA F12M	Current	13.31	14.08	34.37	12.66
	5-Year High	13.83	16.59	37.22	12.66
	5-Year Low	8.45	11.67	29.37	9.08
	5-Year Median	10.72	13.26	33.52	10.78

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Top 43% (109 out of 254)



Top Peers

Darling Ingredients Inc. (DAR)	Outperform
Lamb Weston Holdings Inc. (LW)	Outperform
Tate & Lyle PLC (TATYY)	Outperform
Campbell Soup Company (CPB)	Neutral
General Mills, Inc. (GIS)	Neutral
McCormick & Company, Incorporated (MKC)	Neutral
Nomad Foods Limited (NOMD)	Neutral
TreeHouse Foods, Inc. (THS)	Neutral

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	FLO Neutral	X Industry	S&P 500	GIS Neutral	LW Outperform	MKC Neutral
VGM Score	B	-	-	A	B	B
Market Cap	4.69 B	4.44 B	24.61 B	32.49 B	13.29 B	22.22 B
# of Analysts	2	3.5	13	7	4	5
Dividend Yield	3.43%	0.11%	1.74%	3.65%	0.88%	1.48%
Value Score	B	-	-	A	C	D
Cash/Price	0.00	0.03	0.04	0.02	0.00	0.01
EV/EBITDA	15.66	14.38	14.24	13.30	18.63	24.28
PEG Ratio	NA	2.26	2.07	2.26	2.94	4.26
Price/Book (P/B)	3.62	2.96	3.38	4.05	66.11	6.38
Price/Cash Flow (P/CF)	13.65	13.11	13.75	12.60	20.89	27.17
P/E (F1)	21.91	18.95	19.09	15.83	25.98	30.07
Price/Sales (P/S)	1.15	1.38	2.68	1.94	3.38	4.14
Earnings Yield	4.56%	5.00%	5.24%	6.31%	3.85%	3.33%
Debt/Equity	0.95	0.62	0.72	1.37	10.96	1.10
Cash Flow (\$/share)	1.62	2.72	6.94	4.26	4.36	6.15
Growth Score	B	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	0.55%	5.08%	10.56%	2.82%	NA	11.05%
Proj. EPS Growth (F1/F0)	5.21%	7.85%	7.57%	5.41%	8.77%	3.54%
Curr. Cash Flow Growth	2.49%	3.82%	14.73%	5.47%	18.57%	17.31%
Hist. Cash Flow Growth (3-5 yrs)	1.95%	7.12%	9.00%	1.32%	12.76%	9.17%
Current Ratio	1.08	1.57	1.24	0.61	1.65	0.78
Debt/Capital	48.63%	38.38%	42.99%	57.73%	91.64%	52.47%
Net Margin	4.48%	2.79%	11.14%	12.62%	12.90%	13.12%
Return on Equity	15.74%	11.60%	17.16%	27.33%	869.30%	21.63%
Sales/Assets	1.31	1.17	0.55	0.55	1.23	0.52
Proj. Sales Growth (F1/F0)	2.46%	2.51%	4.16%	2.14%	8.53%	2.40%
Momentum Score	D	-	-	C	D	B
Daily Price Chg	0.64%	0.56%	0.89%	0.66%	0.13%	-0.27%
1 Week Price Chg	1.97%	0.00%	0.39%	0.60%	-3.29%	-3.51%
4 Week Price Chg	2.59%	1.47%	2.65%	0.98%	8.08%	-0.69%
12 Week Price Chg	2.07%	8.42%	7.55%	5.11%	21.98%	4.47%
52 Week Price Chg	13.47%	16.30%	22.12%	25.02%	28.35%	18.99%
20 Day Average Volume	1,049,717	105,008	1,536,375	3,265,569	1,093,859	682,818
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.23%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.68%	1.60%	0.23%
(F1) EPS Est 12 week change	-1.94%	-0.92%	-0.40%	0.81%	1.60%	-1.63%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-4.47%	-2.55%	1.85%

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	B
Growth Score	B
Momentum Score	D
VGM Score	B

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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