



Lancaster Colony Corporation (LANC)

Updated August 27th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$173	5 Year CAGR Estimate:	7.6%	Market Cap:	\$4.6 B
Fair Value Price:	\$157	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	09/08/22
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date:	09/30/22
Dividend Yield:	1.8%	5 Year Price Target	\$230	Years Of Dividend Growth:	59
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

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 has a \$4.6 billion market capitalization on \$1.8 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 2022 representing the 59th consecutive year of dividend increases.

Lancaster reported fourth quarter and full-year earnings on August 25th, 2022, and results were outstanding, easily beating expectations on both the top and bottom lines. Revenue soared 17% year-over-year to \$452 million, beating estimates by \$37 million. Adjusted earnings-per-share was \$1.35, which was a staggering \$0.80 better than expectations. The stock rose more than 11% on the news.

Retail segment sales were up 9% to \$233 million, as volume declined 2%. Foodservice segment revenue was up 28% to \$219 million, as volume rose 2%. The company noted that advance customer orders ahead of the Lancaster's ERP go-live accounted for \$25 million in incremental net sales in Q4, meaning that additional growth will come off of future quarters. Even so, the beat was impressive.

Gross profit was up 1.8% to a record of \$98.4 million, as gross margin declined 330 basis points to 21.8% of revenue. The company noted for fiscal 2023 that it continues to take pricing actions to combat rising input costs, and that it expects the foodservice business to continue to lead the way from a growth perspective. Our initial estimate for this year is \$5.40 in earnings-per-share.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.99	\$3.69	\$3.72	\$4.44	\$4.20	\$4.92	\$5.46	\$4.97	\$5.05	\$4.38	\$5.40	\$7.93
DPS	\$1.52	\$1.72	\$1.82	\$1.96	\$2.15	\$2.40	\$2.55	\$2.75	\$3.00	\$3.15	\$3.20	\$4.28
Shares¹	27	27	27	27	27	28	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 8% earnings-per-share growth annually ahead, comprised of low single-digit sales and flat margins over time, with the caveat that margins are very much at risk; this should be temporary but guidance for 2023 suggests Lancaster is far from out of the woods on that front. 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, Lancaster has failed to get back near its prior highs in terms of earnings. We believe the company has a chance to reach that high in earnings this year.

¹ Share count 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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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 \$4.28 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 December 2021 for the 59th consecutive year, boosting the payout by 6.7%.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2027
Avg. P/E	18.6	23.5	24.5	24.3	31.2	31.4	28.8	30.0	35.0	29.4	32.0	29.0
Avg. Yld.	2.0%	2.0%	2.0%	1.8%	1.6%	1.7%	1.6%	1.8%	1.7%	2.4%	1.8%	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 29 times earnings. Today, shares trade for 32 times our fiscal 2023 earnings estimate, so we see it as somewhat overvalued.

We see the yield remaining about where it is today given a relatively stable valuation, and rising dividend-per-share. The yield is back under 2% given the elevated valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2022	2027
Payout	40%	38%	47%	49%	44%	47%	47%	55%	48%	72%	59%	54%

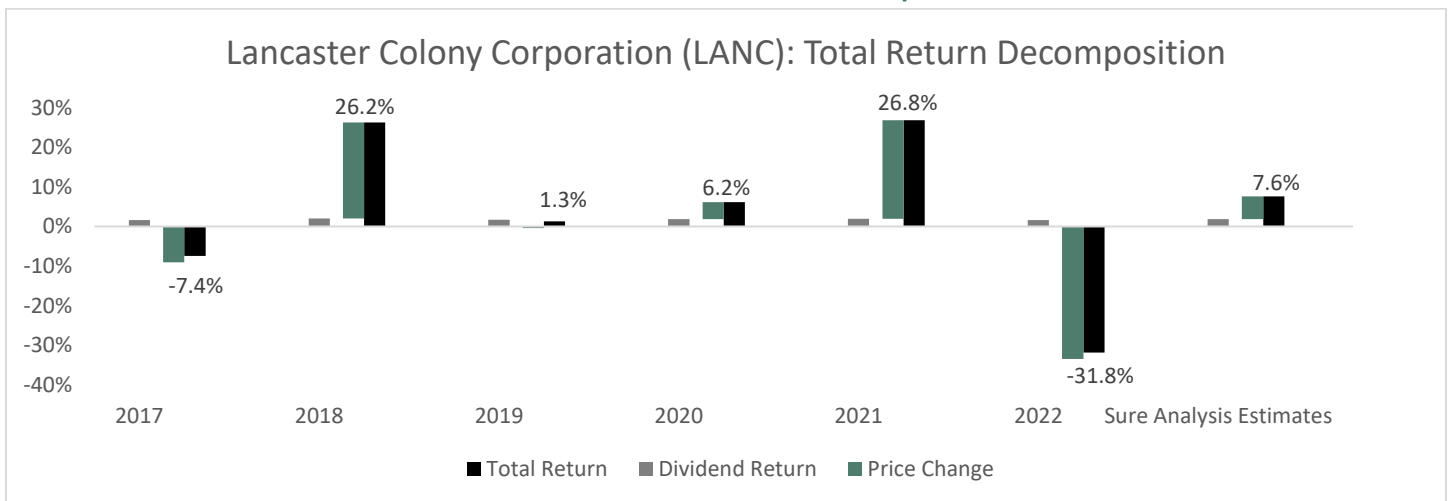
Lancaster Colony's payout should remain near where it is today as dividend growth roughly matches earnings growth. Given its Dividend King status, we know the payout is important to management and the dividend is very safe.

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 forecast Lancaster Colony to provide shareholders with total annualized returns of 7.6% over the next five years, comprised of 8% growth, a 1.8% dividend yield, and a small headwind from the valuation. Shares earn a hold rating.

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
LTD/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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