



Tootsie Roll Industries, Inc. (TR)

Updated February 21, 2022 by Prakash Kolli

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	1.6%	Market Cap:	\$2.22B
Fair Value Price:	\$30	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/04/22 ¹
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.3%	Dividend Payment Date:	03/26/22
Dividend Yield:	1.2%	5 Year Price Target	\$35	Years Of Dividend Growth:	54
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	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 2021 was about \$566M.

Tootsie Roll reported excellent Q4 2021 and full year results on February 15, 2022. Net sales were up 30% to \$166.6M for the quarter versus \$127.9M in the prior year. In the same period, net earnings rose to \$20.0M compared to \$15.0M. Diluted EPS increased 36% to \$0.30 per share from \$0.22 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, 2021 was significantly better and sales in Q4 2021 exceed sales in Q4 2019. For the year, sale increased 21% to \$566M from \$467.4M.

Inflation is a concern since input costs are rising for ingredients, freight and delivery, fuel, packaging materials, energy and manufacturing supplies impacting profit margins. The company is raising prices in response.

Tootsie Roll did not provide guidance for 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS²	\$0.70	\$0.83	\$0.88	\$0.93	\$0.96	\$0.90	\$0.86	\$0.96	\$0.89	\$0.97	\$1.00	\$1.16
DPS	\$0.32	\$0.32	\$0.32	\$0.35	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36
Shares³	75.9	75.0	73.9	72.7	71.7	70.7	70.1	69.0	68.0	67.3	66.6	63.4

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. However, COVID-19 adversely impacted revenue and earnings in 2020 because business closures resulted in lower order volumes and sales. Consumer shopping habits have also changed leading to lower impulse purchases. Halloween was relatively muted in 2020 but 2021 was better.

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 ~36% 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.

¹ Anticipated since the Tootsie Roll has not yet announced the dividend.

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

³ 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	27.5	30.3	27.5	29.5	33.0	38.3	35.0	36.6	37.1	48.8	33.7	30.0
Avg. Yld.	1.6%	1.0%	1.1%	0.8%	1.0%	1.0%	1.2%	1.0%	1.1%	0.9%	1.2%	1.0%

Tootsie Roll's stock price is up slightly since our last report. The company performed well in 2021 beating earnings estimates due end of the year momentum. 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 \$30. Our 5-year price target is now \$35.

Safety, Quality, Competitive Advantage, & Recession Resiliency

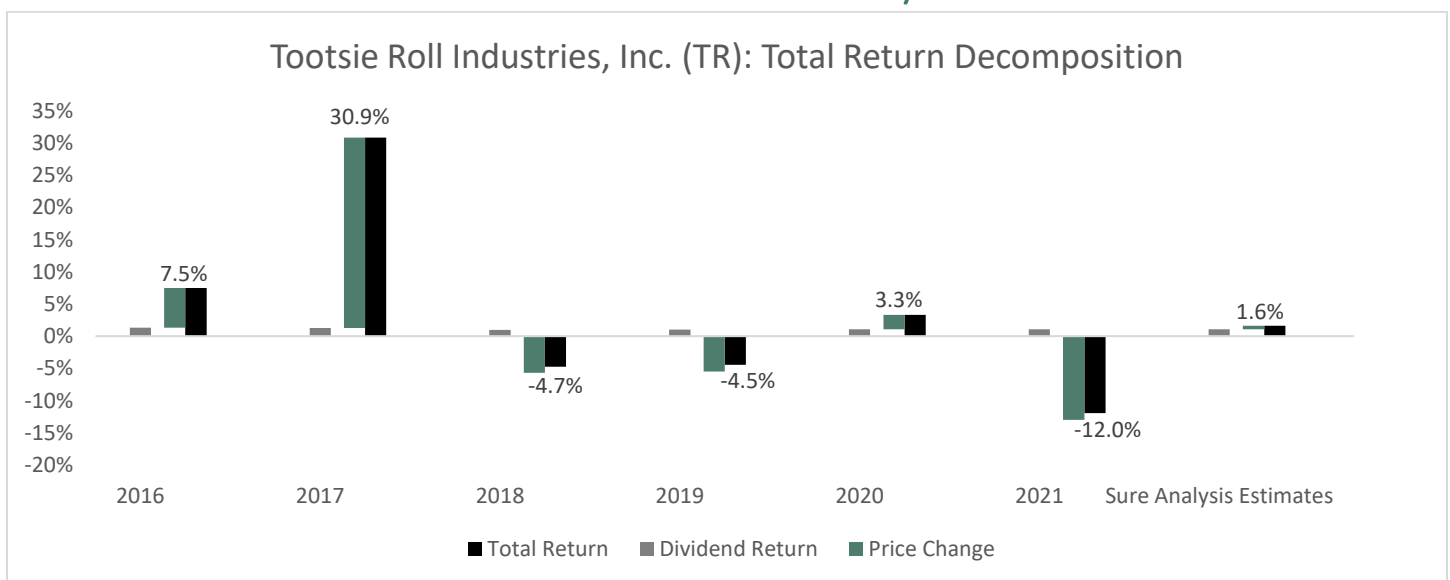
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	46%	39%	36%	38%	38%	40%	42%	38%	40%	39%	36%	31%

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 1.6% 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 was much better and Q4 2021 outperformed Q4 2019. Consumer habits are seemingly returning to normal. Investors seeking yield may find it here with the combined cash and stock dividend of ~4%. However, 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
Revenue	533	550	543	544	540	521	519	519	527	471
Gross Profit	166	183	191	202	199	199	192	188	197	170
Gross Margin	31.2%	33.3%	35.2%	37.1%	36.9%	38.2%	37.0%	36.3%	37.4%	36.2%
SG&A Exp.	108	114	119	118	108	108	121	118	128	112
D&A Exp.	19	20	20	21	20	20	19	19	19	18
Operating Profit	58	69	72	84	91	91	70	70	69	58
Operating Margin	10.9%	12.6%	13.3%	15.4%	16.9%	17.5%	13.6%	13.6%	13.1%	12.4%
Net Profit	44	52	61	63	66	68	81	57	65	59
Net Margin	8.3%	9.5%	11.2%	11.6%	12.2%	13.0%	15.6%	11.0%	12.3%	12.5%
Free Cash Flow	34	93	94	78	76	82	26	73	80	57
Income Tax	17	22	24	28	26	31	4	16	21	17

Balance Sheet Metrics

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