SpartanNash Co (SPTN)

Updated May 24th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	9.2%	**Market Cap:**	$737 M
Fair Value Price:	$21	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	06/29/2021
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Dividend Payment Date[2]:**	06/14/2021
Dividend Yield:	3.9%	**5 Year Price Target**	$27	**Years Of Dividend Growth:**	10
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	3.9%

Overview & Current Events

SpartanNash is a value-added wholesale grocery distributor and retailer. The corporation supplies more than 2,100 independent grocery retail locations in the United States. The company itself also owns 150 retail stores in nine states. SpartanNash operates under retail banners such as Dan's Supermarket, D&W Fresh Market, Econofoods, Family Fare, Forest Hill Foods, No Frills, Supermercardo Nuestra Familia, to name a few. The company is also a distributor of grocery products to U.S. military commissaries. The food distribution company has a market capitalization of $737 million and trades on the NYSE under the ticker symbol SPTN. SPTN is headquartered in Grand Rapids, Michigan. The company employs roughly 14,000 associates. The SpartanNash company was formed as a merger between Spartan Stores and the Nash Finch Company in November 2013. The Nash Finch company started as a family-owned business in 1885. Spartan Stores was created in 1917 when 100 independent retailers grouped together to purchase products in bulk and pass along savings to the customers. In 2017, SpartanNash acquired Caito Foods, a company specializing in fresh produce distribution and certain assets from Blue Ribbon Transport, a managed freight and logistics solutions company.

SpartanNash reported fourth quarter and fiscal 2020 financial results on February 24th. Net sales of $2.25 billion was up 12.5% from $2.00 billion in Q4 2020. Adjusted earnings per diluted share were up 87% compared to the prior year quarter, from $0.23 to $0.43. Adjusted EBITDA increased 32% year-over-year in the fourth quarter.

For the full fiscal year, net sales of $9.35 billion was a 9.5% increase compared to $8.54 billion earned in 2019. Full year 2020 adjusted EPS of $2.53 was highly favorable in comparison to last year's $1.10. Adjusted EBITDA grew 34% compared to the prior year. The net long-term debt to adjusted EBITDA ratio improved considerably during fiscal 2020, from a ratio of 3.7x to 2.0x. Net long-term debt decreased $199 million to $467 million. The company repurchased nearly 861,000 shares for a total of $10 million during the year.

Leadership provided guidance for the full-year fiscal 2021 and expects to see total net sales of around $8.9 billion, slightly down from 2020 actual results. Adjusted EPS is expected to come in between $1.65 to $1.80, compared to prior year actual results of $2.45.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Adj. EPS	$1.43	$1.39	$1.70	$1.80	$1.98	$2.19	$2.10	$1.87	$1.10	$2.45	**$1.78**	**$2.27**
DPS	$0.26	$0.32	$0.27	$0.48	$0.54	$0.60	$0.66	$0.72	$0.76	$0.77	**$0.80**	**$0.97**
Shares[3]	22.8	21.8	23.6	37.0	37.0	37.5	36.5	36.0	26.4	35.9	**36.0**	**36.0**

SpartanNash's adjusted earnings per share have generated a solid, and mostly consistent track record of growing over the long-term. Over the last nine and five years, SPTN has grown adjusted EPS by 6.2% and 4.4% on average. We estimate going forward, that the company can safely expect to grow adjusted EPS by roughly 5%. These increased

[1] Estimate
[2] Estimate
[3] 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.

earnings will support 4% growth in the dividend over the next five years, which is conservative in comparison to the 13% 9-year average growth rate and the 5.9% 5-year average growth rate.

The corporation aims to drive growth, increase efficiencies, and reduce costs. In fact, a reduction in cost of goods sold led to very solid earnings in 2020. The COVID-19 pandemic increased customer demand on the food distribution business, but this may unravel as vaccines roll out and people return to dining out. The company will grow its food distribution segment through expanding partnerships with existing customers, new business, and by improving the efficiency of its supply chain to drive improved profitability.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	11.6	12.0	11.6	12.4	14.4	13.3	14.3	11.1	13.1	7.1	**11.4**	**11.9**
Avg. Yld.	1.5%	2.0%	1.3%	2.1%	1.9%	2.1%	2.2%	3.5%	5.3%	4.4%	**3.9%**	**3.6%**

SpartanNash's price to adjusted earnings multiple is below its historical average, but not by a lot. We believe the valuation can grow to meet our estimated valuation of 11.9 times adjusted earnings. Historically, in the past nine and five years, SPTN has traded for 12.1 and 11.8 times adjusted earnings on average. We see a tailwind of 0.8% annually due to the estimated valuation expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	18%	23%	16%	27%	27%	27%	31%	39%	69%	31%	**45%**	**43%**

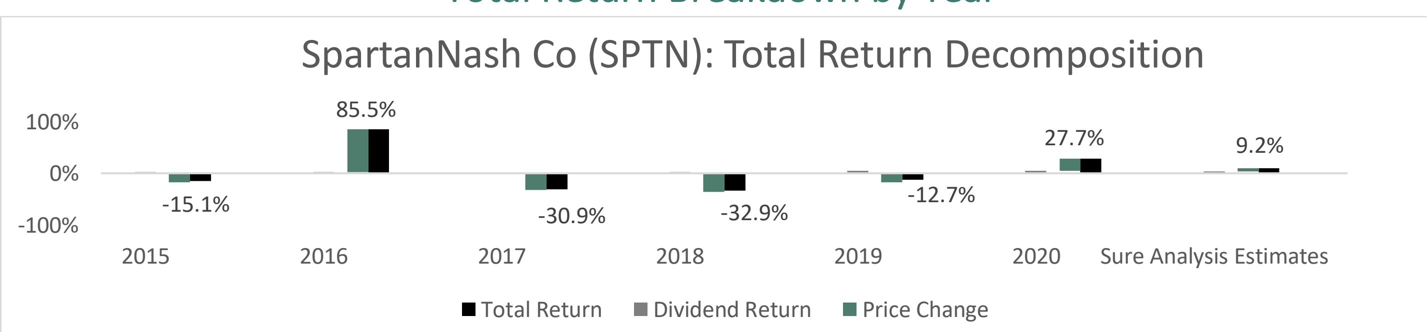
The company's payout ratio has steadily crept up to sit at around 45% of adjusted earnings in 2021. As a result, we expect future dividend growth to come in lower than it has historically. We forecast that dividend growth will continue and the dividend is not at risk. During the great financial crisis, earnings fell roughly 25% from start to end, but the company was still highly profitable. People need to eat, and the food business is essential despite the economic climate, so SPTN has some built-in recession resiliency. Throughout the crisis, the payout was never at risk.

The company's competitive advantage is its unique business model of food distribution, retail, and military operations allows for leveraging efficiencies of each segment, and at the same time supports the ability of its independent retailers to compete in the grocery industry long-term.

Final Thoughts & Recommendation

SpartanNash has a unique history spanning over a century, and a unique business model which promotes high operating efficiencies in the grocery business. We believe shares are currently trading at around 96% fair value and offer 9.2% in total returns over the next five years, thus we rate SPTN a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2,533	2,015	2,597	7,916	7,652	7,561	7,964	8,065	8,536	9,348
Gross Profit	557	413	487	1,156	1,116	1,111	1,145	1,110	1,244	1,425
Gross Margin	22.0%	20.5%	18.7%	14.6%	14.6%	14.7%	14.4%	13.8%	14.6%	15.2%
SG&A Exp.	488	370	433	1,022	976	963	1,015	997	1,172	1,298
D&A Exp.	35	29	37	88	85	79	84	83	88	90
Operating Profit	68	43	53	134	140	148	130	113	71	127
Operating Margin	2.7%	2.1%	2.1%	1.7%	1.8%	2.0%	1.6%	1.4%	0.8%	1.4%
Net Profit	32	20	1	59	63	57	(53)	34	6	76
Net Margin	1.3%	1.0%	0.0%	0.7%	0.8%	0.8%	-0.7%	0.4%	0.1%	0.8%
Free Cash Flow	54	(7)	27	49	143	83	(18)	100	105	239
Income Tax	20	10	1	31	37	33	(79)	7	(2)	9

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	751		1,984	1,932	1,917	1,930	2,056	1,972	2,276	2,277
Cash & Equivalents	44		9	6	23	24	16	19	24	20
Accounts Receivable	56		258	266	282	253	312	315	321	337
Inventories	104		589	577	521	540	597	554	537	542
Goodwill & Int. Ass.	241		361	355	386	383	313	308	312	297
Total Liabilities	446		1,277	1,185	1,126	1,105	1,334	1,256	1,588	1,542
Accounts Payable	101		366	320	354	372	377	358	405	465
Long-Term Debt	171	-	606	570	487	431	750	698	689	486
Shareholder's Equity	306		707	747	791	825	722	716	688	735
D/E Ratio	0.56		0.86	0.76	0.62	0.52	1.04	0.98	1.00	0.66

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.3%		0.1%	3.0%	3.3%	3.0%	-2.7%	1.7%	0.3%	3.3%
Return on Equity	11.2%		0.1%	8.1%	8.2%	7.0%	-6.8%	4.7%	0.8%	10.7%
ROIC	6.9%		0.1%	4.5%	4.8%	4.5%	-3.9%	2.3%	0.4%	5.8%
Shares Out.										
Revenue/Share	111.65	92.03	109.54	213.58	206.45	204.95	216.57	228.93	241.41	267.27
FCF/Share	2.39	(0.32)	1.14	1.32	3.87	2.25	(0.49)	2.84	2.98	6.84

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