



Lancaster Colony Corporation (LANC)

Updated September 5th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$175	5 Year CAGR Estimate:	5.1%	Market Cap:	\$4.9 B
Fair Value Price:	\$170	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	09/09/21
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.6%	Dividend Payment Date:	09/30/21
Dividend Yield:	1.7%	5 Year Price Target	\$207	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 \$4.9 billion market capitalization on \$1.6 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 fourth quarter and full-year earnings on August 26th, 2021, and results were mixed against expectations. Total net sales were up 20% to a fourth quarter record of \$386 million. Excluding Omni Baking sales, consolidated net sales were up 21%. Retail net sales were up 11% to \$214 million, while Foodservice revenue soared 33% given strength of quick-service restaurants and pizza chain sales.

Consolidated gross profit was up 8.5% to a fourth quarter record of \$97 million, driven by strong sales growth and ongoing cost savings programs. These were partially offset by commodity and freight costs, as well as less favorable sales mix. Gross profit was also negatively impacted by incremental expenditures such as shifting to co-manufacturing, as well as increased safety measures at its plants. SG&A costs were up \$7 million to \$56 million, and consolidated operating income was up 2% to \$41 million, impacted by the factors mentioned above. This was a stark difference to the 20% gain in sales. Net income was up \$1.3 million to \$31.7 million, or \$1.15 per share, both of which were slightly higher against \$30.4 million and \$1.10 per share, respectively, a year ago.

Our initial estimate for this year is \$6.30 in earnings-per-share on the continued recovery in both grocery and foodservice revenue for Lancaster in fiscal 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.51	\$3.99	\$3.69	\$3.72	\$4.44	\$4.20	\$4.92	\$5.46	\$4.97	\$5.05	\$6.30	\$7.66
DPS	\$1.41	\$1.52	\$1.72	\$1.82	\$1.96	\$2.15	\$2.40	\$2.55	\$2.75	\$3.00	\$3.00	\$3.83
Shares¹	27	27	27	27	27	27	28	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 4% 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 forecasting a strong rebound in earnings to get Lancaster back to its former growth track for fiscal 2022. We note that comparables will continue to get much tougher for Lancaster as calendar year 2021 goes on, so we are cautious.

¹ Share count in millions

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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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	18.6	18.6	23.5	24.5	24.3	31.2	31.4	28.8	30.0	35.0	27.8	27.0
Avg. Yld.	2.2%	2.0%	2.0%	2.0%	1.8%	1.6%	1.7%	1.6%	1.8%	1.7%	1.7%	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 27.8 times our fiscal 2022 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	34%	40%	38%	47%	49%	44%	47%	47%	55%	48%	48%	50%

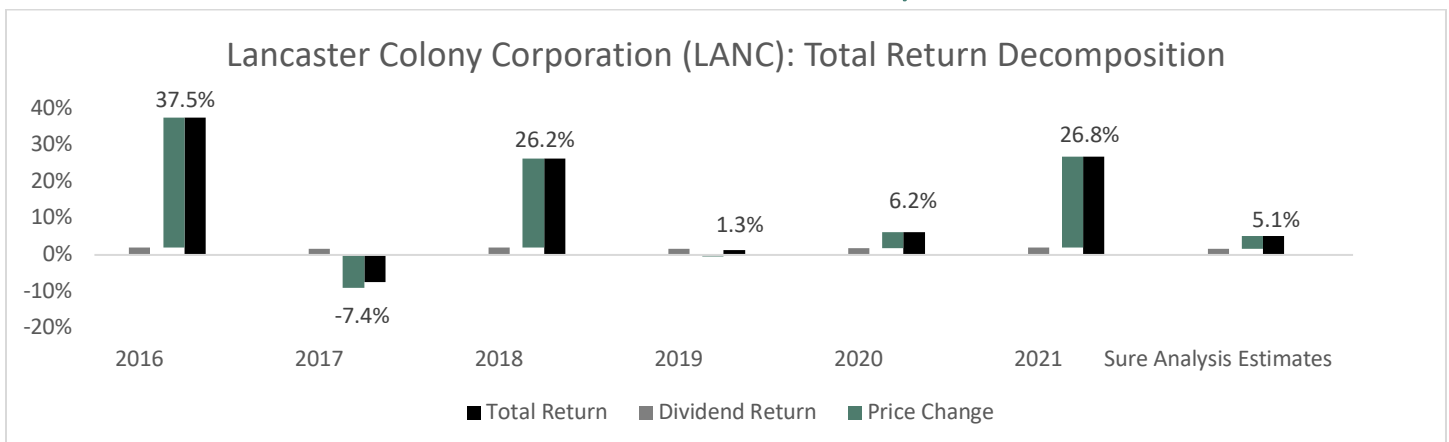
Lancaster Colony's payout should remain near where it is today as dividend growth roughly matches earnings growth. Given its Dividend King status, we know the payout is important to management and the dividend is very safe.

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 5.1% 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 is now rated a hold, up from sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	989	1,014	1,041	1,105	1,191	1,202	1,223	1,308	1,334	1,467
Gross Profit	223	245	249	258	300	319	304	326	358	387
Gross Margin	22.6%	24.1%	23.9%	23.3%	25.2%	26.5%	24.8%	24.9%	26.8%	26.4%
SG&A Exp.	82	91	95	103	115	143	130	150	181	205
D&A Exp.	20	20	20	21	24	25	27	32	38	45
Operating Profit	141	154	154	155	185	176	174	176	177	181
Operating Margin	14.3%	15.2%	14.8%	14.0%	15.5%	14.6%	14.2%	13.5%	13.3%	12.4%
Net Profit	96	109	75	102	122	115	135	151	137	142
Net Margin	9.7%	10.8%	7.2%	9.2%	10.2%	9.6%	11.1%	11.5%	10.3%	9.7%
Free Cash Flow	106	108	113	114	129	119	130	127	88	86
Income Tax	49	50	52	53	63	60	39	45	42	43

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	683	620	639	702	635	716	804	905	993	1,101
Cash & Equivalents	192	123	212	182	118	143	206	196	198	188
Accounts Receivable	73	56	58	62	66	70	73	76	87	98
Inventories	110	68	75	78	76	76	91	86	85	122
Goodwill & Int. Ass.	97	96	95	192	189	228	224	279	274	267
Total Liabilities	118	119	110	121	121	140	152	179	210	258
Accounts Payable	41	36	38	39	40	41	58	77	71	110
Long-Term Debt	---	---	---	---	---	---	---	---	---	---
Shareholder's Equity	564	501	529	581	514	576	652	727	783	843
D/E Ratio	---	---	---	---	---	---	---	---	---	---

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	14.7%	16.8%	11.9%	15.2%	18.2%	17.1%	17.8%	17.6%	14.4%	13.6%
Return on Equity	17.7%	20.5%	14.6%	18.3%	22.2%	21.2%	22.0%	21.8%	18.1%	17.5%
ROIC	17.7%	20.5%	14.6%	18.3%	22.2%	21.2%	22.0%	21.8%	18.1%	17.5%
Shares Out.	27	27	27	27	27	27	28	28	28	28
Revenue/Share	36.27	37.16	38.12	40.42	43.51	43.80	44.54	47.49	48.53	53.31
FCF/Share	3.89	3.94	4.14	4.19	4.72	4.35	4.72	4.60	3.21	3.14

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

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