



SpartanNash Co (SPTN)

Updated September 1st, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$22	5 Year CAGR Estimate:	11.2%	Market Cap:	\$764 M
Fair Value Price:	\$26	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	09/14/2023
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	3.9%	Dividend Payment Date¹:	09/29/2023
Dividend Yield:	4.0%	5 Year Price Target	\$32	Years Of Dividend Growth:	13
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

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 144 supermarkets. SpartanNash operates under retail banners such as Family Fare, Martin's Super Markets and D&W Fresh Market, 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 \$764 million 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 second quarter 2023 results on August 17th, 2023. Net sales of \$2.31 billion was a 1.7% increase from \$2.27 billion in the same prior year period. Adjusted earnings from continuing operations decreased by 1.5% year-over-year to \$0.65 per share. Adjusted EBITDA rose 7.0% year-over-year to \$66.1 million.

The net long-term debt to adjusted EBITDA ratio improved by 10 basis points sequentially to 2.2X during the quarter as long-term debt and finance lease liabilities increased by roughly \$49.9 million during H1 2023.

Leadership reaffirmed its guidance for fiscal 2023 and expects to see total net sales of around \$10 billion, up from \$9.6 billion in 2022. Adjusted EPS is expected to come in between \$2.20 to \$2.35 for 2023, compared to \$2.33 in 2022.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Adj. EPS	\$1.70	\$1.80	\$1.98	\$2.19	\$2.10	\$1.87	\$1.10	\$2.45	\$2.08	\$2.33	\$2.28	\$2.77
DPS	\$0.27	\$0.48	\$0.54	\$0.60	\$0.66	\$0.72	\$0.76	\$0.77	\$0.80	\$0.84	\$0.86	\$1.05
Shares²	23.6	37.0	37.0	37.5	36.5	36.0	26.4	35.9	36.1	35.9	34.5	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 increased adjusted earnings-per-share by 3.6% and 2.1% on average. We estimate going forward that the company can safely expect to grow adjusted EPS by roughly 4.0% 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 13% 9-year average growth rate and the 3% 5-year average growth rate.

The corporation aims to drive growth, increase efficiencies, and reduce costs. The COVID-19 pandemic increased customer demand for the food distribution business. The company has long-term targets set for fiscal 2025, which sees adjusted EBITDA of over \$300 million (a 40% increase from fiscal 2021). Initiatives to achieve these targets include

¹ Estimate

² In millions

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increasing sales through customer acquisition and continued expansion into value-add offerings, and achieving savings between \$125 million to \$150 million during fiscal 2021 through fiscal 2025 through its supply chain and merchandising transformation initiatives.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.6	12.4	14.4	13.3	14.3	11.1	13.1	7.1	10.0	13.4	9.5	11.5
Avg. Yld.	1.3%	2.1%	1.9%	2.1%	2.2%	3.5%	5.3%	4.4%	3.8%	2.5%	4.0%	3.3%

Historically, in the past nine and five years, SPTN has traded for 12.1 and 10.9 times adjusted earnings on average. SpartanNash's current price-to-adjusted earnings multiple is below its historical average. We peg fair value for the business at 11.5 times adjusted earnings. As a result, we forecast a moderate tailwind to total returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

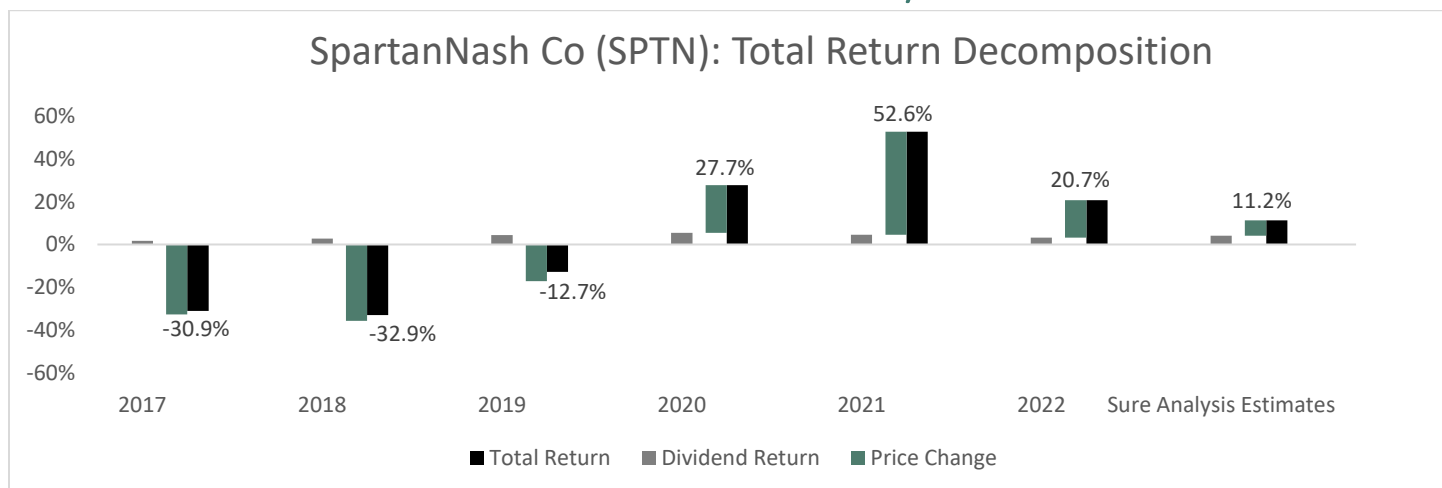
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	16%	27%	27%	27%	31%	39%	69%	31%	38%	36%	38%	38%

The company's payout ratio has steadily crept up to sit at around 38% of adjusted earnings in 2023. 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 which 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 82% of fair value and offer 11.2% in annualized total returns over the next five years, thus we rate SPTN as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,597	7,916	7,652	7,561	7,964	8,065	8,536	9,348	8,931	9,643
Gross Profit	487	1,156	1,116	1,111	1,145	1,110	1,244	1,425	1,404	1,497
Gross Margin	18.7%	14.6%	14.6%	14.7%	14.4%	13.8%	14.6%	15.2%	15.7%	15.5%
SG&A Exp.	433	1022	976	963	1,015	997	1,172	1,298	1,288	1,428
D&A Exp.	37	88	85	79	84	83	88	90	93	94
Operating Profit	53	134	140	148	130	113	71	127	116	70
Operating Margin	2.1%	1.7%	1.8%	2.0%	1.6%	1.4%	0.8%	1.4%	1.3%	0.7%
Net Profit	1	59	63	57	-53	34	6	76	74	35
Net Margin	0.0%	0.7%	0.8%	0.8%	-0.7%	0.4%	0.1%	0.8%	0.8%	0.4%
Free Cash Flow	27	49	143	83	-18	100	105	239	82	13
Income Tax	1	31	37	33	-79	7	-2	9	25	12

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,984	1,932	1,917	1,930	2,056	1,972	2,276	2,277	2,207	2,307
Cash & Equivalents	9	6	23	24	16	19	24	20	11	29
Accounts Receivable	258	266	282	253	312	315	321	337	328	376
Inventories	589	577	521	540	597	554	537	542	522	571
Goodwill & Int. Ass.	361	355	386	383	313	308	312	297	292	289
Total Liabilities	1,277	1,185	1,126	1,105	1,334	1,256	1,588	1,542	14,24	1,540
Accounts Payable	366	320	354	372	377	358	405	465	447	487
Long-Term Debt	606	570	487	431	750	698	689	486	406	504
Shareholder's Equity	707	747	791	825	722	716	688	735	783	766
LTD/E Ratio	0.86	0.76	0.62	0.52	1.04	0.98	1.00	0.66	0.52	0.66

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.1%	3.0%	3.3%	3.0%	-2.7%	1.7%	0.3%	3.3%	3.3%	1.5%
Return on Equity	0.1%	8.1%	8.2%	7.0%	-6.8%	4.7%	0.8%	10.7%	9.7%	4.5%
ROIC	0.1%	4.5%	4.8%	4.5%	-3.9%	2.3%	0.4%	5.8%	6.1%	2.8%
Shares Out.	23.6	37.0	37.0	37.5	36.5	36.0	26.4	35.9	35.9	36.3
Revenue/Share	109.54	213.58	206.45	204.95	216.57	228.93	241.41	267.27	253.24	265.56
FCF/Share	1.14	1.32	3.87	2.25	-0.49	2.84	2.98	6.84	2.32	0.36

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

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