



# Tootsie Roll Industries, Inc. (TR)

Updated November 22<sup>nd</sup>, 2021 by Prakash Kolli

## Key Metrics

<b>Current Price:</b>	\$32	<b>5 Year CAGR Estimate:</b>	1.0%	<b>Market Cap:</b>	\$2.14B
<b>Fair Value Price:</b>	\$28	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	12/18/21 <sup>1</sup>
<b>% Fair Value:</b>	117%	<b>5 Year Valuation Multiple Estimate:</b>	-3.0%	<b>Dividend Payment Date:</b>	01/06/22
<b>Dividend Yield:</b>	1.2%	<b>5 Year Price Target</b>	\$32	<b>Years Of Dividend Growth:</b>	53
<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. Total revenue in 2020 was about \$471M.

Tootsie Roll reported excellent Q3 2021 results on October 27, 2021. Net sales were up 17% to \$183.1M for the quarter versus \$157M in the prior year. In the same period, net earnings were flat at \$24.7M compared to \$24.7M. Diluted EPS increased 3% to \$0.37 per share from \$0.36 on year-over-year basis. Tootsie Roll had a difficult 2020 as retail operations, work routines, and impulse buying were disrupted by the COVID-19 pandemic. Indeed, restrictions on large gatherings limited group social events further affected sales. However, reopening of the US economy, more social gatherings, Halloween, and a return to typical buying patterns is driving sales. Sales in Q3 2021 are now 1% ahead of Q3 2019.

Tootsie Roll did not provide guidance for 2021 due to the ongoing impact of COVID-19. However, input costs are rising for ingredients, freight and delivery, packaging materials, and manufacturing supplies impacting profit margins. Supply chain delays and longer lead times are also a negative.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS<sup>2</sup></b>	\$0.58	\$0.70	\$0.83	\$0.88	\$0.93	\$0.96	\$0.90	\$0.86	\$0.96	\$0.89	<b>\$0.92</b>	<b>\$1.07</b>
<b>DPS</b>	\$0.32	\$0.32	\$0.32	\$0.32	\$0.35	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36	<b>\$0.36</b>	<b>\$0.36</b>
<b>Shares<sup>3</sup></b>	75.9	75.0	73.9	72.7	71.7	70.7	70.1	69.0	68.0	67.3	<b>66.6</b>	<b>63.4</b>

Tootsie Roll should achieve on average 3% earnings per share growth moving forward to 2026, 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 2011 to 67.3M in 2020. We expect the share count to decrease 1% on average annually. But COVID-19 adversely impacted revenue and earnings in 2020. Business closures have led to lower order volumes and sales. Consumer shopping habits have also changed leading to lower impulse purchases. Halloween was relatively muted in 2020 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 ~39% 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> Anticipated since the Tootsie Roll has not yet announced the dividend.

<sup>2</sup> Earnings per share and dividend per share data is not adjusted for the 3% annual stock dividend.

<sup>3</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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	35.2	27.5	30.3	27.5	29.5	33.0	38.3	35.0	36.6	37.1	<b>35.0</b>	<b>30.0</b>
Avg. Yld.	1.2%	1.6%	1.0%	1.1%	0.8%	1.0%	1.0%	1.2%	1.0%	1.1%	<b>1.2%</b>	<b>1.1%</b>

Tootsie Roll's stock price is flat since our last report. Our earnings estimate for fiscal 2021 is \$0.92 per share but there is large degree of uncertainty in this. Much depends on vaccination rates and reopening of the U.S. economy. We believe that a fair long-term multiple is 30X, lower than the trailing 10-year average, due to limited float and changing tastes to healthier options and smaller sizes. Our fair value estimate is now \$28. Our 5-year price target is now \$32.

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

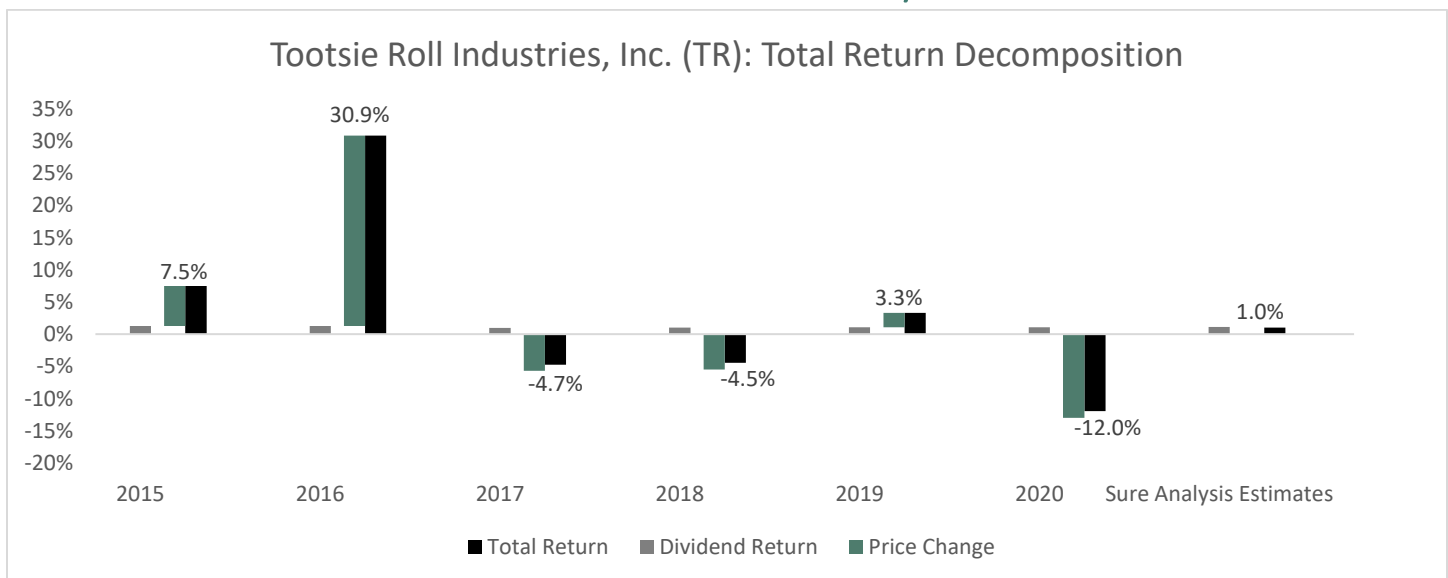
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	55%	46%	39%	36%	38%	38%	40%	42%	38%	40%	<b>39%</b>	<b>34%</b>

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 has been only an industrial revenue bond for \$7.5M since 2014. Tootsie Roll has \$76.2M in cash and equivalents and \$39.5M in short-term investments on hand and interest coverage is rock solid.

## Final Thoughts & Recommendation

At present we are forecasting 1.0% total annualized return over the next five years. The stock has traded at an elevated earnings multiple for years and we do not expect that to change. The company had a difficult 2020 but 2021 should be better as vaccination rates continue to rise and the U.S. economy reopens. Buyers will likely start making impulse purchases again. Investors seeking yield may find it here with the combined cash and stock dividend of ~4%. That being said, the stock price is very rich at this juncture. At the current price, we rate this stock a sell.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	533	550	543	544	540	521	519	519	527	471
<b>Gross Profit</b>	166	183	191	202	199	199	192	188	197	170
<b>Gross Margin</b>	31.2%	33.3%	35.2%	37.1%	36.9%	38.2%	37.0%	36.3%	37.4%	36.2%
<b>SG&amp;A Exp.</b>	108	114	119	118	108	108	121	118	128	112
<b>D&amp;A Exp.</b>	19	20	20	21	20	20	19	19	19	18
<b>Operating Profit</b>	58	69	72	84	91	91	70	70	69	58
<b>Operating Margin</b>	10.9%	12.6%	13.3%	15.4%	16.9%	17.5%	13.6%	13.6%	13.1%	12.4%
<b>Net Profit</b>	44	52	61	63	66	68	81	57	65	59
<b>Net Margin</b>	8.3%	9.5%	11.2%	11.6%	12.2%	13.0%	15.6%	11.0%	12.3%	12.5%
<b>Free Cash Flow</b>	34	93	94	78	76	82	26	73	80	57
<b>Income Tax</b>	17	22	24	28	26	31	4	16	21	17

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	858	847	888	910	909	978	947	931	920	985
<b>Cash &amp; Equivalents</b>	79	64	88	100	126	139	111	96	119	167
<b>Accounts Receivable</b>	42	42	41	43	51	45	50	47	43	41
<b>Inventories</b>	72	62	62	70	62	59	55	55	58	60
<b>Goodwill &amp; Int. Ass.</b>	248	248	248	248	248	248	248	248	248	248
<b>Total Liabilities</b>	192	197	208	219	210	218	197	197	209	221
<b>Accounts Payable</b>	11	9	9	12	11	13	12	12	10	13
<b>Long-Term Debt</b>	8	8	8	8	8	8	8	8	8	8
<b>Shareholder's Equity</b>	666	650	680	691	698	760	751	734	711	763
<b>D/E Ratio</b>	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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	5.1%	6.1%	7.0%	7.0%	7.3%	7.4%	8.7%	6.1%	6.7%	6.0%
<b>Return on Equity</b>	6.6%	7.9%	9.1%	9.2%	9.5%	9.6%	11.2%	7.7%	8.6%	7.7%
<b>ROIC</b>	6.5%	7.8%	9.0%	9.1%	9.4%	9.5%	11.1%	7.6%	8.5%	7.7%
<b>Shares Out.</b>	74.9	73.7	72.8	71.8	70.5	69.6	68.6	69.0	67.0	66.3
<b>Revenue/Share</b>	7.06	7.40	7.42	7.53	7.59	7.67	7.53	7.62	7.82	6.88
<b>FCF/Share</b>	0.45	1.24	1.28	1.08	1.06	1.21	0.38	1.08	1.19	0.83

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

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