



CAIRN
INVESTMENT
GROUP

COMPANY SPOTLIGHT:

Flowers Foods Inc.

COMPANY DESCRIPTION

Headquartered in Thomasville, GA, Flowers Foods is one of the largest producers of packaged bakery foods in the U.S., operating over 39 bakeries that market fresh baked breads, tortillas, and snack cakes for retail and food service customers.

Allen Shiver became the CEO in 2013 and has been with the company since 1995.

COMPANY HIGHLIGHTS AND FINANCIALS

Founded in 1919, Flowers Foods is a national baked goods company producing fresh breads, buns, rolls, tortillas, and snack cakes. Flowers Foods operates two business segments: direct-store-delivery and warehouse delivery. The direct-store-delivery operates over 30 bakeries that include the brands Nature's Own, Dave's Killer Bread, Wonder, and Tastykake. The warehouse segment is responsible for national distribution of breads sold directly to customers' warehouses.

Through a combination of organic growth and strategic acquisitions, Flowers Foods has grown their geographic market from 38% to 85% of the U.S. population since 2003. Nature's Own is America's #1 selling bread and Dave's Killer Bread (acquired in 2015) is the #1 organic bread brand in the country. These two brands, combined with Flowers Foods' other offerings give them a strong competitive advantage in the baked goods industry.

Flowers Foods operating performance has been very consistent over the last decade. Operating and cash flow margins have averaged mid to high single digits. This combined with prudent capital allocation decisions, has allowed Flowers Foods to generate high returns on capital, averaging 12.5% over the last 10 years.

VALUATION AND RISKS

Flowers Foods is trading at attractive valuations compared to their historical operating performance and peer group. As of the date of this report, Flowers Foods traded over a 25%

KEY POINTS

- :: Bakery foods available to roughly 85% of the U.S. population.
- :: Owner of the leading brands Nature's Own and Dave's Killer Bread.
- :: Geographically diverse revenue stream and product offerings.
- :: Above average financial health with high interest coverage ratios and cash flow generation.
- :: 8% average annual growth rate in sales over the previous five years, as of the most recent company filing.
- :: Compelling valuations based on historical operating metrics and future growth projections.

discount to their historical sales and cash flow multiples. Based on numerous free cash flow growth assumptions, we assume an overall compound annual growth rate (CAGR) in free cash flow of 6% over the next 10 years. This blended growth rate assumption is well below the growth rate achieved historically. This reflects conservative assumptions based on the growth in organic breads and the overall sales growth rate of the business being lower than the previous ten years. If our conservative estimates turn out to be overly optimistic, we feel there is a margin of safety built into current prices.

Flowers Foods operates in a highly competitive environment, with input costs (i.e. food inflation), and changing consumer tastes having a potential effect on the profits. Flowers Foods also has litigation risk associated with class action lawsuits from delivery independent contractors.

Risk factors will be monitored, but at current valuations combined with the company's financial strength, we feel the risks are represented in the current price and that future growth potential remains strong.

—Patrick Mason, Investment Analyst, Cairn Investment Group



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