



Flowers Foods Inc. (FLO)

Updated August 16th, 2023, by Nathan Parsh

Key Metrics

Current Price:	\$25	5 Year CAGR Estimate:	7.9%	Market Cap:	\$5.3 B
Fair Value Price:	\$24	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	09/01/23
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.5%	Dividend Payment Date¹:	09/15/23
Dividend Yield:	3.7%	5 Year Price Target	\$31	Years Of Dividend Growth:	21
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Hold

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 \$5.3 billion market cap company split between Supermarkets, Mass Merchandisers, Foodservice, and Convenience Store.

On May 25th, 2023, Flower Foods increased its quarterly dividend 4.5% to \$0.23, extending the company's dividend growth streak to 21 consecutive years.

On August 10th, 2023, Flowers Foods announced second quarter results for the period ending July 15th, 2023. For the quarter, sales grew 8.8% to a second quarter record \$1.23 billion, which was \$30 million more than expected. Adjusted earnings-per-share equaled \$0.33 compared to \$0.31 in the second quarter of 2022 and was \$0.05 above estimates.

As with previous quarters, Flowers Foods did see higher raw material costs and supply chain issues during the quarter that impacted results, but the company was able to continue to raise prices in nearly all areas to compensate for these headwinds. As a result, volume declined 6.1% for the quarter, but this was more than offset by a 13.3% improvement in pricing and mix. The addition of Papa Pita in February added 1.6% to quarterly sales.

Flowers Foods also provided an updated outlook for 2023. For the year, revenue is now expected in a range of \$5.095 billion to \$5.141 billion, compared to \$5.086 billion to \$5.141 billion and \$5.176 billion to \$5.242 billion previously.

Adjusted earnings-per-share is now projected to be in a range of \$1.18 to \$1.25, compared to prior guidance of \$1.15 to \$1.25 and \$1.20 to \$1.30. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.91	\$0.90	\$0.92	\$0.91	\$0.89	\$0.94	\$0.96	\$1.31	\$1.24	\$1.27	\$1.22	\$1.56
DPS	\$0.44	\$0.48	\$0.57	\$0.63	\$0.67	\$0.71	\$0.75	\$0.79	\$0.83	\$0.87	\$0.92	\$1.17
Shares²	209	209	212	208	211	211	212	213	213	213	213	213

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 3.8% 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. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	23.6	22.2	24.5	19.4	21.1	21.5	22.7	17.4	19.4	22.6	20.5	20.0
Avg. Yld.	2.1%	2.4%	2.5%	3.6%	3.6%	3.5%	3.4%	3.5%	3.4%	3.0%	3.7%	3.8%

Shares of Flowers Foods have declined \$1, or 3.8%, since our May 23rd, 2023 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 20.5 times expected earnings, this implies a small valuation headwind. Annual returns could be reduced by 0.5% due to multiple compression. Meanwhile, the dividend adds a nice shareholder return component.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	48%	53%	62%	69%	75%	76%	78%	60%	67%	69%	75%	75%

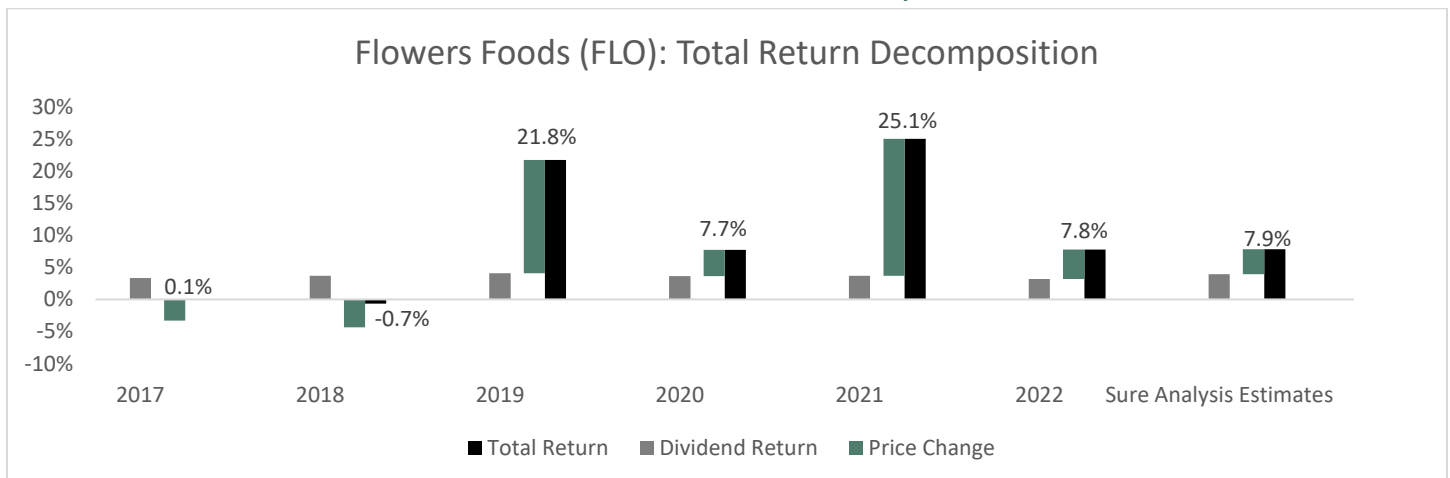
Flowers has been a solid producer in good times or bad, led by its iconic brands. It’s in a recession-resistant industry, with nearly 99% of households buying fresh packaged bread. The company posted earnings-per-share of \$0.57, \$0.63 and \$0.66 during the 2008 through 2010 stretch. Moreover, the dividend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

That being said, Flowers Foods’ balance sheet could be in better shape. As of the most recent report the company held \$11.7 million in cash and equivalents and \$3.51 billion in total assets against \$504.8 million in current liabilities and \$3.51 billion in total liabilities. Long-term debt stood at \$1.07 billion.

Final Thoughts & Recommendation

After second quarter results, Flowers Foods is expected to return 7.9% annually through 2028, up from our prior estimate of 6.6%. Our projection stems from 5% growth and the 3.7% starting yield, offset by a small valuation headwind. 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 ability offset volume declines with higher prices. However, we continue to rate shares of Flower Foods as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3733	3749	3779	3927	3921	3952	4124	4388	4331	4,806
Gross Profit	1760	1798	1815	1900	1911	1883	1968	2192	2156	2,304
Gross Margin	47.2%	48.0%	48.0%	48.4%	48.7%	47.6%	47.7%	50.0%	49.8%	47.9%
SG&A Exp.	1357	1384	1382	1470	1526	1518	1575	1693	1720	1,851
D&A Exp.	118	129	132	141	147	144	144	141	137	142
Operating Profit	285	286	302	289	238	221	249	357	299	311
Operating Margin	7.6%	7.6%	8.0%	7.4%	6.1%	5.6%	6.0%	8.1%	6.9%	6.5%
Net Profit	231	176	189	164	150	157	165	152	206	228
Net Margin	6.2%	4.7%	5.0%	4.2%	3.8%	4.0%	4.0%	3.5%	4.8%	4.8%
Free Cash Flow	171	231	240	255	222	196	263	357	134	192
Income Tax	91	92	104	86	-1	40	48	48	65	70

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2504	2409	2844	2761	2660	2846	3178	3323	3253	3,313
Cash & Equivalents	9	8	14	6	5	25	11	307	186	165
Accounts Receivable	254	236	270	272	280	287	287	300	305	349
Inventories	149	147	168	170	172	188	188	193	203	242
Goodwill & Int. Ass.	939	928	1340	1302	1207	1340	1340	1260	1241	1210
Total Liabilities	1428	1286	1601	1551	1409	1587	1914	1950	1842	1,870
Accounts Payable	152	143	172	173	181	242	242	226	269	344
Long-Term Debt	940	779	1023	978	838	1012	867	977	908	892
Shareholder's Equity	1076	1123	1243	1210	1251	1258	1263	1373	1411	1,443
LTD/E Ratio	0.87	0.69	0.82	0.81	0.67	0.80	0.69	0.71	0.64	0.62

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	10.3%	7.2%	7.2%	5.8%	5.5%	5.7%	5.5%	4.7%	6.3%	7.0%
Return on Equity	23.9%	16.0%	16.0%	13.4%	12.2%	12.5%	13.0%	11.6%	14.8%	16.0%
ROIC	13.2%	9.0%	9.1%	7.4%	7.0%	7.2%	7.2%	6.8%	8.8%	9.8%
Shares Out.	209	209	212	208	211	211	212	212	213	213
Revenue/Share	17.61	17.59	17.71	18.67	18.63	18.67	19.46	20.66	20.33	22.54
FCF/Share	0.81	1.09	1.12	1.21	1.06	0.93	1.24	1.68	0.63	0.90

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

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