



SpartanNash Co (SPTN)

Updated November 13th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$26	5 Year CAGR Estimate:	4.2%	Market Cap:	\$928 M
Fair Value Price:	\$21	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	12/09/2021
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.7%	Dividend Payment Date²:	12/31/2021
Dividend Yield:	3.1%	5 Year Price Target	\$27	Years Of Dividend Growth:	10
Dividend Risk Score:	B	Retirement Suitability Score:	B	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 146 supermarkets 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, Supermercado 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 \$928 million and trades on the NYSE under the ticker symbol SPTN. SPTN is headquartered in Grand Rapids, Michigan. The company employs roughly 18,000 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 third quarter financial results on November 10th. Net sales of \$2.07 billion was up 0.6% from \$2.06 billion in 3Q 2020, due to positive sales contributions in growth from Food Distribution and Retail. Adjusted earnings per diluted share was down 39% from \$0.70 to \$0.43 per share. Adjusted EBITDA decreased 9.6% year-over-year to \$51.5 million in the third quarter.

The net long-term debt to adjusted EBITDA ratio decreased from 2.0 to 1.7x as net long-term debt decreased \$47.1 million during the third quarter. Debt was decreased using cash generated from operating activities.

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 \$1.70 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
Shares³	22.8	21.8	23.6	37.0	37.0	37.5	36.5	36.0	26.4	35.9	35.0	35.0

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% annually. These increased earnings will support 4% annual 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.

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.



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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	14.5	12.0
Avg. Yld.	1.5%	2.0%	1.3%	2.1%	1.9%	2.1%	2.2%	3.5%	5.3%	4.4%	3.1%	3.6%

SpartanNash's price to adjusted earnings multiple is at a premium in relation to its historical average. We believe the valuation will drop down to our fair value estimate of 12.0 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 estimate a 3.7% annual loss due to the forecasted valuation contraction.

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%

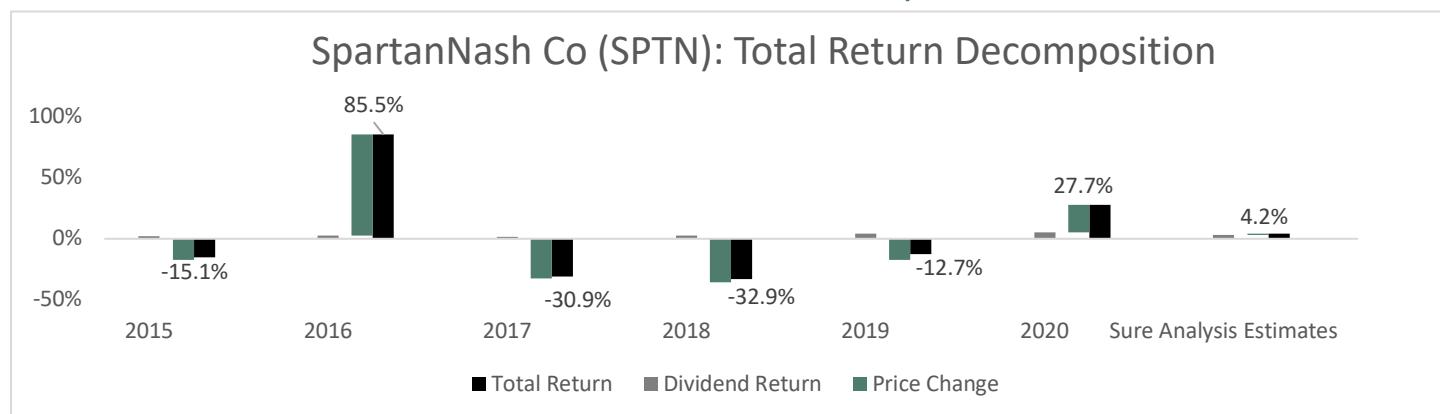
The company's payout ratio has steadily crept up to sit at around 45% of adjusted earnings in 2021. As a result, we expect future dividend growth to come in lower than it has historically. We forecast that dividend growth will continue and the dividend does not appear to be under threat. During the great 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 hot at 121% of fair value, but offer 4.2% in annualized total returns over the next five years, thus we rate SPTN a hold for the time being.

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.

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