Turning Point Brands (TPB)

Published July 4th, 2024, by Kody Kester

Key Metrics

Current Price:	$33	**5 Year CAGR Estimate:**	11.5%	**Market Cap:**	$582M
Fair Value Price:	$42	**5 Year Growth Estimate:**	5.7%	**Ex-Dividend Date[1]:**	09/13/24
% Fair Value:	79%	**5 Year Valuation Multiple Estimate:**	4.9%	**Dividend Payment Date:**	10/05/24
Dividend Yield:	0.8%	**5 Year Price Target**	$55	**Years Of Dividend Growth:**	7
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Turning Point Brands' corporate history dates to the leveraged buyout of Lorillard's other tobacco products division in 1988. TPB is a leading manufacturer, marketer, and distributor of branded non-cigarette tobacco products for adults. The company's products are sold in approximately 197,000 retail locations in the U.S. and another 20,000 in Canada.

The company is organized into the following three operating segments:

The Zig-Zag Products segment sells Zig-Zag rolling papers and make-your-own cigar wraps, which hold a leading 34% market share in the U.S. and a leading market share in Canada as well. TPB also announced an agreement in February 2022 with lighter manufacturer, Flamagas, to exclusively distribute CLIPPER lighters in the U.S. and Canada. CLIPPER Lighters are the leading reusable lighter brand in the world, with the brand being underrepresented in the U.S. and Canada.

The Stoker's Products segment sells moist snuff tobacco and loose-leaf chewing tobacco under the Stoker's and Beech-Nut brands. This positions TPB as the second-biggest marketer of chewing tobacco with approximately 36% of the market share. In 2023, TPB expanded its rollout of modern oral nicotine products FRE white nicotine pouches.

The Creative Distribution Solutions segment sells third-party nicotine and non-nicotine and smoking products. These liquid nicotine products and other products without tobacco and/or nicotine are distributed to non-traditional retail outlets through Vapor Beast and to individual consumers via its VaporFi B2C online channel.

On May 2, TPB released its financial results for the first quarter ended March 31, 2024. The company's consolidated net sales declined by 3.9% year-over-year to $97.1 million during the quarter. Strength in the Zig-Zag Products and Stoker's Products segment was offset by a sharp decline in net sales in the Creative Distribution Solutions segment in the quarter. This was mostly due to the company's decision to eliminate unprofitable brands and narrow its focus to more profitable products. That decision to improve operating efficiency paid off on the bottom line as the non-GAAP net profit margin expanded by 410 basis points to 15.9% for the quarter. As a result, TPB's adjusted diluted EPS climbed 29% over the year-ago period to $0.80 during the quarter. That was $0.10 above the analyst estimate in the quarter.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	-	-	-	$1.08	$1.77	$1.86	$1.67	$2.52	$0.64	$2.01	***$2.65***	***$3.50***
DPS	-	-	-	$0.04	$0.16	$0.18	$0.20	$0.22	$0.24	$0.26	***$0.28***	***$0.37***
Shares[2]	-	-	-	19.2	19.6	19.7	19.1	18.4	17.5	17.6	***17.6***	***17.6***

We believe that TPB can generate 5.7% annual adjusted diluted EPS growth over the next five years. Moving forward, the share count should be relatively stable. Continued momentum from core products in the Zig-Zag Products and Stoker's Products segments should lead to steadier growth in the years ahead than in years past. The recent national launch of TPB's FRE white pouch product has been met with enthusiasm in the market. The company's management

[1] Estimate
[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.

team believes this newcomer product is in the early innings of its growth within a rapidly growing, multi-billion-dollar market. As FRE ramps up capacity in the years ahead, it could become a major driver of overall growth for the company.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	-	-	-	19.5	15.8	15.0	26.7	15.0	33.5	13.1	***12.5***	***15.8***
Avg. Yld.	-	-	-	0.2%	0.6%	0.6%	0.4%	0.6%	1.1%	1.0%	***0.8%***	***0.7%***

Since its initial public offering in 2016, TPB has generally traded at a multiple in the low to high teens (besides much of 2020 and 2022). The multiple is currently just above 14. As the company demonstrates that its growth path is sustainable, we think a moderate uptick in the valuation multiple to 15.8 is within reason.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	-	-	-	4%	9%	10%	12%	9%	38%	13%	***11%***	***11%***

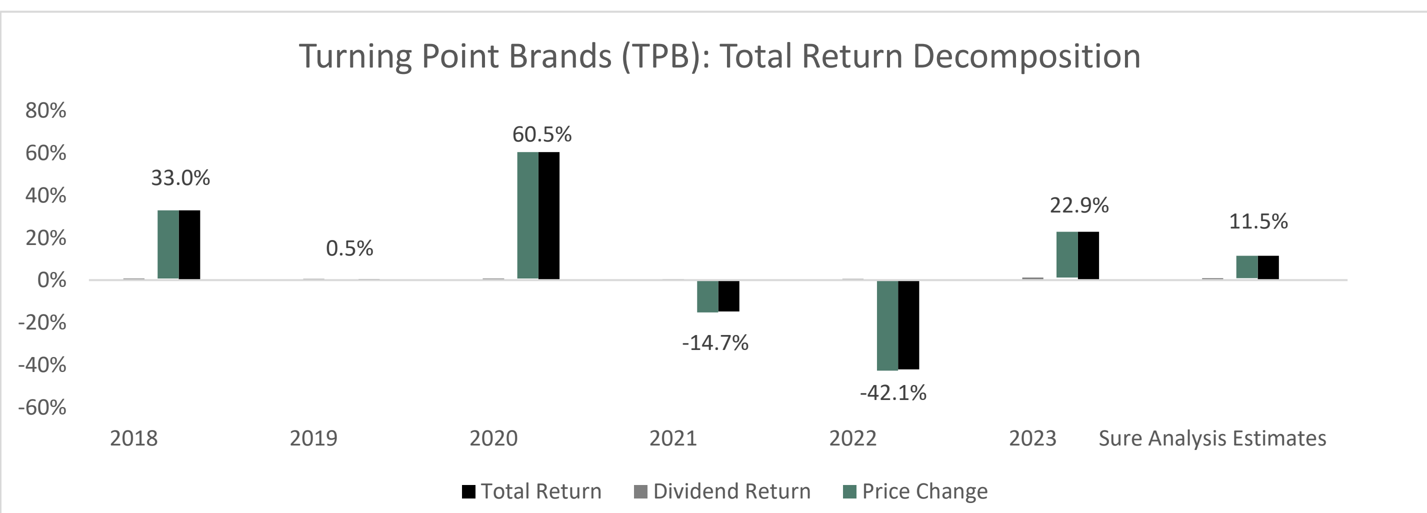
TPB's extensive product offerings resonate with customers, which is why its products are sold in hundreds of thousands of retail locations throughout the U.S. and Canada. This has allowed the company to achieve and maintain market-leading status with a handful of brands over the years.

TPB's interest coverage ratio was 5.6 in the first quarter. This is neither a weak interest coverage ratio nor a robust interest coverage ratio. So, the company's financial position is such that it could at least withstand a temporary downturn in profits. The payout ratio is also well-positioned enough that the same could also be said, with it set to be just 11% in 2024.

Final Thoughts & Recommendation

TPB's 0.8% dividend yield, 5.7% annual earnings growth potential, and 2.2% annual valuation multiple expansion potential could produce 11.5% annual total returns through the next five years. As far as risk is concerned, 75% of net sales were generated from outsourced production operations. If this production was disrupted, it could harm the company's fundamentals. TPB's starting income isn't too high and the track record probably isn't as established as conservative investors would prefer. Regardless, the total return potential could be compelling enough to warrant a speculative buy rating.

Total Return Breakdown by Year



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.

Turning Point Brands (TPB)

Published July 4th, 2024, by Kody Kester

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	200	197	206	286	333	362	405	445	415	405
Gross Profit	93	96	101	125	143	137	190	218	206	203
Gross Margin	46.5%	48.8%	48.8%	43.7%	42.9%	37.9%	46.9%	48.9%	49.5%	50.1%
SG&A Exp.	45	52	57	75	94	110	126	128	130	125
D&A Exp.	1	1	1	2	3	4	5	5	5	6
Operating Profit	48	45	44	50	48	27	64	90	76	83
Operating Margin	24.0%	22.6%	21.3%	17.4%	14.6%	7.5%	15.9%	20.3%	18.2%	20.4%
Net Profit	(29)	9	27	20	25	16	38	52	12	38
Net Margin	-14.7%	4.6%	13.1%	7.1%	7.6%	4.5%	9.4%	11.7%	2.8%	9.5%
Free Cash Flow	5	23	6	28	11	33	38	62	23	61
Income Tax	0	1	(12)	7	6	3	12	14	5	24

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	250	242	285	282	339	447	496	602	572	569
Cash & Equivalents	8	5	3	3	3	95	42	128	106	118
Accounts Receivable	3	4	2	3	3	7	9	6	8	10
Inventories	46	44	62	63	91	71	86	88	120	99
Goodwill & Int. Ass.	137	137	162	161	181	188	239	250	221	223
Total Liabilities	342	324	251	229	257	340	379	468	459	417
Accounts Payable	2	4	9	4	7	14	9	7	8	8
Long-Term Debt	313	292	218	202	221	284	314	414	407	365
Shareholder's Equity	(92)	(82)	34	53	83	107	113	131	112	151
LTD/E Ratio	(3.41)	(3.58)	6.41	3.79	2.67	2.67	2.77	3.15	3.64	2.42

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-10.8%	3.7%	10.2%	7.1%	8.1%	4.1%	8.1%	9.5%	2.0%	6.7%
Return on Equity				46.3%	37.2%	17.2%	34.1%	41.4%	9.4%	29.0%
ROIC	-12.8%	4.2%	11.6%	8.0%	9.1%	4.7%	9.3%	10.6%	2.2%	7.4%
Shares Out.	-	-	-	19.2	19.6	19.7	19.1	18.4	17.5	17.6
Revenue/Share	11.99	11.81	11.45	14.65	16.78	15.58	17.66	19.90	22.99	19.81
FCF/Share	0.28	1.37	0.33	1.42	0.55	1.42	1.64	2.77	1.25	2.99

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