B&G Foods, Inc. (BGS)

Updated March 1st, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$16	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$908 M
Fair Value Price:	$13	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	03/30/23
% Fair Value:	122%	**5 Year Valuation Multiple Estimate:**	-3.9%	**Dividend Payment Date:**	05/01/23
Dividend Yield:	4.8%	**5 Year Price Target**	$19	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

B&G Foods, Inc. is a consumer staples company with operations in the U.S., Canada, and Puerto Rico. Some of the company's well-known brands include Green Giant, Cream of Wheat, Cary's, Ortega, Mrs. Dash, and Maple Grove Farms, with 50+ brands in total. On December 1st, 2020, B&G Foods completed the acquisition of Crisco. The company's product portfolio focuses on shelf-stable, frozen and snack brands. B&G Foods has a market capitalization of $908 million.

On November 9th, 2022, B&G Foods declared a $0.19 quarterly dividend, which was a 60% decrease over its previous $0.475 quarterly dividend. Prior to this, B&G had paid a growing dividend for nine consecutive years.

B&G Foods reported fourth quarter and full year 2022 results on February 28th, 2023, for the period ending December 31st, 2022. For the quarter, the company recorded net sales of $623 million, a 9% increase compared to Q4 2021, driven by price increases and improved product mix. Adjusted net income equaled $28.9 million or $0.40 per share compared to $26.3 million or $0.39 per share in Q4 2021.

For the full year, B&G Foods saw adjusted diluted EPS decrease by nearly 43% compared to 2021, to $1.08. This decrease was the result of input cost inflation and supply chain disruptions, as well as a higher share count.

B&G Foods initiated 2023 guidance and expects $2.13 billion to $2.17 billion in net sales and adjusted EPS between $0.95 to $1.15. The lower expected adjusted EPS also reflects the recent sale of the Back to Nature business. The stock of BGS rallied more than 25% on the morning following the quarterly update.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.43	$1.44	$1.22	$2.07	$2.12	$1.85	$1.64	$2.26	$1.88	$1.08	***$1.05***	***$1.54***
DPS	$1.23	$1.36	$1.38	$1.73	$1.86	$1.89	$1.90	$1.90	$1.90	$1.62	***$0.76***	***$0.76***
Shares[1]	54	54	58	67	67	66	65	65	67	72	***73***	***80***

B&G Foods' growth strategy over the past decade has been to acquire food brands in debt-financed deals, then scale those brands and raise prices over time. This process had worked well for the company in the years after the Great Recession, as low interest rates allowed for cheap debt. B&G generated strong earnings growth during that time, but lately EPS has faltered as a result of high inflation on the company's costs. The company has weaker brands, except for Green Giant, Ortega and Crisco, and consumer staple "center aisle" companies have a more difficult time increasing sales and wielding pricing power. B&G Foods' strategy of price increases to fuel revenue growth may not be sustainable. The company has mostly second tier brands in its portfolio and consumers may not be as receptive to price increases as they would be for top-tier brands.

All that being said, the COVID-19 pandemic boosted short-term profitability, with standout results in 2020. Moreover, the addition of Crisco adds a solid brand to continue the company's path towards growth. Earnings for 2022 came in very soft, this following a year-over-year decrease in 2021 from 2020's high base.

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[1] In millions.

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We expect earnings growth to come in around 8% annually from this historically low earnings base. The dividend has been unstable for some time but in third quarter 2022, B&G finally decided to cut it by 60% in order to preserve cash.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	22.8	21.3	26	20.3	17.7	15.9	12.9	10.4	16.3	21.0	***15.2***	***12.5***
Avg. Yld.	3.8%	4.4%	4.3%	4.1%	4.9%	6.4%	9.0%	8.1%	6.2%	8.7%	***4.8%***	***3.9%***

Over the past decade, shares of B&G Foods have traded with an average P/E ratio in the high teens. However, this was during a time when the company's growth rate was quite impressive. Given our expectation of slower growth over time, our fair value estimate is 12.5 times earnings. With a current P/E ratio above 15 times estimated earnings, this implies a meaningful valuation headwind. Following the recent dividend cut, B&G now yields 4.8%, which is below its ten-year average of 6.0%. Furthermore, the payout ratio has come down to 72% whereas it was well over 100% previously.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	86%	94%	113%	84%	88%	102%	116%	84%	101%	150%	***72%***	***49%***

B&G Foods does not have significant competitive advantages in our view. The company has mostly second tier brands that do not have pricing power. Still, B&G Foods is a consumer staples company that tends to have stable cash flow.

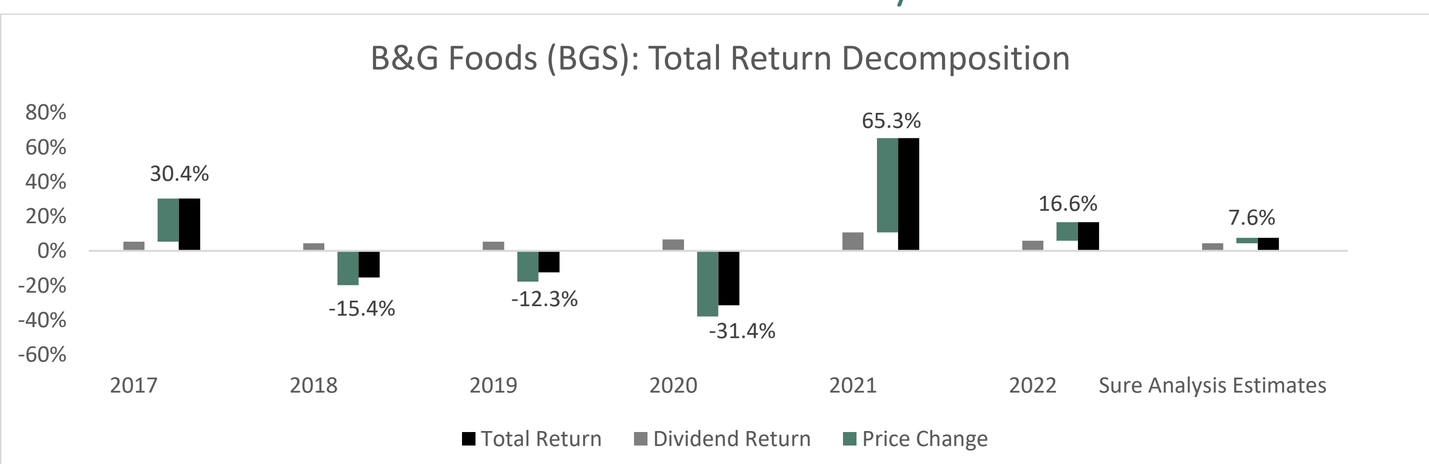
B&G Foods' aggressive acquisition strategy over the past several years has saddled it with a great deal of debt. The company was taking steps to deleverage by using the proceeds from the sale of Pirate Brand combined with cash to pay off $500 million in term loans. However, the balance sheet will be flexed once more with the Crisco acquisition, and the frozen vegetable manufacturing operations of Growers Express, LLC .

As of the most recent report B&G Foods held $45 million in cash, $1.02 billion in currents assets and $3.84 billion in total assets against $271 million in current liabilities and $2.97 billion in total liabilities. Long-term debt stood at $2.34 billion.

Final Thoughts & Recommendation

Shares have gained 45% year-to-date, which compares favorably to the S&P 500 Index. Total return potential comes in at 7.6% per annum, stemming from 8.0% growth and the 4.8% starting yield, offset by the potential for a valuation headwind. B&G Foods faced increasing costs and threatened margins due to the war in Ukraine and supply disruptions, but pricing actions have somewhat offset increased costs into the end of 2022. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	725	848	966	1,372	1,646	1,701	1,660	1,968	2,056	2,163
Gross Profit	243	248	290	429	441	350	383	482	437	410
Gross Margin	33.5%	29.2%	30.0%	31.3%	26.8%	20.5%	23.1%	24.5%	21.3%	18.9%
SG&A Exp.	79	93	106	157	183	167	161	186	196	190
D&A Exp.	24	27	29	37	49	54	70	76	97	97
Operating Profit	154	142	172	258	240	164	204	276	219	198
Operating Margin	21.2%	16.8%	17.8%	18.8%	14.5%	9.6%	12.3%	14.0%	10.7%	9.2%
Net Profit	52	41	69	109	217	172	76	132	67	-11
Net Margin	7.2%	4.8%	7.1%	8.0%	13.2%	10.1%	4.6%	6.7%	3.3%	-0.5%
Free Cash Flow	100	80	110	247	-22	168	4	255	50	-16
Income Tax	29	23	52	68	-69	50	29	45	26	-8

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,484	16,49	2,544	3,044	3,561	3,058	3,228	3,768	3,829	3,842
Cash & Equivalents	4	1	5	29	207	12	11	52	34	45
Accounts Receivable	63	56	70	119	141	152	144	133	145	150
Inventories	101	107	313	357	502	401	472	493	610	726
Goodwill & Int. Ass.	1,163	1,318	1,915	2,244	2,398	2,180	2,212	2,616	2,572	2,407
Total Liabilities	1,106	1,311	2,086	2,258	2,680	2,158	2,415	2,936	2,908	2,973
Accounts Payable	43	38	50	98	122	140	115	127	130	128
Long-Term Debt	871	1,026	1,732	1,726	2,218	1,639	1,880	2,334	2,268	2,389
Shareholder's Equity	378	338	458	786	881	900	813	832	920	868
LTD/E Ratio	2.30	3.04	3.78	2.20	2.52	1.82	2.31	2.81	2.46	2.75

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.9%	2.6%	3.3%	3.9%	6.6%	5.2%	2.4%	3.8%	1.8%	-0.3%
Return on Equity	14.2%	11.4%	17.4%	17.6%	26.1%	19.4%	8.9%	16.1%	7.7%	-1.3%
ROIC	4.7%	3.1%	3.9%	4.7%	7.8%	6.1%	2.9%	4.5%	2.1%	-0.4%
Shares Out.	54	54	58	67	67	66	65	65	66	70
Revenue/Share	13.63	15.78	17.06	21.64	24.68	25.67	25.53	30.48	31.28	30.69
FCF/Share	1.89	1.49	1.94	3.90	-0.33	2.53	0.06	3.95	0.77	-0.23

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

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