



# Tootsie Roll Industries, Inc. (TR)

Updated November 17<sup>th</sup>, 2020 by Prakash Kolli

## Key Metrics

<b>Current Price:</b>	\$32	<b>5 Year CAGR Estimate:</b>	-0.6%	<b>Market Cap:</b>	\$2.06B
<b>Fair Value Price:</b>	\$26	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	10/02/20
<b>% Fair Value:</b>	127%	<b>5 Year Valuation Multiple Estimate:</b>	-4.6%	<b>Dividend Payment Date:</b>	10/15/20
<b>Dividend Yield:</b>	1.2%	<b>5 Year Price Target</b>	\$30	<b>Years Of Dividend Growth:</b>	52
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	3.0%

## Overview & Current Events

Tootsie Roll Industries, Inc. traces its roots back to the late 1890's when its namesake product, the Tootsie Roll, was first created. Today, the company sells a wider variety of candy and gum products. Other well-known brands include DOTS, Junior Mints, Andes, Charms, Blow-Pops, Sugar Daddy, and Dubble Bubble. Tootsie Roll has a dual class share structure with the Chairwoman and CEO, Ellen R. Gordon owning approximately 53.9% of common stock and 82.8% of Class B shares effectively giving her control of the company. Revenue in 2019 was about \$527M.

Tootsie Roll reported another weak quarter for Q3 2020 results on November 11<sup>th</sup>, 2020. Net sales fell again, this time by (14%) to \$157M for the quarter versus \$182M in the prior year. In the same period, net earnings declined to \$24.7M compared to \$29.9M. Diluted EPS decreased (16%) or \$0.07 to \$0.37 per share from \$0.44 on year-over-year basis. This is the second quarter in a row that the company was significantly impacted by the COVID-19 pandemic. Local and federal government mandates have resulted in business closures and more limited operations. This has affected Tootsie Roll's sales, earnings, and margins. Candy and chocolate are often impulse buys or bought for specific events, gatherings, and holidays. Social distancing has led to smaller scale events reducing sales for Tootsie Roll. The company did see a surge in seasonal sales for Halloween, but sales and earnings were still lower than last year.

Tootsie Roll has not provided guidance for 2020 due to the effects of COVID-19. However, the company has indicated that trends for lower orders and sales is expected to subside in the fourth quarter.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS<sup>1</sup></b>	\$0.70	\$0.58	\$0.70	\$0.83	\$0.88	\$0.93	\$0.96	\$0.90	\$0.86	\$0.96	<b>\$0.85</b>	<b>\$0.99</b>
<b>DPS</b>	\$0.32	\$0.32	\$0.32	\$0.32	\$0.32	\$0.35	\$0.36	\$0.36	\$0.36	\$0.36	<b>\$0.36</b>	<b>\$0.36</b>
<b>Shares<sup>2</sup></b>	75.9	74.9	73.7	72.8	71.8	70.5	69.6	68.6	69.0	67.0	<b>66.3</b>	<b>63.1</b>

Tootsie Roll should achieve on average 3.0% earnings per share growth moving forward to 2025, mostly via small amounts of revenue growth driven by incremental product innovation and price increases. Influences on earnings per share growth include commodity input and freight cost inflation on the downside, and volume and price increases and operational efficiencies to the upside. Earnings per share growth will also benefit from ongoing share buybacks. The company has reduced share count from about 75.9M in 2010 to 67.0M in 2019. We expect the share count to decrease 1% on average annually. But COVID-19 is adversely impacting revenue and earnings in 2020. Business closures have led to lower orders. Consumer shopping habits have also changed leading to lower impulse purchases. Halloween was relatively muted this year due to social distancing requirements adversely affecting sales.

The regular cash dividend was last increased in 2016 and is currently \$0.36 per share. We are not expecting an increase of the regular cash dividend in the near future. But saying that, the payout ratio is only ~42% and there is room for an increase. The company does issue a 3% stock dividend each year in addition to the regular dividend giving a ~4% effective yield if an investor sells the stock dividend annually.

<sup>1</sup> Earnings per share data is not adjusted for the 3% annual stock dividend.

<sup>2</sup> Share count is in millions.

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



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## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	27.6	35.2	27.5	30.3	27.5	29.5	33.0	38.3	35.0	36.6	<b>38.0</b>	<b>30.0</b>
Avg. Yld.	1.2%	1.2%	1.6%	1.0%	1.1%	0.8%	1.0%	1.0%	1.2%	1.0%	<b>1.2%</b>	<b>1.2%</b>

Tootsie Roll's stock price is flat since our last report. We have adjusted our estimated earnings per share downward due to continued weakness in sales. Halloween sales were slow this year due to the pandemic. We believe that a fair long-term multiple is 30X due to the limited float and generally stable revenue and earnings per share over the past decade. Our fair value estimate is now \$26. Our 5-year price target is now \$30.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

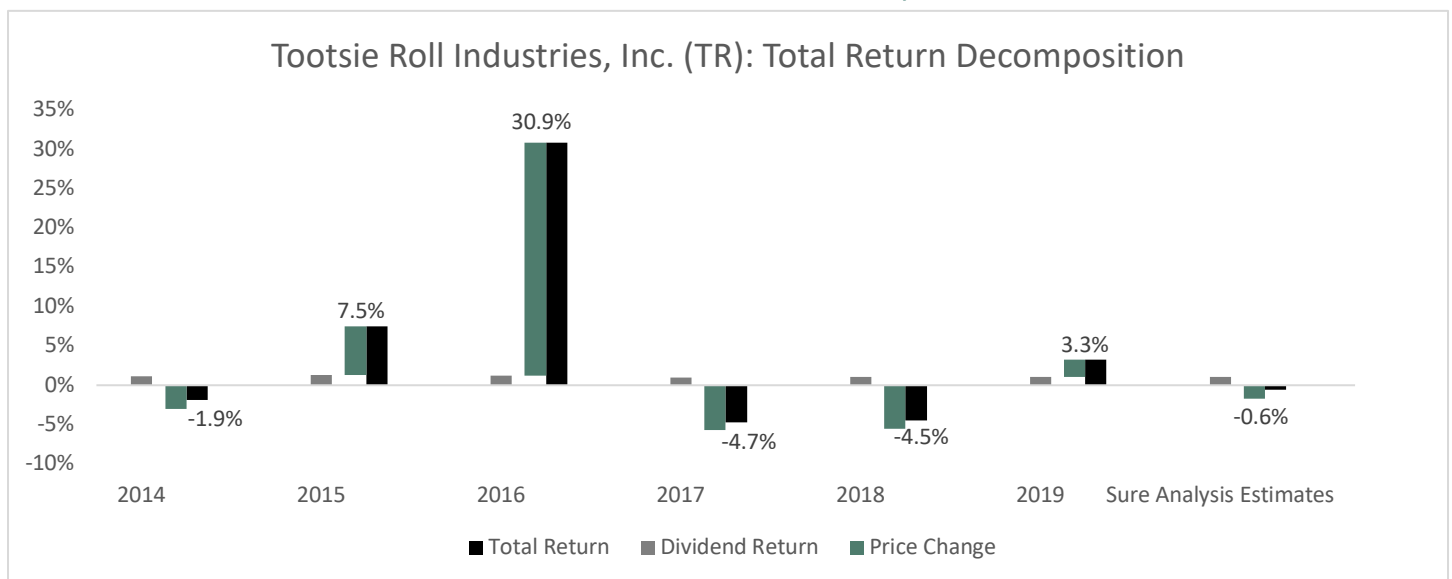
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	43%	52%	43%	36%	34%	35%	35%	29%	42%	36%	<b>42%</b>	<b>37%</b>

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. Some of the company's other brands are also well known. But saying that, Tootsie Roll tends to move slowly with product changes and growth initiatives. Changing tastes to more healthier options and smaller portion sizes are an ongoing risk to the top line. Tootsie Roll's balance sheet is very conservative. The company's long-term debt is an industrial revenue bond that has been only \$7.5M since 2014. Tootsie Roll has \$108M in cash and equivalents and \$58.3M in short-term investments on hand and interest coverage is rock solid.

## Final Thoughts & Recommendation

At present we are forecasting -0.6% total annualized return over the next five years. The stock has traded at an elevated multiple for years and we do not expect that to change. That said, Tootsie Roll is having a tough year in 2020 and the top and bottom lines will be lower due to COVID-19. The balance sheet has a net cash position though. Investors seeking yield may find it here with the combined cash and stock dividend of ~4%. New investors may want to wait for more certainty on the sales outlook before taking a position. For existing investors, we rate this stock a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	521	533	550	543	544	540	521	519	519	527
Gross Profit	171	166	183	191	202	199	199	192	188	197
Gross Margin	32.8%	31.2%	33.3%	35.2%	37.1%	36.9%	38.2%	37.0%	36.3%	37.4%
SG&A Exp.	106	108	114	119	118	108	108	121	118	128
D&A Exp.	18	19	20	20	21	20	20	19	19	19
Operating Profit	65	58	69	72	84	91	91	70	70	69
Operating Margin	12.4%	10.9%	12.6%	13.3%	15.4%	16.9%	17.5%	13.6%	13.6%	13.1%
Net Profit	53	44	52	61	63	66	68	81	57	65
Net Margin	10.2%	8.3%	9.5%	11.2%	11.6%	12.2%	13.0%	15.6%	11.0%	12.3%
Free Cash Flow	70	34	93	94	78	76	82	26	73	80
Income Tax	20	17	22	24	28	26	31	4	16	21

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	860	858	847	888	910	909	920	931	947	978
Cash & Equivalents	116	79	64	88	100	126	119	96	111	139
Accounts Receivable	37	42	42	41	43	51	43	47	50	45
Inventories	59	72	62	62	70	62	58	55	55	59
Goodwill & Int. Ass.	248	248	248	248	248	248	248	248	248	248
Total Liabilities	191	192	197	208	219	210	209	197	197	218
Accounts Payable	10	11	9	9	12	11	10	12	12	13
Long-Term Debt	8	8	8	8	8	8	8	8	8	8
Shareholder's Equity	669	666	650	680	691	698	711	734	751	760
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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.2%	5.1%	6.1%	7.0%	7.0%	7.3%	7.4%	8.7%	6.1%	6.7%
Return on Equity	8.0%	6.6%	7.9%	9.1%	9.2%	9.5%	9.6%	11.2%	7.7%	8.6%
ROIC	7.9%	6.5%	7.8%	9.0%	9.1%	9.4%	9.5%	11.1%	7.6%	8.5%
Shares Out.	72	71	70	69	68	66	66	65	64	65
Revenue/Share	7.23	7.49	7.85	7.87	7.98	8.05	7.90	7.98	8.08	7.82
FCF/Share	0.97	0.48	1.32	1.36	1.15	1.13	1.25	0.40	1.14	1.19

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

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