



Lancaster Colony Corporation (LANC)

Updated May 15th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$190	5 Year CAGR Estimate:	3.2%	Market Cap:	\$5.2 B
Fair Value Price:	\$161	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	06/04/21 ¹
% Fair Value:	118%	5 Year Valuation Multiple Estimate:	-3.3%	Dividend Payment Date:	06/30/21
Dividend Yield:	1.6%	5 Year Price Target	\$205	Years Of Dividend Growth:	58
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	7.1%

Overview & Current Events

Lancaster Colony has been making food products since 1969, after shifting away from housewares. The move has afforded the company some meaningful growth in the past five decades and the stock sports a \$5.2 billion market capitalization on \$1.4+ billion in annual revenue. Lancaster Colony makes various meal accessories like croutons and bread products in frozen and non-frozen categories. Lancaster also has one of the best dividend increase streaks in the entire market, with fiscal 2021 representing the 58th consecutive year of dividend increases.

Lancaster reported third quarter earnings on May 4th, 2021, with results coming in ahead of expectations for both profits and revenue. Total sales were up 11% year-over-year to a third quarter record of \$357 million, up from \$321 million. Excluding the Omni Baking business, which had its temporary supply agreement terminated in October, consolidated net sales were up 13% organically. Retail sales were up 17% to \$198 million, and in a shift from recent quarters, foodservice revenue actually rose, adding 4.6% year-over-year. Excluding Omni, foodservice sales were up 8.4%.

Gross profit was up 18% to \$91 million from \$77 million in the year-ago period. Gross profit was up from strong sales volume, favorable mix, lower employee benefit costs, and ongoing cost saving efforts. These were partially offset by higher manufacturing and commodity costs, however. In addition, Lancaster took a \$4.5 million inventory write-down in last year's Q3 from the abrupt slowdown of its foodservice business, a charge that was not repeated this year, and therefore made the comparable easier.

Operating income was up \$7 million, or 25% to \$37 million, driven by sales growth and higher gross margins. Again, the inventory write-down in the year-ago period helped with the comparable.

Earnings were \$29 million, or \$1.05 per diluted share, up from \$22 million or 81 cents per share, respectively, in the year-ago period. We now see \$5.95 for this year in terms of earnings-per-share.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$3.84	\$3.51	\$3.99	\$3.69	\$3.72	\$4.44	\$4.20	\$4.92	\$5.46	\$4.97	\$5.95	\$7.59
DPS	\$1.29	\$1.41	\$1.52	\$1.72	\$1.82	\$1.96	\$2.15	\$2.40	\$2.55	\$2.75	\$3.00	\$3.83
Shares²	28	27	27	27	27	27	27	28	28	28	28	28

The company's earnings-per-share growth has been spotty as its revenue tends to ebb and flow with restaurant traffic. It recovered nicely from the Great Recession, but the drop in 2008 earnings was very steep.

We are forecasting 5% earnings-per-share growth annually ahead, comprised of low single-digit sales and flat margins. Lancaster does not buy back stock. The company's average revenue growth has been and should remain in the low single-digits, but keep in mind the possibility for earnings volatility going forward - there will be years where it dips and other years where it may rise rapidly, as it did in 2018, and again in 2019. Organic growth has been a problem for Lancaster Colony, but it does complete sizable acquisitions regularly. After a decline in earnings in 2020, we are

¹ Estimated date

² Share count in millions

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forecasting a strong rebound in earnings to get Lancaster back to its former growth track for fiscal 2021. We note that comparables will begin to get much tougher for Lancaster as calendar year 2021 goes on, so we are cautious.

We are forecasting modest dividend growth annually for the next five years as Lancaster Colony continues its impressive streak of payouts to shareholders; the payout could be \$3.83 per share in five years. Lancaster is not a strong income stock, but it does prioritize growth in the payout each year, and that should continue. The company raised the dividend in November 2020 for the 58th consecutive year, boosting the payout by 7%.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.2	18.6	18.6	23.5	24.5	24.3	31.2	31.4	28.8	30.0	31.9	27.0
Avg. Yld.	2.4%	2.2%	2.0%	2.0%	2.0%	1.8%	1.6%	1.7%	1.6%	1.8%	1.6%	1.9%

The stock's price-to-earnings ratio has spent the past few years around 30, but given the company's exposure to restaurants, we see fair value at 27 times earnings. Today, shares trade for 31.9 times our fiscal 2021 earnings estimate, so we see it as overvalued at present, as it has been for some time.

Due to a forecast decline in the valuation, we are expecting the yield to climb closer to 2%. The stock's dividend yield was nearly cut in half from 2009 to 2017 due to a huge rally, but some of that could be unwound in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	29%	34%	40%	38%	47%	49%	44%	47%	47%	55%	50%	50%

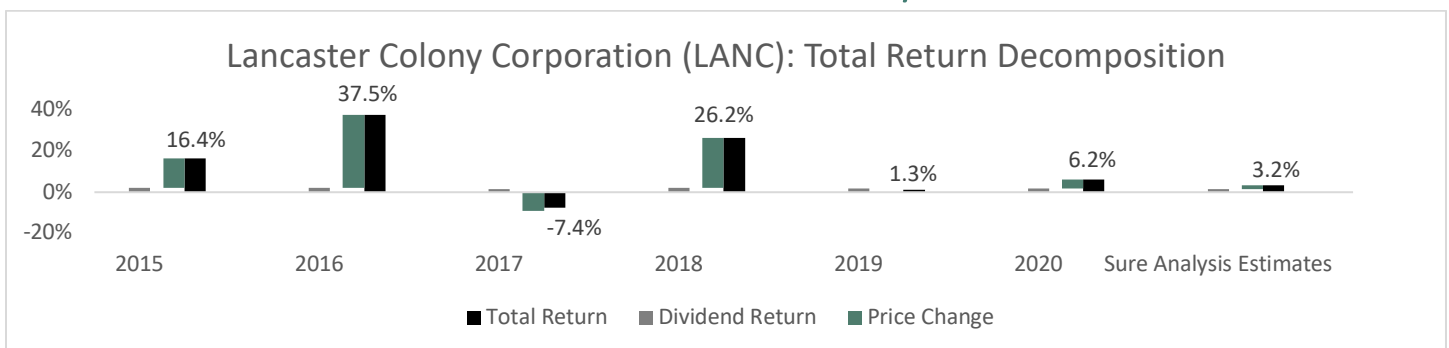
Lancaster Colony's payout should remain near where it is today as dividend growth roughly matches earnings growth. Given its Dividend King status, we know the payout is important to management and the dividend is very safe.

Lancaster Colony's competitive advantage is in its leadership position within the niche categories in which it competes. The company goes after accessory categories like bread, dressings and croutons where competition tends to be lighter. It also has strong distribution partnerships with companies like Walmart and McLane Company, a major restaurant distributor. Its recession performance track record is spotty because it is reliant upon restaurant traffic, something that suffers mightily during times of economic stress.

Final Thoughts & Recommendation

We expect Lancaster Colony to provide shareholders with total annualized returns of 3.2% over the next five years as it continues to be overvalued in our view. Investors seeking income may want to wait for a better price with a higher yield, and those seeking growth or value may simply look elsewhere. Lancaster Colony continues to earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1090	989	1014	1041	1105	1191	1202	1223	1308	1,334
Gross Profit	242	223	245	249	258	300	319	304	326	358
Gross Margin	22.2%	22.6%	24.1%	23.9%	23.3%	25.2%	26.5%	24.8%	24.9%	26.8%
SG&A Exp.	95	82	91	95	103	115	143	130	150	181
D&A Exp.	19	20	20	20	21	24	25	27	32	38
Operating Profit	147	141	154	154	155	185	176	174	176	177
Operating Margin	13.5%	14.3%	15.2%	14.8%	14.0%	15.5%	14.6%	14.2%	13.5%	13.3%
Net Profit	106	96	109	75	102	122	115	135	151	137
Net Margin	9.8%	9.7%	10.8%	7.2%	9.2%	10.2%	9.6%	11.1%	11.5%	10.3%
Free Cash Flow	112	106	108	113	114	129	119	130	127	88
Income Tax	55	49	50	52	53	63	60	39	45	42

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	622	683	620	639	702	635	716	804	905	993
Cash & Equivalents	132	192	123	212	182	118	143	206	196	198
Accounts Receivable	64	73	56	58	62	66	70	73	76	87
Inventories	112	110	68	75	78	76	76	91	86	85
Goodwill & Int. Ass.	98	97	96	95	192	189	228	224	279	274
Total Liabilities	105	118	119	110	121	121	140	152	179	210
Accounts Payable	43	41	36	38	39	40	41	58	77	71
Long-Term Debt	0	0	0	0	0	0	0	0	0	0
Shareholder's Equity	518	564	501	529	581	514	576	652	727	783
D/E Ratio	0	0	0	0	0	0	0	0	0	0

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	17.6%	14.7%	16.8%	11.9%	15.2%	18.2%	17.1%	17.8%	17.6%	14.4%
Return on Equity	21.2%	17.7%	20.5%	14.6%	18.3%	22.2%	21.2%	22.0%	21.8%	18.1%
ROIC	21.2%	17.7%	20.5%	14.6%	18.3%	22.2%	21.2%	22.0%	21.8%	18.1%
Shares Out.	28	27	27	27	27	27	27	28	28	28
Revenue/Share	39.36	36.27	37.16	38.12	40.42	43.51	43.80	44.54	47.49	48.53
FCF/Share	4.05	3.89	3.94	4.14	4.19	4.72	4.35	4.72	4.60	3.21

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

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