



Lancaster Colony Corporation (LANC)

Updated November 24th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$170	5 Year CAGR Estimate:	10.1%	Market Cap:	\$4.7 B
Fair Value Price:	\$173	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	12/01/23
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.3%	Dividend Payment Date:	12/29/23
Dividend Yield:	2.1%	5 Year Price Target	\$254	Years Of Dividend Growth:	61
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 \$4.7 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 first quarter earnings on November 2nd, 2023, and results were quite good. Total sales rose 8.5% on a consolidated basis to \$462 million. Retail net sales were up 8.5% to \$242 million, while Foodservice revenue rose 8.4% to \$219 million. The company noted the comparable period last year included unfavorable timing that reduced sales by \$25 million (thereby making comparisons this year easier). Sales volumes, as measured by pounds shipped, rose 7.1% in Retail, and 8.6% in Foodservice. Excluding the sales adjustment from last year's Q1, sales volumes rose 1.4%.

Consolidated gross profit rose 9.8% to \$109 million. The gain was attributable to higher sales volumes, favorable input cost movements, and the company's cost saving program. SG&A costs were up \$2.2 million to \$52 million due to investments in personnel and consumer promotions.

Consolidated operating income was up \$7.5 million year-over-year, driven by gross profit, mostly. Earnings-per-share came to \$1.59, up from \$1.36 a year ago. We have slightly reduced our estimate of earnings-per-share for this year to \$5.95 after first quarter results.

Lancaster also raised its dividend for the 61st consecutive year, this time boosting the payout by 5.9% to a new quarterly payout of 85 cents per share.

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	\$5.95	\$8.74
DPS	\$1.72	\$1.82	\$1.96	\$2.15	\$2.40	\$2.55	\$2.75	\$3.00	\$3.15	\$3.40	\$3.60	\$4.82
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, although Q1 results were encouraging. 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

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.



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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.

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 \$4.82 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 November 2023 for the 61st 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	28.6	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%	1.9%

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 28.6 times our fiscal 2024 earnings estimate, so we see it roughly fair valued.

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%	61%	55%

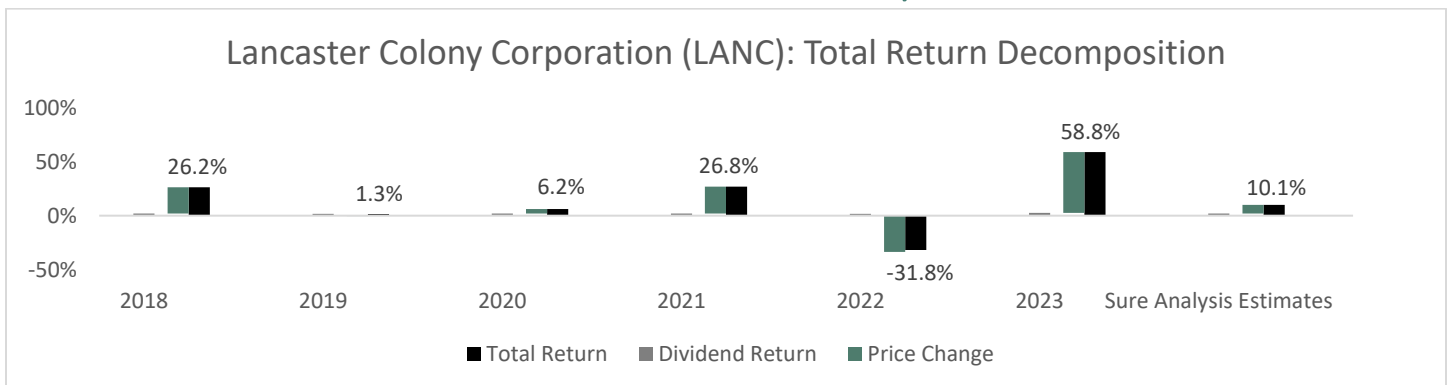
Lancaster Colony's payout should remain near where it is today as dividend growth roughly matches earnings growth. Given its Dividend King status, we know the payout is important to management and the dividend is very safe.

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 10.1% over the next five years, comprised of 8% growth, a 2.1% dividend yield, and a fractional tailwind from the valuation. We're reiterating the stock at a buy rating after Q1 results.

Total Return Breakdown by Year



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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.

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