



Lancaster Colony Corporation (LANC)

Updated August 29th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$165	5 Year CAGR Estimate:	11.2%	Market Cap:	\$4.6 B
Fair Value Price:	\$177	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	09/07/23
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.4%	Dividend Payment Date:	09/29/23
Dividend Yield:	2.1%	5 Year Price Target	\$260	Years Of Dividend Growth:	60
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

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 \$1.9 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 fourth quarter and full-year earnings on August 23rd, 2023, and results were weaker than expected on both the top and bottom lines. The stock fell double-digits off of the report.

The company posted revenue that was flat year-over-year at \$455 million, which fell \$26 million short of estimates. Retail segment net sales were up 1.3% to \$236 million, while Foodservice revenue fell fractionally to \$219 million.

Gross profit fell \$5 million to \$93 million, which was unfavorably impacted by startup costs at the company's new dressing and sauce facility in Kentucky. In addition, certain product lines in the retail segment were discontinued.

Fourth quarter operating income fell \$22 million to \$11 million. However, noncash impairment charges caused a \$25 million headwind, so on an adjusted basis (excluding noncash charges in both periods), operating income was roughly flat year-over-year.

Adjusted earnings-per-share came to \$1.19 during the quarter, missing estimates by a dime. We begin fiscal 2024 with an earnings-per-share estimate of \$6.10 as management said inflationary headwinds should be reduced this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.69	\$3.72	\$4.44	\$4.20	\$4.92	\$5.46	\$4.97	\$5.05	\$4.38	\$4.76	\$6.10	\$8.96
DPS	\$1.72	\$1.82	\$1.96	\$2.15	\$2.40	\$2.55	\$2.75	\$3.00	\$3.15	\$3.40	\$3.40	\$4.55
Shares¹	27	27	27	27	28	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; it remains to be seen if fiscal 2024 guidance will come to fruition on the margin 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 set record earnings again in 2024.

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.



Lancaster Colony Corporation (LANC)

Updated August 29th, 2023, by Josh Arnold

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, a streak we expect to continue indefinitely.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	23.5	24.5	24.3	31.2	31.4	28.8	30.0	35.0	29.4	42.2	27.0	29.0
Avg. Yld.	2.0%	2.0%	1.8%	1.6%	1.7%	1.6%	1.8%	1.7%	2.4%	1.7%	2.1%	1.8%

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 27 times our fiscal 2024 earnings estimate, so we see it as undervalued for the first time in several years.

We see the yield declining over time as the valuation could move up, and the payout continues to rise. Lancaster's current yield is better than the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	38%	47%	49%	44%	47%	47%	55%	48%	72%	71%	56%	51%

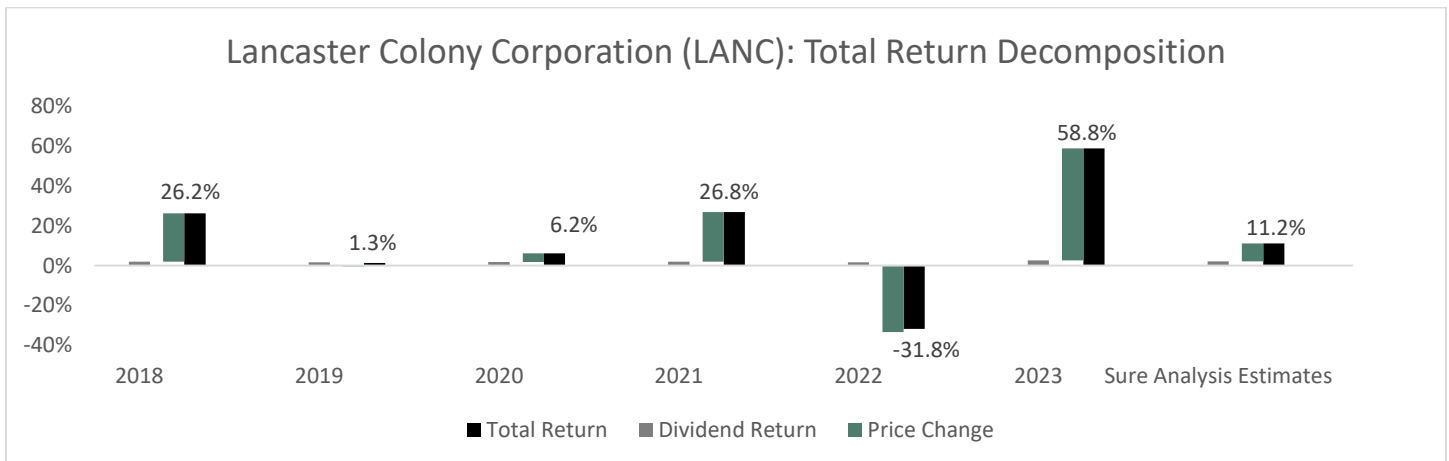
Lancaster Colony's payout should remain near where it is today as dividend growth roughly matches earnings growth. Given its Dividend King status, we know the payout is important to management and the dividend is very safe.

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 and input cost inflation.

Final Thoughts & Recommendation

We forecast Lancaster Colony to provide shareholders with total annualized returns of 11.2% over the next five years, comprised of 8% growth, a 2.1% dividend yield, and a modest tailwind from the valuation. Given the big move up in potential total returns, we're giving Lancaster a two-notch upgrade from sell to buy.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Lancaster Colony Corporation (LANC)

Updated August 29th, 2023, by Josh Arnold

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,041	1,105	1,191	1,202	1,223	1,308	1,334	1,467	1,676	1,823
Gross Profit	249	258	300	319	304	326	358	387	356	389
Gross Margin	23.9%	23.3%	25.2%	26.5%	24.8%	24.9%	26.8%	26.4%	21.2%	21.3%
SG&A Exp.	95	103	115	143	130	150	181	205	212	222
D&A Exp.	20	21	24	25	27	32	38	45	46	51
Operating Profit	154	155	185	176	174	176	177	181	144	166
Operating Margin	14.8%	14.0%	15.5%	14.6%	14.2%	13.5%	13.3%	12.4%	8.6%	9.1%
Net Profit	75	102	122	115	135	151	137	142	90	111
Net Margin	7.2%	9.2%	10.2%	9.6%	11.1%	11.5%	10.3%	9.7%	5.4%	6.1%
Free Cash Flow	113	114	129	119	130	127	88	86	-30	136
Income Tax	52	53	63	60	39	45	42	43	23	32

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	639	702	635	716	804	905	993	1,101	1,090	1,113
Cash & Equivalents	212	182	118	143	206	196	198	188	60	88
Accounts Receivable	58	62	66	70	73	76	87	98	135	115
Inventories	75	78	76	76	91	86	85	122	145	158
Goodwill & Int. Ass.	95	192	189	228	224	279	274	267	241	213
Total Liabilities	110	121	121	140	152	179	210	258	246	251
Accounts Payable	38	39	40	41	58	77	71	110	115	112
Long-Term Debt	---	---	---	---	---	---	---	---	---	0
Shareholder's Equity	529	581	514	576	652	727	783	843	845	862
LTD/E Ratio	---	---	---	---	---	---	---	---	---	0

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	11.9%	15.2%	18.2%	17.1%	17.8%	17.6%	14.4%	13.6%	8.2%	10.1%
Return on Equity	14.6%	18.3%	22.2%	21.2%	22.0%	21.8%	18.1%	17.5%	10.6%	13.0%
ROIC	14.6%	18.3%	22.2%	21.2%	22.0%	21.8%	18.1%	17.5%	10.6%	13.0%
Shares Out.	27	27	27	27	28	28	28	28	27	27
Revenue/Share	38.12	40.42	43.51	43.80	44.54	47.49	48.53	53.31	61.02	66.32
FCF/Share	4.14	4.19	4.72	4.35	4.72	4.60	3.21	3.14	-1.10	4.94

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.