UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the three months ended
March 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 001-37540

HOSTESS BRANDS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**47-4168492**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7905 Quivira Road **Lenexa, KS**	**66215**
(Address of principal executive offices)	(Zip Code)

(816) 701-4600
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	**Ticker Symbol**	**Name of each exchange on which registered**
Class A Common Stock, Par Value of $0.0001 per share	TWNK	The Nasdaq Stock Market LLC
Warrants, each exercisable for a half share of Class A Common Stock	TWNKW	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐	Smaller reporting company	☐	Emerging growth company	☐

☐ If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Shares of Class A common stock outstanding - 123,202,917 shares at May 5, 2020
Shares of Class B common stock outstanding - 7,440,587 shares at May 5, 2020

HOSTESS BRANDS, INC.
FORM 10-Q
For the Quarter Ended March 31, 2020

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Cautionary Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q contains statements reflecting our views about our future performance that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that involve substantial risks and uncertainties. All statements contained in this Quarterly Report other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. Statements that constitute forward-looking statements are generally identified through the inclusion of words such as "believes," "expects," "intends," "estimates," "projects," "anticipates," "will," "plan," "may," "should," or similar language. Statements addressing our future operating performance and statements addressing events and developments that we expect or anticipate will occur are also considered forward-looking statements. All forward-looking statements included herein are made only as of the date hereof. It is routine for our internal projections and expectations to change throughout the year, and any forward-looking statements based upon these projections or expectations may change prior to the end of the next quarter or year. Readers of this Quarterly Report are cautioned not to place undue reliance on any such forward-looking statements. As a result of a number of known and unknown risks and uncertainties, our actual results or performance may be materially different from those expressed or implied by these forward-looking statements. Risks and uncertainties are identified under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019 and herein, as updated by subsequent filings. The impact of COVID-19 may also exacerbate these risks, any of which could have a material effect on us. This situation is changing rapidly and additional impacts may arise that the Company is not aware of currently. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these risk factors. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events, or otherwise.

HOSTESS BRANDS, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited, amounts in thousands, except shares and per share data)

ASSETS		March 31, 2020		December 31, 2019
Current assets:				
Cash and cash equivalents	$	96,167	$	285,087
Accounts receivable, net		147,064		104,892
Inventories		50,737		47,608
Prepaids and other current assets		12,321		15,569
Total current assets		306,289		453,156
Property and equipment, net		276,628		242,384
Intangible assets, net		1,987,931		1,853,315
Goodwill		701,905		535,853
Other assets, net		16,824		12,993
Total assets	$	3,289,577	$	3,097,701
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Long-term debt and lease obligations payable within one year	$	14,437	$	11,883
Tax receivable agreement payments payable within one year		10,800		12,100
Accounts payable		67,105		68,566
Customer trade allowances		48,876		45,715
Accrued expenses and other current liabilities		43,808		21,661
Total current liabilities		185,026		159,925
Long-term debt and lease obligations		1,112,388		975,405
Tax receivable agreement obligations		129,400		126,096
Deferred tax liability		290,342		256,051
Other long-term liabilities		1,320		—
Total liabilities		1,718,476		1,517,477
Commitments and Contingencies (Note 13)				
Class A common stock, $0.0001 par value, 200,000,000 shares authorized, 123,186,308 and 122,108,086 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively		12		12
Class B common stock, $0.0001 par value, 50,000,000 shares authorized, 7,440,587 and 8,409,834 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively		1		1
Additional paid in capital		1,163,263		1,152,055
Accumulated other comprehensive income (loss)		(9,583)		(756)
Retained earnings		336,828		334,480
Stockholders' equity		1,490,521		1,485,792
Non-controlling interest		80,580		94,432
Total liabilities and stockholders' equity	$	3,289,577	$	3,097,701

See accompanying notes to the unaudited consolidated financial statements.

HOSTESS BRANDS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, amounts in thousands, except shares and per share data)

	Three Months Ended	
	March 31, 2020	**March 31, 2019**
Net revenue	$ 243,485	$ 222,738
Cost of goods sold	164,148	147,550
Gross profit	79,337	75,188
Operating costs and expenses:		
Advertising and marketing	10,063	8,863
Selling expense	18,120	8,520
General and administrative	25,195	17,471
Amortization of customer relationships	6,484	5,985
Business combination transaction costs	4,282	—
Other operating expense (income)	27	(1,761)
Total operating costs and expenses	64,171	39,078
Operating income	15,166	36,110
Other expense:		
Interest expense, net	11,725	10,236
Other expense	553	440
Total other expense	12,278	10,676
Income before income taxes	2,888	25,434
Income tax expense (benefit)	248	(1,178)
Net income	2,640	26,612
Less: Net income attributable to the non-controlling interest	292	5,486
Net income attributable to Class A stockholders	$ 2,348	$ 21,126
Earnings per Class A share:		
Basic	$ 0.02	$ 0.21
Diluted	$ 0.02	$ 0.21
Weighted-average shares outstanding:		
Basic	123,123,656	100,085,141
Diluted	126,075,126	100,777,609

See accompanying notes to the unaudited consolidated financial statements.

HOSTESS BRANDS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, amounts in thousands)

	Three Months Ended	
	March 31, 2020	March 31, 2019
Net income	$ 2,640	$ 26,612
Other comprehensive loss:		
Unrealized loss on interest rate swap contracts designated as cash flow hedges	(12,708)	(2,165)
Tax benefit	3,169	447
Comprehensive income (loss)	(6,899)	24,894
Less: Comprehensive income (loss) attributed to non-controlling interest	(437)	4,984
Comprehensive income (loss) attributed to Class A stockholders	$ (6,462)	$ 19,910

See accompanying notes to the unaudited consolidated financial statements.

HOSTESS BRANDS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, amounts in thousands except share data)

	Class A Voting Common Stock		Class B Voting Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity	Non-controlling Interest
	Shares	Amount	Shares	Amount					
Balance–December 31, 2018	100,046,392	$ 10	30,255,184	$ 3	$ 925,902	$ 2,523	$ 271,365	$ 1,199,803	$ 350,454
Comprehensive income (loss)	—	—	—	—	—	(1,216)	21,126	19,910	4,984
Share-based compensation, net of income taxes of $613	—	—	—	—	1,668	—	—	1,668	—
Distributions	—	—	—	—	—	—	—	—	(457)
Exercise of public warrants	50	—	—	—	—	—	—	—	—
Balance–March 31, 2019	100,046,442	$ 10	30,255,184	$ 3	$ 927,570	$ 1,307	$ 292,491	$ 1,221,381	$ 354,981
Balance–December 31, 2019	122,108,086	$ 12	8,409,834	$ 1	$ 1,152,055	$ (756)	$ 334,480	$ 1,485,792	$ 94,432
Comprehensive income	—	—	—	—	—	(8,810)	2,348	(6,462)	(437)
Share-based compensation, including income taxes of $103	106,770	—	—	—	2,180	—	—	2,180	—
Exchanges	969,247	—	(969.247)	—	11,819	(17)	—	11,802	(11,802)
Distributions	—	—	—	—	—	—	—	—	(1,613)
Exercise of employee stock options	2,030	—	—	—	153	—	—	153	—
Payment of taxes for employee stock awards	—	—	—	—	(1,004)	—	—	(1,004)	—
Exercise of public warrants	175	—	—	—	2	—	—	2	—
Tax receivable agreement arising from exchanges, net of income taxes of $1,341	—	—	—	—	(1,942)	—	—	(1,942)	—
Balance–March 31, 2020	123,186,308	$ 12	7,440,587	$ 1	$ 1,163,263	$ (9,583)	$ 336,828	$ 1,490,521	$ 80,580

See accompanying notes to the unaudited consolidated financial statements.

HOSTESS BRANDS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, amounts in thousands)

	Three Months Ended	
	March 31, 2020	**March 31, 2019**
Operating activities		
Net income	$ 2,640	$ 26,612
Depreciation and amortization	12,821	10,878
Debt discount (premium) amortization	338	(228)
Tax receivable agreement remeasurement	—	(1,761)
Unrealized foreign exchange losses	286	—
Non-cash lease expense	590	—
Share-based compensation	2,077	2,281
Deferred taxes	(649)	(2,882)
Loss on sale of assets	27	—
Change in operating assets and liabilities, net of acquisitions and dispositions:		
Accounts receivable	(17,463)	(23,552)
Inventories	5,180	(4,578)
Prepaids and other current assets	3,270	2,917
Accounts payable and accrued expenses	864	16,594
Customer trade allowances	3,161	2,104
Net cash provided by operating activities	13,142	28,385
Investing activities		
Purchases of property and equipment	(11,323)	(9,493)
Acquisition of business, net of cash acquired	(318,427)	—
Acquisition and development of software assets	(1,793)	(1,342)
Net cash used in investing activities	(331,543)	(10,835)
Financing activities		
Repayments of long-term debt and lease obligations	(2,792)	(2,530)
Proceeds from long-term debt origination, net of fees paid	136,888	—
Distributions to non-controlling interest	(1,614)	(457)
Tax payments related to issuance of shares to employees	(1,004)	—
Cash received from exercise of options and warrants	155	—
Payments on tax receivable agreement	(1,279)	(457)
Net cash provided by (used in) financing activities	130,354	(3,444)
Effect of exchange rate changes on cash and cash equivalents	(873)	—
Net increase (decrease) in cash and cash equivalents	(188,920)	14,106
Cash and cash equivalents at beginning of period	285,087	146,377
Cash and cash equivalents at end of period	$ 96,167	$ 160,483
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 10,758	$ 11,087
Net taxes refunded	$ (586)	$ (10)
Supplemental disclosure of non-cash investing:		
Accrued capital expenditures	$ 2,014	$ 1,436

See accompanying notes to the unaudited consolidated financial statements.

1. Summary of Significant Accounting Policies

Description of Business

Hostess Brands, Inc. is a Delaware corporation headquartered in Lenexa, Kansas. The consolidated financial statements include the accounts of Hostess Brands, Inc. and its subsidiaries (collectively, the "Company"). The Company is a leading packaged food company focused on developing, manufacturing, marketing, selling and distributing snack products, including sweet baked goods, cookies and wafers in North America.

The Company's operations are conducted through indirect operating subsidiaries that are wholly-owned by Hostess Holdings, L.P. ("Hostess Holdings"), a direct subsidiary of Hostess Brands, Inc. Hostess Brands, Inc. holds 100% of the general partnership interest in Hostess Holdings and a majority of the limited partnership interests therein and consolidates Hostess Holdings in the Company's consolidated financial statements. The remaining limited partnership interests in Hostess Holdings are held by the holders of the outstanding shares of Class B common stock of Hostess Brands, Inc. These limited partnership interests in Hostess Holdings are reflected in the consolidated financial statements as a non-controlling interest. In January 2020, the Company acquired Voortman Cookies, Limited ("Voortman") a manufacturer of premium, branded wafers as well as sugar-free and specialty cookies.

Basis of Presentation

The consolidated financial statements included herein have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, the unaudited consolidated financial statements include all adjustments necessary for the fair presentation of the Company's financial position and of the results of operations and cash flows for the periods presented, and all such adjustments were of a normal and recurring nature. The results of operations are not necessarily indicative of the results to be expected for the full fiscal year. The accompanying unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2019.

For the periods presented, the Company has two reportable segments: Snacking and In-Store Bakery. The Company sold its In-Store Bakery operations on August 30, 2019. Subsequent to the sale, Snacking is the Company's single reportable segment.

Adoption of New Accounting Standards

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments ("Topic 326"). This ASU requires entities to measure the impairment of certain financial instruments, including trade receivables, based on expected losses rather than incurred losses. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted the standard effective January 1, 2020. Adoption of Topic 326 did not have a material impact on the Company's consolidated financial statements.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned or controlled subsidiaries (including those for which the Company is the primary beneficiary of a variable interest entity). All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and for the reported amounts of revenues and expenses during the reporting period. Management utilizes estimates, including, but not limited to, valuation and useful lives of tangible and intangible assets, valuation of expected future payments under the tax receivable agreement, and reserves for trade and promotional allowances. Actual results could differ from these estimates.

Accounts Receivable

Accounts receivable represents amounts invoiced to customers for performance obligations which have been satisfied. As of March 31, 2020 and December 31, 2019, the Company's accounts receivable were $147.1 million and $104.9 million, respectively, which have been reduced by an allowance for damages occurring during shipment, quality claims and doubtful accounts in the amount of $3.7 million and $2.7 million, respectively.

Inventories

Inventories are stated at the lower of cost or net-realizable value on a first-in first-out basis. Abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) are expensed in the period they are incurred.

The components of inventories are as follows:

(In thousands)	March 31, 2020	December 31, 2019
Ingredients and packaging	$ 22,726	$ 21,439
Finished goods	24,709	22,513
Inventory in transit to customers	3,302	3,656
	$ 50,737	$ 47,608

Software Costs

Capitalized software is included in "Other assets, net" in the consolidated balance sheets in the amount of $14.4 million and $11.9 million at March 31, 2020 and December 31, 2019, respectively. Capitalized software costs are amortized over their estimated useful life of five years commencing when such assets are ready for their intended use. Software amortization expense included in general and administrative operating expense was $1.3 million for the three months ended March 31, 2020, compared to $0.7 million for the three months ended March 31, 2019.

Disaggregation of Revenue

Net revenue consists of sales of packaged food products in the United States primarily within the Sweet Baked Goods category. Beginning with the acquisition of Voortman on January 3, 2020, (see Note 2. Business Combinations) the Company also sells products in the United States and Canada within the Cookies category.

The following tables disaggregate revenues by geographical market.

	Three Months Ended March 31, 2020			
(In thousands)	**Sweet Baked Goods**	**In-Store Bakery**	**Cookies**	**Total**
United States	$ 226,361	$ —	$ 13,307	$ 239,668
Canada	—	—	3,817	3,817
	$ 226,361	$ —	$ 17,124	$ 243,485

	Three Months Ended March 31, 2019			
(In thousands)	Sweet Baked Goods	In-Store Bakery	Cookies	Total
United States	$ 212,879	$ 9,859	$ —	$ 222,738
Canada	—	—	—	—
	$ 212,879	$ 9,859	$ —	$ 222,738

Concentrations

The Company has one customer (together with its affiliates) that accounted for 10% or more of the Company's total net revenue. The percentage of total net revenues for this customer is presented below by segment:

	Three Months Ended	
(% of Consolidated Net Revenues)	March 31, 2020	March 31, 2019
Snacking	21.1 %	23.5 %
In-Store Bakery	0.0 %	0.6 %
Total	21.1 %	24.1 %

Foreign Currency Remeasurement

Certain activity and balances related to the operations of Voortman originate from transactions denominated in the Canadian dollar (CAD). CAD transactions have been remeasured into U.S. dollars (USD) on the consolidated statement of operations using the average exchange rate for the reporting period. Balances expected to be settled in CAD have been remeasured into USD on the consolidated balances sheet using the exchange rate at the end of the period. During the three months ended March 31, 2020, the Company recognized a loss on remeasurement of less than $0.1 million, reported within other expense on the consolidated statement of operations.

2. Business Combinations

On January 3, 2020, the Company completed the previously announced acquisition of all of the shares of the parent company of Voortman, a manufacturer of premium, branded wafers as well as sugar-free and specialty cookies for approximately $325.8 million ($423.2 million CAD), pending final working capital and other closing statement adjustments. This purchase price was reduced by a net gain on a related foreign currency contract of $6.9 million, cash acquired of $1.6 million and a receivable for certain purchase price adjustments of $1.1 million, resulting in a net cash outflow of $318.4 million.

The acquisition of Voortman diversifies and expands the Company's product offerings and manufacturing capabilities in the adjacent cookie category. The acquisition also leverages the Company's customer reach and lean and agile business model. The combined Company expects to realize additional benefits of scale via sharing established, efficient infrastructure and strengthening of collaborative retail partnerships in the United States and Canada.

An aggregate of $10.8 million CAD was deposited into an escrow account to satisfy amounts in respect of post-closing adjustments and to provide for payment to the Company of indemnity claims, if any. There were no working capital or other adjustments made to the escrow balance during the three months ended March 31, 2020. The Company continues to work through post-closing working capital and other adjustments in accordance with the terms of the share purchase agreement, as well as other contractual rights it has under the transaction documents.

Included in other non-current liabilities in the table below is a $1.3 million liability for an uncertain tax position acquired in the transaction. It is offset by a non-current receivable balance of $1.3 million representing expected recovery through seller or insurance policy indemnification.

The Company recorded a preliminary allocation of the purchase price to tangible and identified intangible assets acquired and liabilities assumed, based on their fair values as of the closing date. The final allocation of the purchase price is pending the final valuation of certain assets acquired and liabilities assumed and finalization of customary closing adjustments to the final purchase price. The Company expects to finalize the allocation of the purchase consideration as soon as practicable. The preliminary purchase price allocation is as follows:

(In thousands)		
Cash	$	1,639
Accounts receivable		24,848
Inventory		8,309
Income tax receivable		6,079
Other current assets		420
Property and equipment		32,371
Customer relationships		11,100
Trade names		130,000
Goodwill		166,052
Other non-current assets		1,320
Accounts payable and accrued expenses		(4,317)
Customer trade allowances		(4,762)
Lease liabilities		(6,420)
Deferred taxes		(39,554)
Other non-current liabilities		(1,320)
Assets acquired and liabilities assumed	$	325,765

During the three months ended March 31, 2020, the Company incurred $4.3 million of expenses related to this acquisition. These expenses are classified as business combination transaction costs on the consolidated statements of operations.

The following unaudited pro forma combined financial information presents the Company's results as though the acquisition of Voortman had occurred at January 1, 2019.The unaudited pro forma consolidated financial information has been prepared using the acquisition method of accounting in accordance with U.S. GAAP:

	Three Months Ended			
(In thousands)	March 31, 2020		March 31, 2019	
	(unaudited, pro forma)			
Net revenue	$	243,485	$	243,060
Net income	$	2,640	$	24,859

3. Exit Costs

Subsequent to the Company's acquisition of Voortman, activities were initiated to transition Voortman's distribution model to the Company's direct-to-warehouse distribution model. The Company is incurring costs to exit Voortman's direct-store-delivery model, including severance and contract termination costs, which includes termination of third-party distributor relationships. Total costs are expected to be approximately $10 million through completion of the transition in 2020. During the three months ended March 31, 2020, contract termination costs of $6.4 million and severance costs of $2.2 million were recognized within selling expenses and general and administrative expenses, respectively, on the consolidated statement of operations.

Reserves for these activities are reported within accrued expenses on the consolidated balance sheet and had the following activity during the three months ended March 31, 2020:

(In thousands)	Severance	Contract Termination	Total
Charges recorded	$ 2,171	$ 6,440	$ 8,611
Payments made	(97)	(176)	(273)
Impact of change in exchange rates on CAD denominated liability	(222)	(429)	(651)
Reserve balance as of March 31, 2020	$ 1,852	$ 5,835	$ 7,687

4. Property and Equipment

Property and equipment consists of the following:

(In thousands)	March 31, 2020	December 31, 2019
Land and buildings	$ 56,106	$ 53,683
Right of use assets, operating	30,190	23,771
Machinery and equipment	230,313	209,382
Construction in progress	15,802	5,878
	332,411	292,714
Less accumulated depreciation	(55,783)	(50,330)
	$ 276,628	$ 242,384

Depreciation expense was $5.0 million for the three months ended March 31, 2020, compared to $4.2 million for the three months ended March 31, 2019.

5. Segment Reporting

For the periods presented, the Company has two reportable segments: Snacking and In-Store Bakery. The Company's Snacking segment consists of sweet baked goods, cookies, wafers and bread products that are sold under the Hostess®, Dolly Madison®, Cloverhill® Big Texas®, and Voortman® brands. During the three months ended March 31, 2020, the Company added the newly acquired Voortman operations into the reportable segment previously known as Sweet Baked Goods and renamed the segment as "Snacking". The In-Store Bakery segment consists primarily of Superior on Main® branded and private label products sold through the in-store bakery section of grocery and club stores. The Company divested its In-Store Bakery operations on August 30, 2019. Subsequent to the sale, Snacking is the Company's single reportable segment.

The Company evaluates performance and allocates resources based on net revenue and gross profit.Information regarding the operations of these reportable segments is as follows:

	Three Months Ended	
(In thousands)	**March 31, 2020**	**March 31, 2019**
Net revenue:		
Snacking	$ 243,485	$ 212,879
In-Store Bakery	—	9,859
Net revenue	$ 243,485	$ 222,738
Depreciation and amortization:		
Snacking	$ 12,821	$ 10,180
In-Store Bakery	—	698
Depreciation and amortization	$ 12,821	$ 10,878
Gross profit:		
Snacking	$ 79,337	$ 73,145
In-Store Bakery	—	2,043
Gross profit	$ 79,337	$ 75,188
Capital expenditures (1):		
Snacking	$ 12,152	$ 4,262
In-Store Bakery	—	152
Capital expenditures	$ 12,152	$ 4,414

(1) Capital expenditures consists of purchases of property and equipment and acquisition and development of software assets paid in cash or acquired through accounts payable. For the three months ended March 31, 2020 and 2019, capital expenditures in accounts payable decreased by $0.9 million and $6.4 million, respectively.

After the August 30, 2019 divestiture of the In-Store Bakery operations, the Company retainedno assets related to the In-Store Bakery segment. All Assets at March 31, 2020 and December 31, 2019 were attributed to the Snacking segment.

6. Goodwill and Intangible Assets

The Company recognized goodwill during the three months ended March 31, 2020 related to its acquisition of Voortman, which was incorporated into the Company's Snacking reporting unit. At March 31, 2020, there is no goodwill associated with the In-Store Bakery reporting segment, which the Company divested in 2019. Goodwill activity is presented below.

(In thousands)	Snacking
Balance as of December 31, 2019	$ 535,853
Acquisition of Voortman	166,052
Balance as of March 31, 2020	$ 701,905

Intangible assets consist of the following:

(In thousands)	March 31, 2020	December 31, 2019
Intangible assets with indefinite lives (Trademarks and Trade Names)	$ 1,538,630	$ 1,408,630
Intangible assets with definite lives (Customer Relationships)	526,813	515,713
Less accumulated amortization (Customer Relationships)	(77,512)	(71,028)
Intangible assets, net	$ 1,987,931	$ 1,853,315

The Company recognized additional trade names and customer relationships intangible assets during the three months ended March 31, 2020 related to the acquisition of Voortman. See Note 2. Business Combinations for additional details.

Amortization expense was $6.5 million for the three months ended March 31, 2020, and $6.0 million for the three months ended March 31, 2019. The unamortized portion of customer relationships will be expensed over their remaining useful lives, from 1 to 23 years. The weighted-average amortization period as of March 31, 2020 for customer relationships was 19.4 years.

7. Accrued Expenses and Other Current Liabilities

Included in accrued expenses and other current liabilities are the following:

(In thousands)	March 31, 2020	December 31, 2019
Payroll, vacation and other compensation	$ 5,730	$ 3,389
Incentive compensation	4,862	6,840
Exit costs	7,687	—
Accrued interest	5,506	4,870
Workers compensation reserve	2,938	2,665
Self-insurance reserves	2,100	1,938
Taxes	1,575	1,255
Interest rate swap contract	13,410	704
	$ 43,808	$ 21,661

8. Debt and Lease Obligations

In January 2020, the Company originated a $140.0 million incremental term loan through an amendment to its existing credit agreement. The Company received proceeds of $136.9 million, net of fees incurred of $3.1 million. The proceeds, together with cash on hand, financed the purchase of Voortman (see Note 2. Business Combinations). The terms, conditions and covenants applicable to the incremental term loan are the same as the terms, conditions and covenants applicable to the existing term loans. The term loan requires quarterly payments of interest at a rate of the greater of the applicable LIBOR or 0.75% per annum plus a margin of 2.25% per annum and principal at a rate of 0.25% of the aggregate principal balance with the remaining principal amount due upon maturity on August 3, 2025.

A summary of the carrying value of the debt and lease obligations is as follows:

(In thousands)	March 31, 2020	December 31, 2019
Term Loan (3.6% as of March 31, 2020)		
Principal	$ 1,111,139	$ 973,930
Unamortized debt premium and issuance costs	(5,892)	(3,094)
	1,105,247	970,836
Lease obligations	21,578	16,452
Total debt and lease obligations	1,126,825	987,288
Less: Current portion of long term debt and lease obligations	(14,437)	(11,883)
Long-term portion	$ 1,112,388	$ 975,405

At March 31, 2020, minimum debt repayments under the term loan are due as follows:

(In thousands)	
2020	$ 8,373
2021	11,164
2022	11,164
2023	11,164
2024	11,164
2025	1,058,110

9. Derivative Contracts

To reduce the effect of interest rate fluctuations, in 2017 the Company entered into an interest rate swap contract with a counter party to make a series of payments based on a fixed interest rate of 1.78% and receive a series of payments based on the greater of LIBOR or 0.75%. Both the fixed and floating payment streams are based on a notional amount of $500 million at the inception of the contract and are reduced by $100 million each year of the five-year contract. As of March 31, 2020 and March 31, 2019, the notional amount was $300 million and $400 million, respectively. At March 31, 2020, the effective interest rate on the long-term debt hedged by this contract was 4.03%.

In February 2020, the Company entered into additional five-year interest rate swap contracts to further reduce the effect of interest rate fluctuations on its variable-rate Term Loan. The notional value of these contracts was $500 million. Under the terms of the contracts, the Company will make quarterly payments based on fixed interest rates ranging from 1.11% to 1.64% and receive quarterly payments based on the greater of LIBOR or 0.75%. These contracts become effective as of April 30, 2020, at which time the effective interest rate on the long-term debt hedged by interest rate swap contracts will be 3.79%.

The Company entered into these transactions to reduce its exposure to changes in cash flows associated with its variable rate debt and has designated these derivatives as cash flow hedges.

As of March 31, 2020 and December 31, 2019, the fair values of the interest rate swap contracts of $13.4 million and $0.7 million, respectively, were reported within accrued expenses and other current liabilities on the consolidated balance sheet. The fair value of the interest rate swap contract is measured on a recurring basis by netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on the expectation of future interest rates (forward curves) derived from observable market interest rate curves (Level 2).

In connection with the agreement to purchase Voortman as described in Note 2. Business Combinations, the Company entered into a foreign currency contract to hedge $440 million CAD to be used for the forecasted purchase price and a portion of the subsequent expected conversion costs. At December 31, 2019, the contract had a value of $7.1 million recognized within other current assets on the consolidated balance sheet based on available market information on similar contracts (Level 2) and a corresponding gain of $7.1 million was recognized in gain on foreign currency contract within the consolidated statements of operations. Through settlement of the contracts during the three months ended March 31, 2020, a loss of $0.2 million was recognized within other expense on the consolidated statement of operations.

10. Earnings per Share

Basic earnings per share is calculated by dividing net income attributable to the Company's Class A stockholders for the period by the weighted average number of shares of Class A common stock outstanding for the period excluding non-vested share-based awards. In computing diluted earnings per share, basic earnings per share is adjusted for the assumed issuance of all applicable potentially dilutive share-based awards including public and private placement warrants, RSUs, restricted stock awards and stock options.

Below are basic and diluted net income per share:

	Three Months Ended	
	March 31, 2020	March 31, 2019
Numerator:		
Net income attributable to Class A stockholders (in thousands)	$ 2,348	$ 21,126
Denominator:		
Weighted-average Class A shares outstanding - basic	123,123,656	100,085,141
Dilutive effect of warrants	2,662,441	421,297
Dilutive effect of RSAs and RSUs	289,029	271,171
Weighted-average shares outstanding - diluted	126,075,126	100,777,609
Net income per Class A share - basic	$ 0.02	$ 0.21
Net income per Class A share - diluted	$ 0.02	$ 0.21

For the three months ended March 31, 2020 and 2019, the dilutive effect of stock options was excluded from the computation of diluted earnings per share because the assumed proceeds from the awards' exercise were greater than the average market price of the common shares.

Weighted average Class A shares outstanding reflect the weighted impact of the exchange of 1.0 million Class B shares for Class A shares during the three months ended March 31, 2020.

11. Income Taxes

The Company is subject to U.S. federal, state and local taxes on its allocable portion of the income of Hostess Holdings, a partnership for U.S. federal and most applicable state and local taxes. As a partnership, Hostess Holdings is itself not subject to U.S. federal and certain state and local income taxes. The operations of Hostess Holdings include those of its controlled foreign corporation subsidiaries. The Company intends to indefinitely reinvest earnings outside the United States and, thus, is not recording deferred taxes on its investment in foreign subsidiaries.

The Company's estimated annual effective tax rate is 24.1% prior to taking into account any discrete items. The effective tax rate was an expense of 8.6% and a benefit of 4.6% for the three months ended March 31, 2020 and 2019, respectively. During the three months ended March 31, 2020, the effective tax rate was impacted by the write-off of deferred taxes related to Voortman, which resulted in a discrete tax benefit of $0.5 million. During the three months ended March 31, 2019, the effective tax rate was impacted by the remeasurement of deferred tax balances arising from the update to state apportionment factors that occurred in connection with the relocation of the Company's primary distribution center from Illinois to Kansas, which resulted in a discrete tax benefit of $6.0 million.

12. Tax Receivable Agreement Obligations

The following table summarizes activity related to the Tax Receivable Agreement for the three months ended March 31, 2020:

(In thousands)		
Balance December 31, 2019	$	138,196
Exchange of Class B units for Class A shares		3,283
Payments		(1,279)
Balance March 31, 2020	$	140,200

As of March 31, 2020 the future expected payments under the tax receivable agreement are as follows:

2020	$	10,800
2021		7,600
2022		7,600
2023		7,500
2024		7,600
Thereafter		99,100

13. Commitments and Contingencies

Liabilities related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. Where the estimated amount of loss is within a range of amounts and no amount within the range is a better estimate than any other amount, the minimum amount is accrued. As additional information becomes available, potential liabilities are reassessed and the estimates revised, if necessary. Any accrued liabilities are subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material effect on the Company's financial condition and results of operations.

Leases

The Company entered into operating leases for the buildings in which it operates that expire at various times through 2026, including those entered by Voortman. The Company determines if an arrangement is a lease at inception.

At March 31, 2020 and December 31, 2019, right of use assets related to operating leases are included in property and equipment, net on the consolidated balance sheet (see Note 4. Property and Equipment). As of March 31, 2020 and December 31, 2019, the Company has no outstanding financing leases. Lease liabilities for operating leases are included in the current and non-current portions of long-term debt and lease obligations on the consolidated balance sheet (see Note 8. Debt and Lease Obligations).

The table below shows the composition of lease expenses:

	Three Months Ended	
(In thousands)	**March 31, 2020**	**March 31, 2019**
Amortization of right of use asset, financing lease	—	$ 44
Interest, financing lease	—	7
Operating lease expense	1,795	641
Short-term lease expense	1,014	400
Variable lease expense	554	188
	$ 3,363	$ 1,280

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and capital resources of Hostess Brands, Inc. This discussion should be read in conjunction with our unaudited consolidated financial statements and notes thereto included herein, and our audited Annual Report on Form 10-K for the year ended December 31, 2019. The terms "our", "we," "us," and "Company" as used herein refer to Hostess Brands, Inc. and its consolidated subsidiaries.

Overview

We are a leading United States packaged food company historically operating in two reportable segments: Snacking, which includes sweet baked goods ("SBG") as well as our cookie and wafer products and In-Store Bakery ("ISB"). Our direct-to-warehouse ("DTW") product distribution system allows us to deliver to our customers' warehouses. Our customers in turn distribute to the retail stores.

Hostess® is the second leading brand by market share within the SBG category, according to Nielsen U.S. total universe. For the 13-week period ended March 28, 2020, our branded SBG products (which include Hostess®, Dolly Madison®, Cloverhill® and Big Texas®) market share was 18.5% per Nielsen's U.S. SBG category data.

Factors Impacting Recent Results

Acquisition

On January 3, 2020, the Company completed the previously announced acquisition of all of the shares of the parent company of Voortman Cookies, Limited ("Voortman"), a manufacturer of premium, branded wafers as well as sugar-free and specialty cookies. By adding the Voortman® brand, we expect to have greater growth opportunities provided by a more diverse portfolio of brands and products. Our consolidated statement of operations includes the operation of these assets from January 3, 2020 through March 31, 2020. During the quarter, we started transitioning from Voortman's legacy direct-store-delivery distribution model into our centralized DTW model.

Divestiture

On August 30, 2019, the Company sold the ISB operations, including relevant trademarks and licensing agreements, to an unrelated party. The ISB operations provided products that were primarily sold in the in-store bakery section of U.S. retail channels. The Company divested the operations to focus more on future investment in areas of our business that better leverage our core competencies.

COVID-19

The acute and far-reaching impact of the COVID-19 pandemic and actions taken by governments to contain the spread of the virus have impacted our operations during the three months ended March 31, 2020. As consumers prepared for extended stays at home, we experienced an increase in consumption in the last few weeks of the quarter, particularly in our multi-pack products sold through grocery and mass retailer channels. Conversely, we experienced lower consumption of single-serve products, often consumed away from home. We cannot predict if these trends will sustain or reverse in future periods.

We have a task force in place monitoring the rapidly evolving situation and recommending risk mitigation actions as deemed necessary.

To date, we have experienced minimal disruption to our supply chain or distribution network, including the supply of our ingredients, packaging or other sourced materials, though it is possible that more significant disruptions could occur if the COVID-19 pandemic continues to impact markets around the world. We are also working closely with all of our contract manufacturers, distributors and other external business partners. As a food producer, we are an essential service and the majority of our employees continue to work within our production and distribution facilities. To protect our employees and ensure continuity of operations, we have implemented additional security and sanitation measures in all of our facilities. We are monitoring our employees' health and providing additional resources and protocols to enable effective social distancing and adherence to our stringent internal food safety guidelines, industry best practices and evolving CDC guidelines. Most non-production team members, including sales, marketing and corporate associates, are adhering to social distancing guidelines by working from home and reducing person-to-person contact while supporting our ability to bring product to consumers.

We have adequate liquidity to pay for the additional costs associated with these programs while servicing our on-going operating and capital needs. However, we continue to actively monitor and will take action, as necessary, to preserve adequate liquidity and ensure that our business can continue to operate in this dynamic environment.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law. The CARES Act provides a substantial stimulus and assistance package intended to address the impact of the COVID-19 pandemic, including tax relief and government loans, grants and investments. The CARES Act did not have a material impact on our consolidated financial statements for the three months ended March 31, 2020. We continue to monitor any effects that may result from the CARES Act.

Operating Results

	Three Months Ended	
(In thousands, except per share data)	**March 31, 2020**	**March 31, 2019**
Net revenue	$ 243,485	$ 222,738
Gross profit	79,337	75,188
As a % of net revenue	*32.6 %*	*33.8 %*
Operating costs and expenses	$ 64,171	$ 39,078
Operating income	15,166	36,110
As a % of net revenue	*6.2 %*	*16.2 %*
Other expense	$ 12,278	$ 10,676
Income tax expense (benefit)	248	(1,178)
Net income	2,640	26,612
Net income attributable to Class A stockholders	$ 2,348	$ 21,126
Earnings per Class A share:		
Basic	$ 0.02	$ 0.21
Diluted	$ 0.02	$ 0.21

Results of Operations

Net Revenue

Net revenue for the three months ended March 31, 2020 was $243.5 million, an increase of 9.3%, or $20.8 million, compared to $222.7 million for the three months ended March 31, 2019. Excluding ISB, net revenue increased 14.4%. The acquisition of Voortman contributed net revenue of $17.1 million in the quarter and 8.1% of growth. The remaining increase was from the $13.5 million or 6.3% growth from sweet baked goods primarily driven by higher volume of core Hostess® branded multi-pack products due to strong demand particularly in the grocery and dollar channels generated in part from increased store traffic in response to COVID-19.

Gross Profit

Gross profit for the three months ended March 31, 2020 was $79.3 million, or 32.6% of net revenue, compared to $75.2 million, or 33.8% of net revenue for the three months ended March 31, 2019. Excluding ISB, gross profit increased 8.5%. Gross profit increased due to increased sales partially offset by higher distribution and labor costs as well as higher costs driven by the turnover of inventory acquired through the Voortman acquisition which was recorded at fair value.

Operating Costs and Expenses

Operating costs and expenses for the three months ended March 31, 2020 were $64.2 million, or 26.4% of net revenue, compared to $39.1 million, or 17.5% of net revenue for the three months ended March 31, 2019. These costs increased primarily due to transition costs incurred to shift Voortman from a direct-to-store delivery operating model to a warehouse model including contract termination costs for the independent distributors and severance costs for terminated employees, as well as normal operating costs of the Voortman operations.

Other Expense

Other expense for the three months ended March 31, 2020 was $12.3 million compared to $10.7 million for the three months ended March 31, 2019, in each case consisting primarily of interest expense. Interest expense on our term loans was $11.5 million and $11.1 million for the three months ended March 31, 2020 and 2019, respectively.

Income Taxes

Our effective tax rate for the three months ended March 31, 2020 was 8.6% compared to a benefit of 4.6% for the three months ended March 31, 2019. The current year effective tax rate was impacted by the write off of deferred taxes related to Voortman, which resulted in a discrete tax benefit of $0.5 million. Our prior year effective tax rate was impacted by the remeasurement of deferred taxes as a result of the relocation of our primary distribution center from Illinois to Kansas, which resulted in a discrete tax benefit of $6.0 million.

Segments

For the reporting periods presented, we have two reportable segments: Snacking and In-Store Bakery. Our Snacking segment consists of baked goods, cookies, wafers and bread products that are sold under the Hostess®, Dolly Madison®, Cloverhill® Big Texas®, and Voortman® brands. During the three months ended March 31, 2020, we added the newly acquired Voortman operations into the reportable segment previously known as Sweet Baked Goods and renamed the segment as “Snacking”. The In-Store Bakery segment consists primarily of Superior on Main® branded and private label products sold through the in-store bakery section of grocery and club stores. We divested our In-Store Bakery operations on August 30, 2019.

We evaluate performance and allocate resources based on net revenue and gross profit. Information regarding the operations of these reportable segments is as follows:

Unaudited Segment Financial Data	**Three Months Ended**	
(In thousands)	**March 31, 2020**	**March 31, 2019**
Net revenue:		
Snacking	$ 243,485	$ 212,879
In-Store Bakery	—	9,859
Net revenue	$ 243,485	$ 222,738
Gross profit:		
Snacking	$ 79,337	$ 73,145
In-Store Bakery	—	2,043
Gross profit	$ 79,337	$ 75,188

Liquidity and Capital Resources

Our primary sources of liquidity are from cash on hand, future cash flow generated from operations, and availability under our revolving credit agreement ("Revolver"). We believe that cash flows from operations and the current cash and cash equivalents on the balance sheet will be sufficient to satisfy the anticipated cash requirements associated with our existing operations for at least the next 12 months. Our ability to generate sufficient cash from our operating activities depends on our future performance, which is subject to general economic, political, financial, competitive and other factors beyond our control. In addition, our future acquisitions and other cash requirements could be higher than we currently expect as a result of various factors, including any expansion of our business that we undertake, including acquisitions. We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

We had working capital, excluding cash, as of March 31, 2020 and December 31, 2019 of $25.1 million and $8.1 million, respectively. We have the ability to borrow under the Revolver to meet obligations as they come due. As of March 31, 2020, we had approximately $95.8 million available for borrowing, net of letters of credit, under the Revolver.

Cash Flows from Operating Activities

Cash flows provided by operating activities for the three months ended March 31, 2020 and 2019 were $13.1 million and $28.4 million, respectively. During the current year quarter, we used cash to fund transaction expenses related to the purchase of Voortman and certain non-capitalizable costs related to the transition of Voortman into our warehouse distribution model. We also made certain non-capitalizable investments in the transition of our centralized distribution center to Kansas.

Cash Flows from Investing Activities

Cash used in investing activities for the three months ended March 31, 2020 and 2019 were $331.5 million and $10.8 million, respectively. During the current year quarter, we funded the CAD $423 million purchase price of Voortman with cash on hand and the proceeds from an incremental term loan on our existing credit facility. We also invested in our bakeries and new centralized distribution center.

Cash Flows from Financing Activities

Cash flows from financing activities were an inflow of $130.4 million for the three months ended March 31, 2020 and an outflow of $3.4 million for the three months ended March 31, 2019. Cash proceeds of $140.0 million from the incremental term loan used to finance the purchase of Voortman were offset by related charges of $3.1 million.

Long-Term Debt

We had no outstanding borrowings under our Revolver as of March 31, 2020.

In January 2020, we entered into $140.0 million of incremental term loans through an amendment to our existing credit agreement. The proceeds, together with cash on hand were used to settle a forward purchase contract for Canadian Dollars utilized to finance the CAD $425 million purchase of Voortman.

As of March 31, 2020, $1,111.1 million aggregate principal amount of the Term Loan was outstanding and letters of credit worth up to $4.2 million aggregate principal amount were available, reducing the amount available under the Revolver. As of March 31, 2020, we were in compliance with the covenants under the Term Loan and the Revolver.

Contractual Obligations and Commitments

There were no material changes, outside the ordinary course of business, in our outstanding contractual obligations from those disclosed within "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative disclosures about market risk, see Item 7A 'Quantitative and Qualitative Disclosures About Market Risk' of our Annual Report on Form 10-K for the year ended December 31, 2019. Our exposures to market risk have not changed materially since December 31, 2019.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e)) under the Securities and Exchange Act of 1934, as amended (the Exchange Act)) as of March 31, 2020, the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2020 to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that information relating to the Company is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

During the three months ended March 31, 2020, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

We are involved from time to time in lawsuits, claims and proceedings arising in the ordinary course of business. These matters typically involve personnel and employment issues, personal injury, contract and other proceedings arising in the ordinary course of business. Although we do not expect the outcome of these matters to have a material adverse effect on our financial condition or results of operations, litigation is inherently unpredictable. Therefore, we could incur judgments or enter into settlements or claims that could materially impact our results.

Item 1A. Risk Factors

Our risk factors are set forth in the “Risk Factors” section of our Annual Report on Form 10-K filed on February 26, 2020. Other than as noted below, there have been no material changes to our risk factors since the filing of the Form 10-K.

The current COVID-19 pandemic, or the future outbreak of other highly infectious or contagious diseases, could adversely impact or cause disruption to our business, financial condition, results of operations and cash flows. Further, the COVID-19 pandemic has caused severe disruptions in the U.S. and global economy, may further disrupt financial markets and could potentially create widespread business continuity issues.

With novel coronavirus (COVID-19) infections reported throughout the world, certain governmental authorities have issued stay-at-home orders, proclamations and/or directives aimed at minimizing the spread of the pandemic. Additional, more restrictive proclamations and/or directives may be issued in the future. As a food producer, we are an essential service and the majority of our employees continue to work within our production and distribution facilities. However, we have had increased labor costs resulting from the payment of overtime to certain of our employees while other employees have been on paid sick leave or unpaid leaves of absence. We have also incurred expenses related to additional sanitization and safety measures we have instituted throughout our facilities. Although the temporary reductions in production at our facilities to enable sanitization and implementation of our other safety and employee welfare programs have not materially affected our operations, other food producers have experienced significant shutdowns of production. We cannot assure you that our health and safety measures will prevent a widespread outbreak of COVID-19 at our facilities. Such an outbreak could lead to a suspension of production or increased labor and other costs, each of which could have a material adverse effect on our business, financial condition and results of operations.

We are also actively monitoring the potential impact of the pandemic on our supply chain, operations and distribution. Our products are manufactured in North America and we source the significant majority of our ingredients, raw materials and packaging within North America. However, global supply may become constrained, which may cause the price of certain ingredients, raw materials and packaging used in our products to increase, such ingredients may become unavailable and/or we may experience disruptions to our operations. While we do not expect that the virus will have a material adverse effect on our business or financial results at this time, we are unable to accurately predict the impact that the coronavirus will have due to various uncertainties, including the severity of the disease, the duration of the outbreak, the economic impact on our customers, and actions that may be taken by governmental authorities.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
10.1	Incremental Assumption and Amendment Agreement No. 5, dated as of January 3, 2020, by and among HB Holdings, LLC, Hostess Brands, LLC, certain of Hostess Brands, LLC's subsidiaries, the lenders party thereto, Credit Suisse AG, Cayman Islands Branch, as administrative agent, and the other parties thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 6, 2020)
10.2	Fourth Amended and Restated First Lien Credit Agreement, dated of January 3, 2020 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 6, 2020)
10.3	Hostess Brands 2020 Incentive Compensation Plan
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, formatted in Inline XBRL

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Lenexa, Kansas on May 8, 2020.

HOSTESS BRANDS, INC.

By /s/ Brian T. Purcell

Brian T. Purcell
Executive Vice President, Chief Financial Officer

Hostess Brands, Inc. Incentive Compensation Plan for Exempt Employees

Introduction

The Hostess Brands, Inc. (the "Company") Incentive Compensation Plan for Exempt Employees (the "Plan") provides the opportunity for compensation in addition to base salary to designated employees. The Plan is designed to motivate eligible employees to grow the business through increased sales, profitability and valuable contribution within their area of expertise. While employees play many different roles within the Company, the Company will only be successful if all employees are focused on achieving common goals, strive individually for functional excellence in their assigned roles and contribute to organizational excellence as a team. Eligible employees will receive incentive compensation under the Plan ("Incentive Comp") if the Company achieves certain designated results (the "Metric(s)").EBITDA and Net Revenue Metric(s) will be approved by the Talent and Compensation Committee (the "Committee").

Administration

- The Plan will be administered by the Committee, which will have the full power and authority to interpret and administer the Plan.All decisions and determinations of the Committee shall be final, conclusive and binding. The Committee may delegate such duties or responsibilities to an officer of the Company as it deems desirable.
- The Plan year begins on January 1st and ends on December 31st. The calculation of any Incentive Comp payments will be based on an eligible employee's Incentive Comp level and base salary in the Plan Year. Eligible employees, as defined below, are assigned an Incentive Comp level (percentage of base salary) based on their position or specified in their offer letter. For example, if an eligible employee's base salary is $100,000, paid in equal increments over a year and that employee has a 20% Incentive Comp level, the Incentive Comp opportunity would be $100,000 x 20% or $20,000.
- Plan Metrics will measure achievement of (i) EBITDA, (ii) Net Revenue, and (iii) Strategic Goals weighted as follows:

    - 40% - **EBITDA**
    - 40% - **Net Revenue**
    - 20% - **Strategic Goals** (team or individual goals as applicable)

- Attainment of not less than 93% of the Company's Annual Operating Plan established EBITDA must be achieved in order to establish funding for Incentive Comp payments under **any** Metric to occur ("EBITDA Funding")If EBITDA Funding is achieved, funding for each Metric is independent and will be calculated based on the weighting noted above.

- The amount eligible for payment based on attainment of the Net Revenue Metric will be determined based on the same schedule as EBITDA set out below. For example, if 98% of the Net Revenue Metric is achieved, 85% of the amount payable based on attainment of the Net Revenue Metric would be eligible for payment.

- Strategic Goals will be based on actual performance on budgeted financial and other established goals, such as revenue growth, cost control, case or dollar volume, specific tasks to be accomplished, etc.
  - Minimum of 3 goals and a maximum of 5 goals are set by the functional Manager near the start of the Plan year.

  - Subject to the below:
    - Payout percentage on Strategic Goals Metrics would range from 0% to 100% based on the proportion of goals achieved.

    - For example, if three out of four goals were achieved, team component for that group would fund at 75% of target.

  - If EBITDA Funding is achieved and one or more teams or individuals do not receive 100% payout on the Strategic Goals Metrics (the "Un-Allocated Funds"), the Chief Executive Officer ("CEO") may re-allocate the Un-Allocated Funds to other teams or individuals who exceeded expectations during the Plan year; provided, however, that any re-allocation of Un-Allocated Funds to executive officers must be approved by the Committee; and provided further that no team or individual may receive greater than 150% payout related to Strategic Goals.

- The Committee shall determine the extent to which EBITDA and Net Revenue Metrics are achieved.

- The EBITDA Metric will fund on the following schedule, subject to the Company's discretion, as described below:

% of EBITDA Achieved	**% Funded**
Below 93%	0%
93%	40%
94%	50%
95%	60%
96%	65%
97%	75%
98%	85%
99%	95%
100%	100%
-	-
105%	150%
-	-
110%	200%

Plan will fund incrementally at the rate 10% for every 1% of EBITDA achieved over 100%, up to a total payout of 200% performance against Plan.

- Notwithstanding any term or condition contained in this Plan to the contrary,
    - In the event that the Company does not achieve at least 93% of the EBITDA Metric, thereby disallowing funding under the Plan, the CEO may recommend to the Committee, for its approval, that a pool equal to up to 10% of target Incentive Comp, be distributed to deserving employees, at the discretion of the CEO or, in the case of executive officers, the Committee, at the time Incentive Comp payments would otherwise be paid pursuant to this Plan. In no event shall this provision result in the payment of more than 100% of the target Incentive Comp to any single eligible employee.
    - The Committee may adjust the performance results for any Metric on account of extraordinary items or other events, as the Committee deems appropriate.
    - Working with the funds available under the Plan and within the established guidelines, Managers will be able to differentiate final award payouts by performance as to Strategic Goals Metrics.
    - Incentive Comp payouts may be adjusted up or down by the Manager based on an individual's Annual Performance Rating.
    - In addition, any and all Incentive Comp payouts under this Plan remain subject to Company discretion.The Company may reduce or eliminate any eligible employee's Incentive Comp payment on account of overall individual or functional team performance, regardless of the extent to which any Metric has been achieved. Company achievement of the EBITDA or Net Revenue Metrics does not guarantee payment hereunder to any eligible employee.

Eligibility
For purposes of the Plan, "eligible" employees are designated as full time (30 hours or more), exempt (salaried), are in a position that has been designated as eligible for Incentive Comp under this Plan and do not participate in any other annual incentive compensation plan.

Designated employees are eligible to participate in the Plan if they meet the following criteria:

- Employees who commence employment or are promoted to an eligible position after January 1 st and prior to October 1st of a Plan year will be eligible to receive pro-rated Incentive Comp based upon their service date.

- Employees who remain employed by the Company but are transferred out of an eligible position on or before June 30th are not eligible to receive an Incentive Comp payment under the Plan for the year of transfer. Employees who are transferred out of an eligible position after June 30th will continue to be eligible to receive an Incentive Comp payment for the year of transfer, based on the portion of the Plan year the employee was employed in an eligible position.

- Employees hired or promoted to an eligible position on or after October 1 of a Plan year will not be eligible for Incentive Comp for that year.

- An Employee must be an active employee of the Company and on the payroll as of the date on which the applicable Incentive Comp is paid.

- As consideration for being eligible for receipt of Incentive Comp in any Plan year, an employee must have executed and delivered to the Company a mutually agreed form of Confidentiality Agreement and any other agreement requested by the Company in connection with such employee's employment.

<u>**Eligible Income**</u>

- Any sums paid to an eligible employee that are other than base salary payments will not be included in an Incentive Comp payment calculation.

- The Incentive Comp payment will be pro-rated for any approved <u>unpaid</u> leave of absence lasting 4 consecutive weeks or more, to the extent permitted by law.

- If during a Plan year, an employee becomes Incentive Comp eligible after January 1st and prior to October 1st, or changes from Incentive Comp eligible to non-Incentive Comp eligible after June 30th, actual salary for the period of employment, while in an Incentive Comp eligible position, paid during the Plan year will be the salary used for Incentive Comp calculation purposes. Thus, a person who has been hired at a base salary of $100,000 on September 30 and was paid $25,000 in salary (1/4 of base salary for working 1/4 of the year) during the Plan year and had a 20% Incentive Comp level, assuming 100% of each Metric is achieved, would be eligible for an Incentive Comp payment of $25,000 x 20% or $5,000 for the short year.

<u>**Payment of Incentive Comp under the Plan**</u>

Incentive Comp will be paid, if at all, after completion of the audit by the Company's independent auditor of the annual financial statements for the applicable Plan year, which the Company anticipates, but cannot ensure, will be around the middle of March of the successive year.

<u>**Amendment and Termination of the Plan**</u>

The Company reserves the right to amend, modify, suspend or terminate this Plan in whole or in part at any time without advance notice to or prior approval of the Plan participants. Eligibility for participation in the Plan in one year does not confer upon any participant eligibility to participate in any subsequent year.

Additional Information

- Incentive Comp payments will not be treated as compensation for purposes of any of the Company's employee benefit plans or programs, unless otherwise provided in such employee benefit plan or program.

- Participation in the Plan is not a guarantee of any particular level of compensation or of continued employment for any period. Nothing in the Plan interferes with the Company's right to terminate an employee's employment for any reason or no reason at any time.

- The Company will withhold from any payments under the Plan an amount to satisfy applicable federal, state and local tax withholding requirements. Payments under the Plan are intended to be exempt from or comply with Section 409A of the Internal Revenue Code. However, the Company shall not be liable for any taxes, penalties, interest or other expenses that may be incurred by a participant on account of non-compliance with Section 409A of the Code.

- The Plan will be construed, administered and governed in all respect in accordance with the laws of the State of Delaware, without reference to principles of conflicts of laws.

Exhibit A

Incentive Comp Calculation
Below is an example of how a potential Incentive Comp payment would be calculated:

Eligible employee $100,000 annual salary with a 20% Incentive Comp level. The Company attains 100% of EBITDA Metric, 98% of Net Revenue Metric and achievement of 2/3 of Strategic Goals.

Element	Weighting	Performance % of Metric	Funding % of Metric	Amount	Description
EBITDA	40%	100%	100%	$8,000	$20,000 Incentive Comp potential x 40% EBITDA weighting x 100% EBITDA performance
Net Revenue	40%	98%	85%	$6,800	$20,000 Incentive Comp potential x 40% Net Rev weighting x 85% Net Rev performance
Strategic Goals Case Volume – Met (1/3) Trade Spend +/- 2% - Met (1/3) Snack Cake AOP – Not Met (0/3)	20%	66.6% (33.3% for each met metric)	66.6%	$2,664	$20,000 Incentive Comp potential x 20% Strategic Goals weighting x 66.6% Strategic Goals performance
Total Incentive Comp Achieved				**$17,464**	

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Andrew P. Callahan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hostess Brands, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2020

/s/ Andrew P. Callahan

President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brian T. Purcell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hostess Brands, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2020

/s/ Brian T. Purcell

Executive Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Hostess Brands, Inc., (the "Company") on Form 10-Q for the fiscal quarter ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew P. Callahan, Chief Executive Officer of the Company, certify, based on my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2020

/s/ Andrew P. Callahan

President and Chief Executive Officer
(Principal Executive Officer)

This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Hostess Brands, Inc., (the "Company") on Form 10-Q for the fiscal quarter ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian T. Purcell, Chief Financial Officer of the Company, certify, based on my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2020

/s/ Brian T. Purcell

Executive Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)

This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.