



Lancaster Colony Corporation (LANC)

Updated May 6th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$219	5 Year CAGR Estimate:	1.1%	Market Cap:	\$6 B
Fair Value Price:	\$144	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	09/08/22
% Fair Value:	153%	5 Year Valuation Multiple Estimate:	-8.1%	Dividend Payment Date:	09/30/22
Dividend Yield:	1.6%	5 Year Price Target	\$211	Years Of Dividend Growth:	60
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Sell

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 \$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 six decades of consecutive increases.

Lancaster posted third quarter earnings on May 4th, 2023, and results were mixed. Earnings-per-share came to 89 cents, which was four cents light against estimates. Revenue was up 15% year-over-year at \$465 million, but missed estimates by \$22 million.

Retail segment saw sales grow 16% to \$247 million, including the favorable impact of pricing actions. Volume was up 6.1%, driven mostly by dressings and sauces. Foodservice sales were up 14.4% to \$218 million, again attributable to pricing increases. Volume was up just 0.4%.

Gross profit was up 38% year-over-year to \$94 million, due to pricing actions, manufacturing efficiencies, cost saving initiatives, and a new ERP system. The company noted last year's comparable gross profit was an easy comparison, and that we shouldn't read too much into the big increase this time around.

SG&A costs were up \$10.3 million to \$64.8 million, reflecting higher expenditures to support future growth. Consolidated operating income was \$29.4 million, up sharply from an operating loss of \$7.6 million a year ago. This was driven by higher gross profit and the impact on last year's comparable period that contained restricting and impairment charges that did not repeat.

We've cut our estimate to \$4.95 in earnings-per-share for this year after Q3 results were somewhat weak.

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	\$4.95	\$7.27
DPS	\$1.52	\$1.72	\$1.82	\$1.96	\$2.15	\$2.40	\$2.55	\$2.75	\$3.00	\$3.15	\$3.40	\$4.55
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

¹ Share count in millions

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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.

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 \$4.55 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 2022 for the 60th consecutive year.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.6	23.5	24.5	24.3	31.2	31.4	28.8	30.0	35.0	29.4	44.2	29.0
Avg. Yld.	2.0%	2.0%	2.0%	1.8%	1.6%	1.7%	1.6%	1.8%	1.7%	2.4%	1.6%	2.2%

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 44.2 times our fiscal 2023 earnings estimate, so we see it as massively overvalued.

We see the yield rising over time as the valuation should come back down, and the payout continues to rise. Lancaster's current yield is about on par with the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	40%	38%	47%	49%	44%	47%	47%	55%	48%	72%	69%	63%

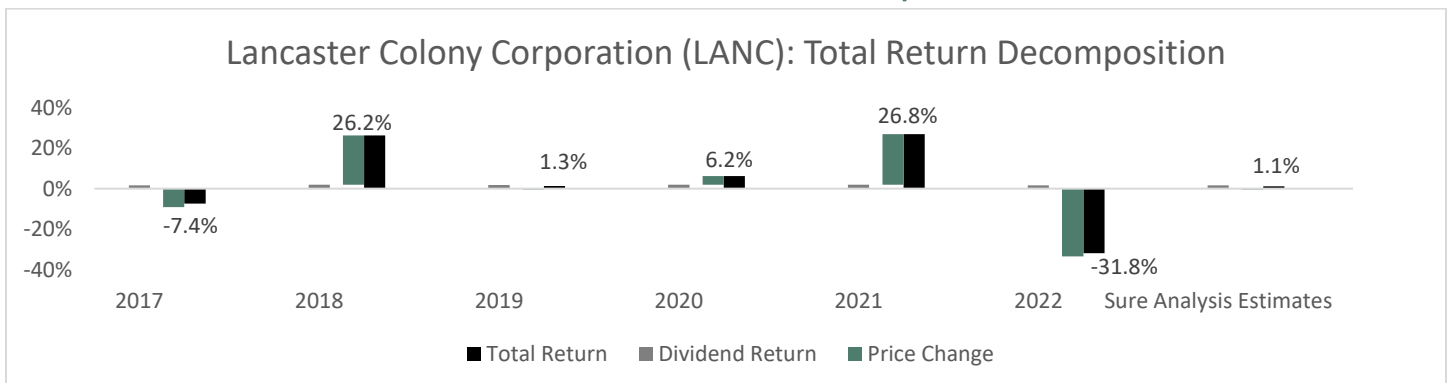
Lancaster Colony's payout should remain near where it is today as dividend growth roughly matches earnings growth. Given its Dividend King status, we know the payout is important to management and the dividend is very safe.

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 1.1% over the next five years, comprised of 8% growth, a 1.6% dividend yield, and a sizable headwind from the valuation. We are downgrading the stock from hold to sell based on low total return potential.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,014	1,041	1,105	1,191	1,202	1,223	1,308	1,334	1,467	1,676
Gross Profit	245	249	258	300	319	304	326	358	387	356
Gross Margin	24.1%	23.9%	23.3%	25.2%	26.5%	24.8%	24.9%	26.8%	26.4%	21.2%
SG&A Exp.	91	95	103	115	143	130	150	181	205	212
D&A Exp.	20	20	21	24	25	27	32	38	45	46
Operating Profit	154	154	155	185	176	174	176	177	181	144
Operating Margin	15.2%	14.8%	14.0%	15.5%	14.6%	14.2%	13.5%	13.3%	12.4%	8.6%
Net Profit	109	75	102	122	115	135	151	137	142	90
Net Margin	10.8%	7.2%	9.2%	10.2%	9.6%	11.1%	11.5%	10.3%	9.7%	5.4%
Free Cash Flow	108	113	114	129	119	130	127	88	86	-30
Income Tax	50	52	53	63	60	39	45	42	43	23

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	620	639	702	635	716	804	905	993	1,101	1,090
Cash & Equivalents	123	212	182	118	143	206	196	198	188	60
Accounts Receivable	56	58	62	66	70	73	76	87	98	135
Inventories	68	75	78	76	76	91	86	85	122	145
Goodwill & Int. Ass.	96	95	192	189	228	224	279	274	267	241
Total Liabilities	119	110	121	121	140	152	179	210	258	246
Accounts Payable	36	38	39	40	41	58	77	71	110	115
Long-Term Debt	---	---	---	---	---	---	---	---	---	---
Shareholder's Equity	501	529	581	514	576	652	727	783	843	845
LTD/E Ratio	---	---	---	---	---	---	---	---	---	---

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	16.8%	11.9%	15.2%	18.2%	17.1%	17.8%	17.6%	14.4%	13.6%	8.2%
Return on Equity	20.5%	14.6%	18.3%	22.2%	21.2%	22.0%	21.8%	18.1%	17.5%	10.6%
ROIC	20.5%	14.6%	18.3%	22.2%	21.2%	22.0%	21.8%	18.1%	17.5%	10.6%
Shares Out.	27	27	27	27	27	28	28	28	28	27
Revenue/Share	37.16	38.12	40.42	43.51	43.80	44.54	47.49	48.53	53.31	61.02
FCF/Share	3.94	4.14	4.19	4.72	4.35	4.72	4.60	3.21	3.14	-1.10

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

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