



Tootsie Roll Industries, Inc. (TR)

Updated February 26th, 2024 by Prakash Kolli

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	9.2%	Market Cap:	\$2.15B
Fair Value Price:	\$41	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/05/24
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.3%	Dividend Payment Date:	03/28/24
Dividend Yield:	1.1%	5 Year Price Target	\$47	Years Of Dividend Growth:	58
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Tootsie Roll Industries, Inc. traces its roots back to the late 1890's when its namesake product, the Tootsie Roll, was first created. Today, the company sells a wider variety of candy and gum products. Other well-known brands include DOTS, Junior Mints, Andes, Charms, Blow-Pops, Sugar Daddy, and Dubble Bubble. Tootsie Roll has a dual class share structure with the Chairwoman and CEO, Ellen R. Gordon owning approximately 57.1% of common stock and 82.8% of Class B shares effectively giving her control of the company. Total revenue in 2022 was about \$681M.

Tootsie Roll reported excellent Q4 2023 and full-year results on February 16th, 2024. For the quarter, net sales were up 4% to \$195.4M for the quarter versus \$188.2M in the prior year. In the same period, net earnings rose to \$29.4M compared to \$25.3M. Diluted EPS increased 17% to \$0.42 per share from \$0.36 on a year-over-year basis. Tootsie Roll had a difficult 2020 as retail operations, work routines, and impulse buying were disrupted by the COVID-19 pandemic. Indeed, restrictions on large gatherings limited group social events further affecting sales. However, 2021 and 2022 were significantly better. The momentum continued into 2023 because of higher sales volumes and raising prices, but margins are under pressure.

Inflation is a concern and input costs are rising for labor, ingredients, freight and delivery, fuel, packaging materials, energy and manufacturing supplies impacting profit margins and net profits. The company raised prices in response.

Tootsie Roll did not provide guidance for 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS¹	\$0.88	\$0.93	\$0.96	\$0.90	\$0.86	\$0.96	\$0.89	\$0.97	\$1.10	\$1.32	\$1.36	\$1.58
DPS	\$0.32	\$0.35	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36
Shares²	73.9	72.7	71.7	70.7	70.1	69.0	68.0	69.1	70.3	69.5	68.1	65.5

Tootsie Roll should achieve on average 3% earnings per share growth moving forward to 2029, mostly via small amounts of revenue growth driven by incremental product innovation and price increases. Influences on earnings per share growth include commodity input and freight cost inflation on the downside, and volume and price increases and operational efficiencies to the upside. Earnings per share growth will also benefit from ongoing share buybacks. The company has reduced share count from about 75.9M in 2011 to 69.1M in 2021. We expect the share count to decrease 1% on average annually. However, COVID-19 adversely impacted revenue and earnings in 2020 because business closures resulted in lower order volumes and sales. But volumes and revenue has climbed since 2022.

The regular cash dividend was last increased in 2016 and is currently \$0.36 per share. We are not expecting an increase of the regular cash dividend in the near future. But saying that, the payout ratio is only ~26% and there is room for an increase. The company issues a 3% stock dividend each year in addition to the regular dividend giving a ~4% effective yield if an investor sells the stock dividend annually.

¹ Earnings per share and dividend per share data is not adjusted for the 3% annual stock dividend.

² Share count is 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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	27.5	29.5	33.0	38.3	35.0	36.6	37.1	33.7	32.7	25.2	23.2	30.0
Avg. Yld.	1.1%	0.8%	1.0%	1.0%	1.2%	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	0.8%

Tootsie Roll's stock price is up since our last report on excellent results. The company had another good quarter, but costs are elevated. We believe that a reasonable long-term multiple is 30X, lower than the trailing 10-year average, because of limited float and changing tastes to healthier options and smaller sizes. Our fair value estimate is now \$41. Our 5-year price target is now \$47.

Safety, Quality, Competitive Advantage, & Recession Resiliency

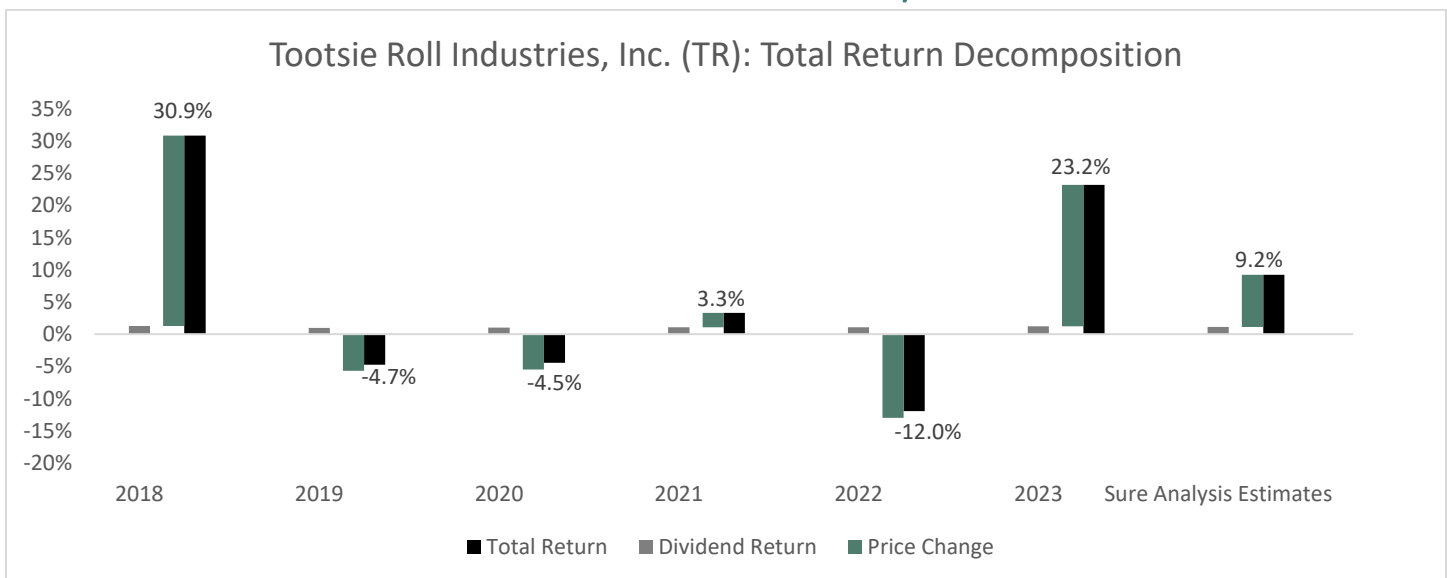
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2059
Payout	36%	38%	38%	40%	42%	38%	40%	37%	33%	27%	26%	23%

The company's competitive advantage is the brand strength of its core product, the Tootsie Roll, and its lack of direct competition given the uniqueness of the product. Some of the company's other brands are also well known. But saying that, Tootsie Roll tends to move slowly with product changes and growth initiatives. Also, 37% of sales are to three customers and the loss of one would impact the firm. Tootsie Roll's balance sheet is very conservative. The company's long-term debt has been an industrial revenue bond for \$7.5M since 2014. At end of Q3 2023, Tootsie Roll had \$47.3M in cash and equivalents and \$88.1M in short-term investments. Interest coverage is rock solid.

Final Thoughts & Recommendation

At present we are forecasting 9.2% total annualized return over the next five years from a dividend yield of 1.1%, 3% EPS growth, and 5.3% P/E multiple expansion. The stock has traded at an elevated earnings multiple for years, but a lower stock price and improved earnings have reduced the valuation. The company continues to post revenue growth, but raised costs are affecting margins and earnings. Investors seeking yield may find it here with the combined cash and stock dividend of ~4%. We have maintained our 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	543	544	540	521	519	519	527	471	571	687
Gross Profit	191	202	199	199	192	188	197	170	199	233
Gross Margin	35.2%	37.1%	36.9%	38.2%	37.0%	36.3%	37.4%	36.2%	34.8%	33.9%
SG&A Exp.	119	118	108	108	121	118	128	112	132	122
D&A Exp.	20	21	20	20	19	19	19	18	18	18
Operating Profit	72	84	91	91	70	70	69	58	67	111
Operating Margin	13.3%	15.4%	16.9%	17.5%	13.6%	13.6%	13.1%	12.4%	11.7%	16.2%
Net Profit	61	63	66	68	81	57	65	59	65	76
Net Margin	11.2%	11.6%	12.2%	13.0%	15.6%	11.0%	12.3%	12.5%	11.4%	11.1%
Free Cash Flow	94	78	76	82	26	73	80	57	54	49
Income Tax	24	28	26	31	4	16	21	17	20	22

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	888	910	909	978	947	931	920	985	1019	1019
Cash & Equivalents	88	100	126	139	111	96	119	167	106	53
Accounts Receivable	41	43	51	45	50	47	43	41	55	59
Inventories	62	70	62	59	55	55	58	60	56	84
Goodwill & Int. Ass.	248	248	248	248	248	248	248	248	248	248
Total Liabilities	208	219	210	218	197	197	209	221	250	236
Accounts Payable	9	12	11	13	12	12	10	13	15	25
Long-Term Debt	8	8	8	8	8	8	8	8	8	9
Shareholder's Equity	680	691	698	760	751	734	711	763	769	783
D/E Ratio	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.0%	7.0%	7.3%	7.4%	8.7%	6.1%	6.7%	6.0%	6.5%	7.5%
Return on Equity	9.1%	9.2%	9.5%	9.6%	11.2%	7.7%	8.6%	7.7%	8.5%	9.8%
ROIC	9.0%	9.1%	9.4%	9.5%	11.1%	7.6%	8.5%	7.7%	8.4%	9.7%
Shares Out.	72.8	71.8	70.5	69.6	68.6	69.0	67.0	66.3	69.5	70.9
Revenue/Share	7.42	7.53	7.59	7.67	7.53	7.62	7.82	6.88	8.22	9.69
FCF/Share	1.28	1.08	1.06	1.21	0.38	1.08	1.19	0.83	0.78	0.69

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

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