



Flowers Foods Inc. (FLO)

Updated November 8th, 2024, by Nathan Parsh

Key Metrics

Current Price:	\$22.34	5 Year CAGR Estimate:	11.1%	Market Cap:	\$4.7 B
Fair Value Price:	\$25.20	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	11/29/24
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.4%	Dividend Payment Date¹:	12/16/24
Dividend Yield:	4.3%	5 Year Price Target	\$32	Years Of Dividend Growth:	22
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Flowers Foods opened its first bakery in 1919 and has since become one of the largest producers of packaged bakery foods in the United States, operating 46 bakeries in 18 states. Well-known brands include *Wonder Bread*, *Home Pride*, *Nature's Own*, *Dave's Killer Bread*, *Tastycake* and *Canyon Bakehouse*. The company operates in two segments: Direct-Store-Delivery (DSD) and Warehouse Delivery, with ~85% of the company's product being delivered directly to stores. Fresh breads, buns, rolls, and tortillas make up about a three-fourths of the business, with sales channels for the \$4.7 billion market cap company split between Supermarkets, Mass Merchandisers, Foodservice, and Convenience Store.

On May 23rd, 2024, Flower Foods increased its quarterly dividend 4.3% to \$0.24, extending the company's dividend growth streak to 22 consecutive years.

On November 8th, 2024, Flowers Foods reported third quarter results for the period ending October 5th, 2024. For the quarter, revenue of \$1.19 billion was down 0.8% from the prior year and was \$10 million less than expected. Adjusted earnings-per-share equaled \$0.33, up from \$0.29 last year and was \$0.04 above estimates.

Branded Retail sales declined 1.5% to \$760.6 million as pricing and mix was down 0.9% and volume fell 0.6%. Other sales grew 0.7% to \$430 million due as a 4.9% benefit from pricing and mix was offset by a 4.2% decrease in volume.

Materials, supplies, labor, and other production costs accounted for 50.2% of sales during the quarter, which was a 130 basis point decrease from the prior year.

Flowers Foods provided an updated outlook for 2024 as well. For the year, revenue is expected in a range of \$5.116 billion to \$5.147 billion, compared to \$5.091 billion to \$5.172 billion previously. Adjusted earnings-per-share are now expected to be in a range of \$1.24 to \$1.28, up from \$1.20 to \$1.30 previously.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.90	\$0.92	\$0.91	\$0.89	\$0.94	\$0.96	\$1.31	\$1.24	\$1.27	\$1.20	\$1.26	\$1.61
DPS	\$0.48	\$0.57	\$0.63	\$0.67	\$0.71	\$0.75	\$0.79	\$0.83	\$0.87	\$0.91	\$0.96	\$1.23
Shares²	209	212	208	211	211	212	213	213	213	212	212	212

Flowers Foods' earnings-per-share had been stagnant – sitting around \$0.90 – for the five-year stretch from 2013 to 2017. The positives for the business, namely a lower tax rate and Flowers' cost cutting initiative "Project Centennial," had been offset by inflationary costs related to commodities and transportation, along with the difficulty imbedded in raising prices in a competitive space. However, 2020 proved to be a standout year amidst the COVID-19 pandemic and a dramatic increase in demand related to stay-at-home dining. Looking longer-term, over the past decade Flowers Foods has been able to grow earnings-per-share by 3.2% per annum, although this has come in fits and starts.

Results were down in 2021, coming off a high base for 2020 along with a 53-week fiscal year, but returned to growth in 2022. Earnings were down last year despite record revenue. We are forecasting 5% growth over the intermediate term.

¹ Estimated date.

² In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	22.2	24.5	19.4	21.1	21.5	22.7	17.4	19.4	22.6	18.8	17.7	20.0
Avg. Yld.	2.4%	2.5%	3.6%	3.6%	3.5%	3.4%	3.5%	3.4%	3.0%	4.0%	4.3%	3.8%

Shares of Flowers Foods have decreased 1.6%, since our August 19th, 2024 report. The stock has traded hands at an average P/E ratio of ~21-times earnings over the past decade. This “premium” earnings multiple can likely be attributed to the company’s well-known and iconic brands and quality performance in all operating environments. We are comfortable with 20 times earnings given that we anticipate growth to be more or less in-line with the company’s past along with the idea that shares have not traded materially below this level, even during the last recession. With shares presently trading at 17.7 times expected earnings, this implies a valuation tailwind. Multiple expansion could add 2.4% to annual returns over the next five years. Meanwhile, the dividend adds a nice shareholder return component.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	53%	62%	69%	75%	76%	78%	60%	67%	69%	76%	76%	76%

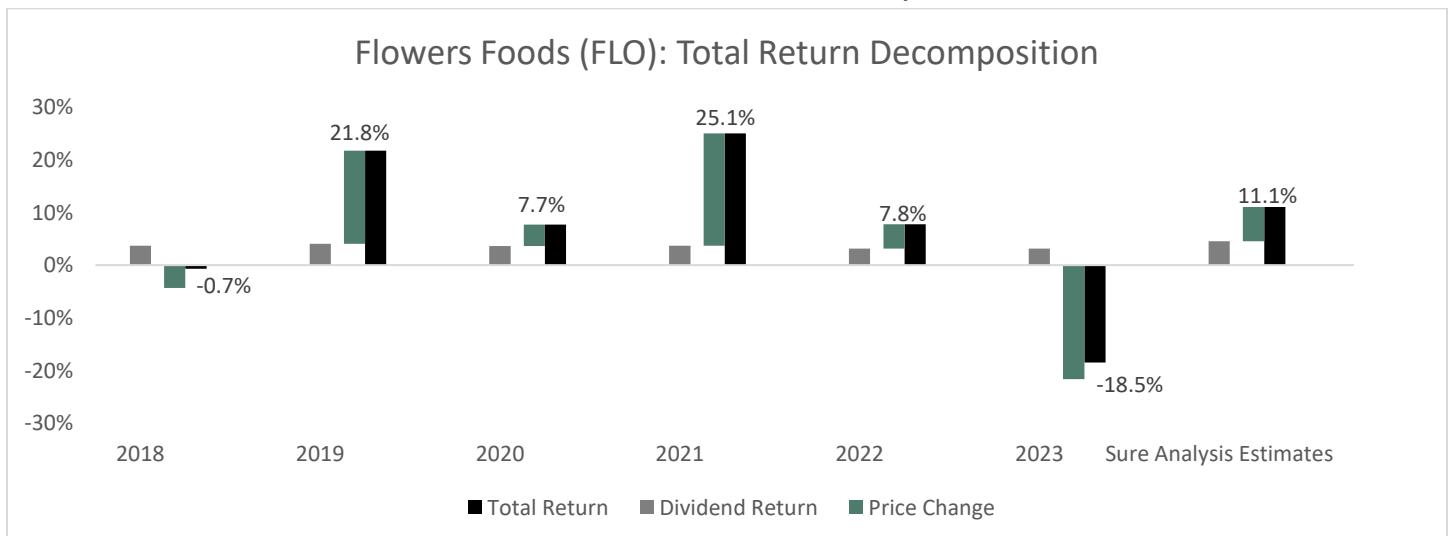
Flowers has been a solid producer in good times or bad, led by its iconic brands. It is in a recession-resistant industry, with nearly 99% of households buying fresh packaged bread. The company posted earnings-per-share of \$0.57, \$0.63, and \$0.66 during the 2008 through 2010 stretch. Moreover, the dividend increased during this time as well. Further, 2020 results proved to be quite impressive despite the recession.

Flowers Foods’ balance sheet could be in better shape. As of the most recent report the company held \$15 million in cash and equivalents and \$3.43 billion in total assets against \$504.4 million in current liabilities and \$3.43 billion in total liabilities. Long-term debt stood at \$1.05 billion.

Final Thoughts & Recommendation

Following third quarter results, Flowers Foods is expected to return 11.1% annually through 2029, up from our prior estimate of 10.5%. Our projection stems from 5% growth, the 4.3% starting yield, and a low single-digit tailwind from multiple expansion. Flowers Foods’ story is transitioning from its powerful legacy brands to a more health-conscious offering. The business scores well in safety, and we are encouraged by the company’s past ability to offset volume declines with higher prices. We continue to rate shares of Flower Foods as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3749	3779	3927	3921	3952	4124	4388	4331	4,806	5,091
Gross Profit	1798	1815	1900	1911	1883	1968	2192	2156	2,304	2,459
Gross Margin	48.0%	48.0%	48.4%	48.7%	47.6%	47.7%	50.0%	49.8%	47.9%	48.3%
SG&A Exp.	1384	1382	1470	1526	1518	1575	1693	1720	1,851	2,119
D&A Exp.	129	132	141	147	144	144	141	137	142	152
Operating Profit	286	302	289	238	221	249	357	299	311	188
Operating Margin	7.6%	8.0%	7.4%	6.1%	5.6%	6.0%	8.1%	6.9%	6.5%	3.7%
Net Profit	176	189	164	150	157	165	152	206	228	123
Net Margin	4.7%	5.0%	4.2%	3.8%	4.0%	4.0%	3.5%	4.8%	4.8%	2.4%
Free Cash Flow	231	240	255	222	196	263	357	134	192	220
Income Tax	92	104	86	-1	40	48	48	65	70	34

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2409	2844	2761	2660	2846	3178	3323	3253	3,313	3,427
Cash & Equivalents	8	14	6	5	25	11	307	186	165	23
Accounts Receivable	236	270	272	280	287	287	300	305	349	328
Inventories	147	168	170	172	188	188	193	203	242	271
Goodwill & Int. Ass.	928	1340	1302	1207	1340	1340	1260	1241	1210	1,336
Total Liabilities	1286	1601	1551	1409	1587	1914	1950	1842	1,870	2,075
Accounts Payable	143	172	173	181	242	242	226	269	344	319
Long-Term Debt	779	1023	978	838	1012	867	977	908	892	1,066
Shareholder's Equity	1123	1243	1210	1251	1258	1263	1373	1411	1,443	1,352
LTD/E Ratio	0.69	0.82	0.81	0.67	0.80	0.69	0.71	0.64	0.62	0.79

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.2%	7.2%	5.8%	5.5%	5.7%	5.5%	4.7%	6.3%	7.0%	3.7%
Return on Equity	16.0%	16.0%	13.4%	12.2%	12.5%	13.0%	11.6%	14.8%	16.0%	8.8%
ROIC	9.0%	9.1%	7.4%	7.0%	7.2%	7.2%	6.8%	8.8%	9.8%	5.2%
Shares Out.	209	212	208	211	211	212	212	213	213	212
Revenue/Share	17.59	17.71	18.67	18.63	18.67	19.46	20.66	20.33	22.54	23.86
FCF/Share	1.09	1.12	1.21	1.06	0.93	1.24	1.68	0.63	0.90	1.03

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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