



Tootsie Roll Industries (TR)

Updated March 1st, 2019 by Prakash Kolli

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	-1.8%	Volatility Percentile:	33.8%
Fair Value Price:	\$28	5 Year Growth Estimate:	3.0%	Momentum Percentile:	71.4%
% Fair Value:	135%	5 Year Valuation Multiple Estimate:	-5.8%	Growth Percentile:	11.6%
Dividend Yield:	1.0%	5 Year Price Target	\$32	Valuation Percentile:	12.0%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	2.9%

Overview & Current Events

Tootsie Roll Industries traces its roots back to the late 1890's when its namesake product, the Tootsie Roll, was first created. The company has grown since then and now sells a wider variety of candy and gum products. Other well-known brands include DOTS, Junior Mints, Andes, Charms, and Dubble Bubble. The company has a market capitalization of roughly \$2.4B. Tootsie Roll has a dual-class share structure with the Chairwomen and CEO, Ellen R. Gordon owning 53.9% of common stock and 82.8% of Class B shares giving her effective control of the company.

Tootsie Roll reported Q4 2018 earnings on February 12, 2019. Revenue increased 1.7% to \$127.3M while EPS increased 5.6% to \$0.19 from \$0.18 (adjusted) on comparable quarters from 2017. In Q4, U.S. revenue was driven by a 3.4% increase in U.S. sales. Notably, Q4 2017 EPS benefited from \$0.31 EPS due to a lower tax rate from U.S. Tax Cuts and Jobs Act. Tootsie Roll's effective tax rate in 2018 was 22.4%.

For the full year, revenue was basically flat, decreasing by only 0.1% to \$515.3M on a year-over-year basis while EPS decreased to \$0.89. On an adjusted basis EPS decreased \$0.04 or 4.3% from 2017. In 2018, foreign sales and exports in Mexico, Canada and Spain accounted for \$43.7M sales or 8.5% of total net sales. Higher expenses for freight and delivery negatively impacted EPS similar to many other packed food companies. Increased compensation and health benefit costs, new product packaging and associated manufacturing lines also negatively impacted operating margins. In response to these pressures on margins, the company has taken selective price increases.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.73	\$0.74	\$0.62	\$0.75	\$0.88	\$0.93	\$0.99	\$1.02	\$1.24	\$0.89	\$0.92	\$1.07
DPS	\$0.32	\$0.32	\$0.32	\$0.32	\$0.32	\$0.32	\$0.35	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36
Shares	73	72	71	70	69	68	66	66	65	64	64	61

Tootsie Roll should achieve 3.0% earnings-per-share growth moving forward, mostly via small amounts of revenue growth driven by product innovation and price increases. Tootsie Roll has broadened its assortment in recent years to spinoffs of its core brands in candy and gum in addition to gradual increases in volume for its existing lineup. Influences to earnings-per-share growth include commodity input and freight cost inflation on the downside, and volume and price increases to the upside. Earnings per share growth will also benefit from on going share buybacks. The company's has reduced share count from about 73M in 2009 to 64M in 2018. We expect the share count to decrease 1% annually.

Growth of the regular dividend is at best sporadic for Tootsie Roll. The dividend was last increased in 2016 and is currently \$0.36 per share. The company does issue a 3% stock dividend each year in addition to the regular dividend.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	24.9	27.6	35.2	27.5	30.3	27.5	29.5	33.1	27.6	31.7	40.5	30.0
Avg. Yld.	1.3%	1.2%	1.2%	1.6%	1.0%	1.1%	0.8%	1.0%	1.0%	1.2	1.0%	1.1%

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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Tootsie Roll's P/E ratio is currently 40.5 and is significantly elevated relative to the S&P 500's average P/E ratio and the company's 10-year historical average P/E ratio of about 30.0. We attribute this to the limited number of shares available to trade and generally stable revenue and earnings-per-share over the past decade. If Tootsie Roll's P/E ratio was to revert to 30.0, then the stock price would decrease -5.8% annually based on valuation alone. The current yield is 1.0% and we do not expect this to change much over the next five years. But saying that, the payout ratio is only expected to be 39% in 2019 and there is room for an increase if management decides to implement one. Our 5-year price target based on earnings per share growth of 3% annually is currently \$32.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	44%	43%	52%	43%	36%	34%	35%	35%	29%	40%	39%	34%

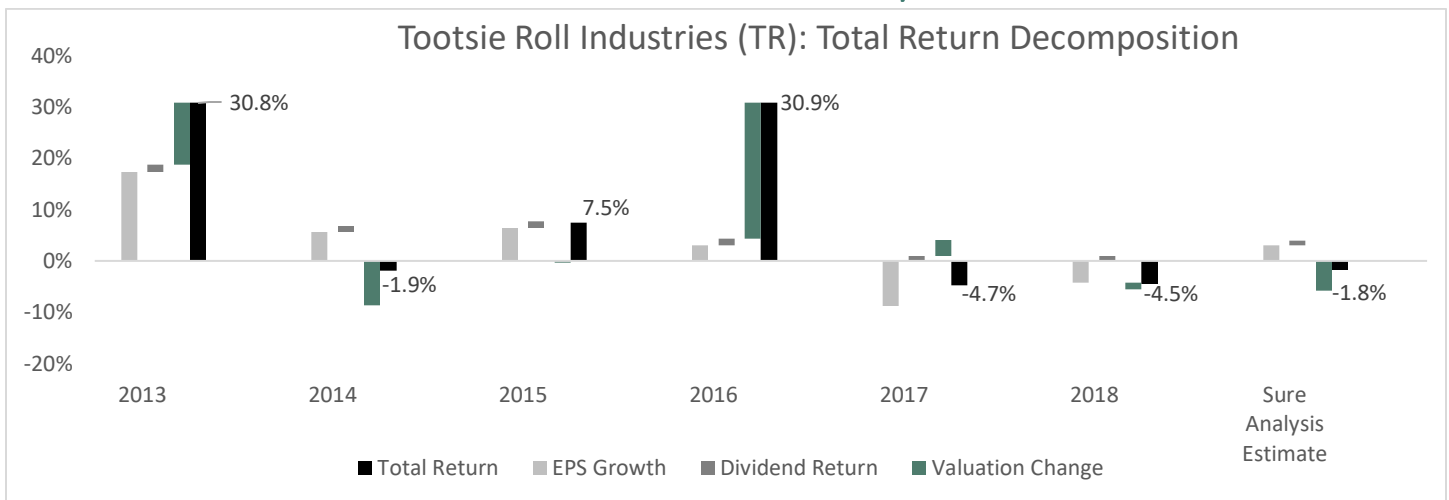
Tootsie Roll's quality metrics have been remarkably stable in the past decade, owing to management's propensity to stick with the status quo instead of chasing growth. Margins have deteriorated slowly in the past couple of years due to higher packaging and commodity costs in addition to more recent pricing pressure from retailers, but the damage has been limited. The company is raising prices on select products in 2019 to counter cost increases. Tootsie Roll's balance sheet is conservative. The company's long-term debt in an industrial revenue bond has been only \$7.5M since 2014. The interest rate resets weekly based on the current market rate so there is little risk of rapidly increasing interest expense.

The company's competitive advantage is the brand strength of its core product, the Tootsie Roll, and its lack of direct competition given the uniqueness of the product. This afforded it decent performance during the Great Recession. Some of the company's other brands are also well known providing an advantage.

Final Thoughts & Recommendation

At present we are forecasting -1.8% annualized returns over the next five years comprising mostly of 3.0% EPS growth, 1.0% dividend and -5.8% from P/E multiple contraction. Notably, the stock price has increased since our last report. At the current share price, Tootsie Roll is not attractive from a total return perspective. Furthermore, the dividend yield is sub par and the regular dividend growth is sporadic. Tootsie Roll earns a strong sell recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	499	521	533	550	543	544	540	521	519	519
Gross Profit	180	171	166	183	191	202	199	199	192	188
Gross Margin	36.0%	32.8%	31.2%	33.3%	35.2%	37.1%	36.9%	38.2%	37.0%	36.3%
SG&A Exp.	104	106	108	114	119	118	108	108	121	118
D&A Exp.	18	18	19	20	20	21	20	20	19	19
Operating Profit	76	65	58	69	72	84	91	91	70	70
Operating Margin	15.2%	12.4%	10.9%	12.6%	13.3%	15.4%	16.9%	17.5%	13.6%	13.6%
Net Profit	54	53	44	52	61	63	66	68	81	57
Net Margin	10.8%	10.2%	8.3%	9.5%	11.2%	11.6%	12.2%	13.0%	15.6%	11.0%
Free Cash Flow	56	70	34	93	94	78	76	82	26	73
Income Tax	10	20	17	22	24	28	26	31	4	16

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	838	860	858	847	888	910	909	920	931	947
Cash & Equivalents	91	116	79	64	88	100	126	119	96	111
Accounts Receivable	38	37	42	42	41	43	51	43	47	50
Inventories	56	59	72	62	62	70	62	58	55	55
Goodwill & Int. Ass.	248	248	248	248	248	248	248	248	248	248
Total Liabilities	183	191	192	197	208	219	210	209	197	197
Accounts Payable	9	10	11	9	9	12	11	10	12	12
Long-Term Debt	8	8	8	8	8	8	8	8	8	8
Shareholder's Equity	655	669	666	650	680	691	698	711	734	751
D/E Ratio	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.5%	6.2%	5.1%	6.1%	7.0%	7.0%	7.3%	7.4%	8.7%	6.1%
Return on Equity	8.4%	8.0%	6.6%	7.9%	9.1%	9.2%	9.5%	9.6%	11.2%	7.7%
ROIC	8.3%	7.9%	6.5%	7.8%	9.0%	9.1%	9.4%	9.5%	11.1%	7.6%
Shares Out.	73	72	71	70	69	68	66	66	65	64
Revenue/Share	6.83	7.23	7.49	7.85	7.87	7.98	8.05	7.90	7.98	8.08
FCF/Share	0.77	0.97	0.48	1.32	1.36	1.15	1.13	1.25	0.40	1.14

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

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