



SpartanNash Co (SPTN)

Updated November 15th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	2.3%	Market Cap:	\$1.1 B
Fair Value Price:	\$28	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	12/09/2022
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.4%	Dividend Payment Date¹:	12/30/2022
Dividend Yield:	2.8%	5 Year Price Target	\$33	Years Of Dividend Growth:	12
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Sell

Overview & Current Events

SpartanNash is a value-added wholesale grocery distributor and retailer. The corporation supplies 2,100 independent grocery retail locations in the United States. The company itself also owns 147 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 \$1.1 billion and trades on the NYSE under the ticker symbol SPTN. SPTN is headquartered in Grand Rapids, Michigan. The company employs roughly 17,500 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 fiscal 2022 results on November 9th, 2022. Net sales of \$2.3 billion was a 10.8% increase from \$2.1 billion in the same prior year period. Adjusted earnings per diluted share was flat year-over-year at \$0.55. Adjusted EBITDA rose 11.3% year-over-year to \$57.3 million.

The net long-term debt to adjusted EBITDA ratio increased from 1.8x to 2.1x during the first nine months of fiscal 2022 as long-term debt and finance lease liabilities increased by roughly \$113 million year-to-date.

Leadership upgraded guidance for the full-year fiscal 2022 again and expects to see total net sales of around \$9.6 billion, up from 2021 actual results. Adjusted EPS is expected to come in between \$2.27 to \$2.37, compared to 2021 year actual results of \$1.70.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Adj. EPS	\$1.39	\$1.70	\$1.80	\$1.98	\$2.19	\$2.10	\$1.87	\$1.10	\$2.45	\$1.70	\$2.32	\$2.69
DPS	\$0.32	\$0.27	\$0.48	\$0.54	\$0.60	\$0.66	\$0.72	\$0.76	\$0.77	\$0.80	\$0.84	\$1.02
Shares²	21.8	23.6	37.0	37.0	37.5	36.5	36.0	26.4	35.9	35.9	36.0	40.0

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 2.3% and (4.9%) on average, as 2021 results are lacking. We estimate going forward, that the company can safely expect to grow adjusted EPS by roughly 3.0% annually. These increased earnings will support 4.0% annual growth in the dividend over the next five years, which is fair in comparison to the 11% 9-year average growth rate and the 4% 5-year average growth rate.

¹ Estimate

² In millions

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The corporation aims to drive growth, increase efficiencies, and reduce costs. The COVID-19 pandemic increased customer demand on the food distribution business. In 2022, increased supply chain labor costs are being offset through supply chain efficiencies as a result of the company's supply chain transformation initiative. The company will grow its food distribution segment through expanding partnerships with existing customers, new business, and by continuing to improve the efficiency of its supply chain to drive improved profitability.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.0	11.6	12.4	14.4	13.3	14.3	11.1	13.1	7.1	12.2	14.3	12.0
Avg. Yld.	2.0%	1.3%	2.1%	1.9%	2.1%	2.2%	3.5%	5.3%	4.4%	3.8%	2.5%	3.2%

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 12.2 and 11.6 times adjusted earnings on average. We estimate a 3.4% annual loss due to the forecasted valuation contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

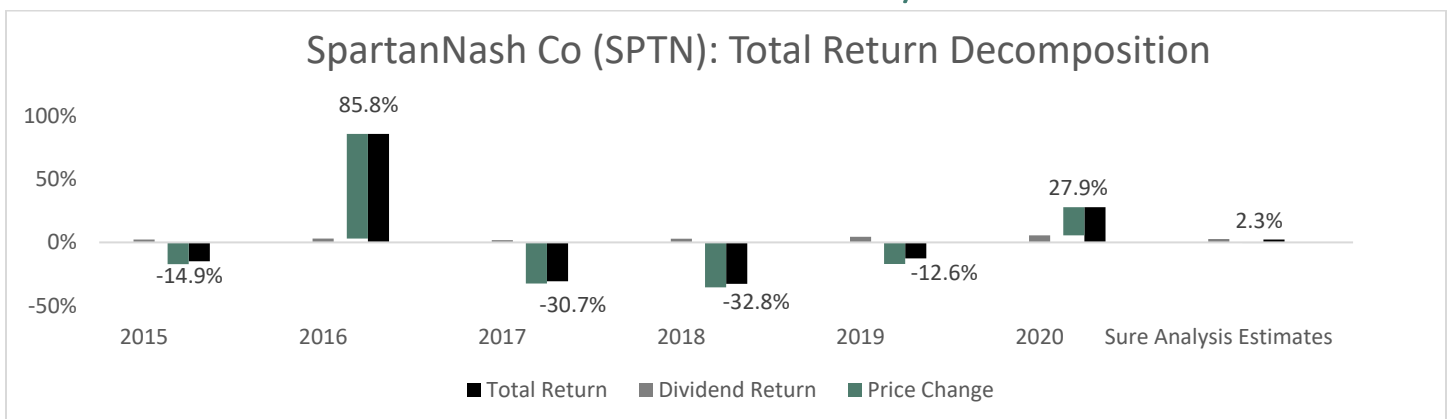
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	23%	16%	27%	27%	27%	31%	39%	69%	31%	47%	36%	38%

The company's payout ratio has steadily crept up to sit at around 36% of adjusted earnings in 2022. 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 at 119% of fair value and offer only 2.3% in annualized total returns over the next five years, thus we rate SPTN as a 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	2,015	2,597	7,916	7,652	7,561	7,964	8,065	8,536	9,348	8,931
Gross Profit	413	487	1,156	1,116	1,111	1,145	1,110	1,244	1,425	1,404
Gross Margin	20.5%	18.7%	14.6%	14.6%	14.7%	14.4%	13.8%	14.6%	15.2%	15.7%
SG&A Exp.	370	433	1022	976	963	1,015	997	1,172	1,298	1,288
D&A Exp.	29	37	88	85	79	84	83	88	90	93
Operating Profit	43	53	134	140	148	130	113	71	127	116
Operating Margin	2.1%	2.1%	1.7%	1.8%	2.0%	1.6%	1.4%	0.8%	1.4%	1.3%
Net Profit	20	1	59	63	57	-53	34	6	76	74
Net Margin	1.0%	0.0%	0.7%	0.8%	0.8%	-0.7%	0.4%	0.1%	0.8%	0.8%
Free Cash Flow	-7	27	49	143	83	-18	100	105	239	82
Income Tax	10	1	31	37	33	-79	7	-2	9	25

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets		1,984	1,932	1,917	1,930	2,056	1,972	2,276	2,277	2,207
Cash & Equivalents		9	6	23	24	16	19	24	20	11
Accounts Receivable		258	266	282	253	312	315	321	337	328
Inventories		589	577	521	540	597	554	537	542	522
Goodwill & Int. Ass.		361	355	386	383	313	308	312	297	292
Total Liabilities		1,277	1,185	1,126	1,105	1,334	1,256	1,588	1,542	14,24
Accounts Payable		366	320	354	372	377	358	405	465	447
Long-Term Debt		606	570	487	431	750	698	689	486	406
Shareholder's Equity		707	747	791	825	722	716	688	735	783
LTD/E Ratio		0.86	0.76	0.62	0.52	1.04	0.98	1.00	0.66	0.52

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets		0.1%	3.0%	3.3%	3.0%	-2.7%	1.7%	0.3%	3.3%	3.3%
Return on Equity		0.1%	8.1%	8.2%	7.0%	-6.8%	4.7%	0.8%	10.7%	9.7%
ROIC	21.90	0.1%	4.5%	4.8%	4.5%	-3.9%	2.3%	0.4%	5.8%	6.1%
Shares Out.	21.8	23.6	37.0	37.0	37.5	36.5	36.0	26.4	35.9	35.9
Revenue/Share	-0.32	109.54	213.58	206.45	204.95	216.57	228.93	241.41	267.27	253.24
FCF/Share	21.90	1.14	1.32	3.87	2.25	-0.49	2.84	2.98	6.84	2.32

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

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