Lancaster Colony Corporation (LANC)

Updated September 1st, 2024, by Josh Arnold

Key Metrics

Current Price:	$171	**5 Year CAGR Estimate:**	8.8%	**Market Cap:**	$4.7 B
Fair Value Price:	$188	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	09/09/24[1]
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.9%	**Dividend Payment Date:**	09/30/24
Dividend Yield:	2.1%	**5 Year Price Target**	$239	**Years Of Dividend Growth:**	61
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Hold

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 about $2 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 more than six decades of consecutive increases.

Lancaster Colony posted fourth quarter and full-year earnings on August 22nd, 2024, and results were weaker than expected, although not by much. Adjusted earnings-per-share came to $1.34, which was four cents light of estimates. Revenue was down fractionally at $453 million, missing estimates by $9.4 million.

Retail segment net sales fell 0.8% to $234 million, as volumes were flat. Excluding product line exits, net sales would have risen by 1.4% as volumes would have risen 1.2%. Foodservice segment sales were unchanged at $218.6 million, including the unfavorable impact of deflationary pricing, while volumes rose 4.2%.

Consolidated gross profit rose $4.4 million to $97.6 million as the company's cost savings programs more than offset higher labor costs, and the negative impact of deflationary pricing.

SG&A costs fell $3.5 million to $53.2 million, reflecting costs saving initiatives, partially offset by increased investments in personnel and IT.

Our initial estimate for 2025 is $6.70 in adjusted earnings-per-share, which would easily be another record year, if achieved.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$3.72	$4.44	$4.20	$4.92	$5.46	$4.97	$5.05	$4.38	$4.76	$6.19	***$6.70***	***$8.55***
DPS	$1.82	$1.96	$2.15	$2.40	$2.55	$2.75	$3.00	$3.15	$3.40	$3.55	***$3.60***	***$4.82***
Shares[2]	27	27	27	28	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 note the COVID recession saw Lancaster's retail and foodservice diversification come into its own as foodservice demand essentially disappeared.

We are forecasting 5% earnings-per-share growth annually ahead, comprised of low single-digit sales and growing margins over time, with the caveat that margins are generally volatile. 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

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[1] Estimated date

[2] 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 very strong chance to set record earnings again in 2025.

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	24.5	24.3	31.2	31.4	28.8	30.0	35.0	29.4	42.2	30.5	***25.5***	***28.0***
Avg. Yld.	2.0%	1.8%	1.6%	1.7%	1.6%	1.8%	1.7%	2.4%	1.7%	1.9%	***2.1%***	***2.0%***

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 28 times earnings. Today, shares trade for 25.5 times our fiscal 2025 earnings estimate, so we see it as meaningfully undervalued.

We see the yield remaining about where it is today given the forecasted moves in the valuation, earnings, and payout. Lancaster's current yield is better than the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	47%	49%	44%	47%	47%	55%	48%	72%	71%	57%	***54%***	***56%***

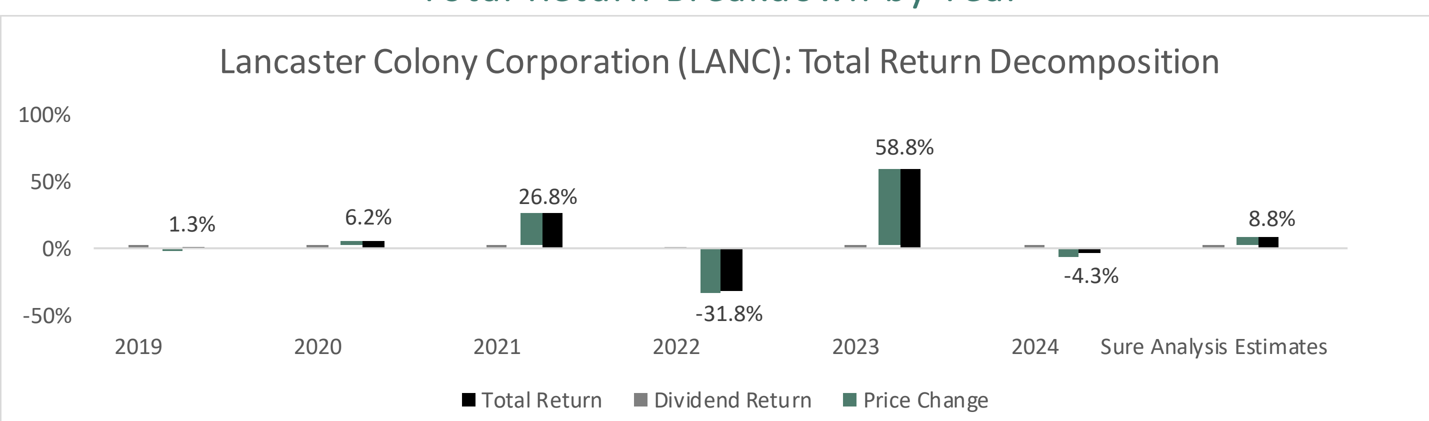
Lancaster Colony's payout should remain near where it is today as dividend growth roughly matches earnings growth. Given its Dividend King status, we know the payout is important to management and the dividend is very safe.

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 8.8% over the next five years, comprised of 5% growth, a 2.1% dividend yield, and a tailwind from the valuation. We're reiterating the stock at a hold rating after Q4 results with 8.8% projected total returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	1,105	1,191	1,202	1,223	1,308	1,334	1,467	1,676	1,823	1,872
Gross Profit	258	300	319	304	326	358	387	356	389	432
Gross Margin	23.3%	25.2%	26.5%	24.8%	24.9%	26.8%	26.4%	21.2%	21.3%	23.1%
SG&A Exp.	103	115	143	130	150	181	205	212	222	218
D&A Exp.	21	24	25	27	32	38	45	46	51	56
Operating Profit	155	185	176	174	176	177	181	144	166	214
Operating Margin	14.0%	15.5%	14.6%	14.2%	13.5%	13.3%	12.4%	8.6%	9.1%	11.4%
Net Profit	102	122	115	135	151	137	142	90	111	159
Net Margin	9.2%	10.2%	9.6%	11.1%	11.5%	10.3%	9.7%	5.4%	6.1%	8.5%
Free Cash Flow	114	129	119	130	127	88	86	-30	136	184
Income Tax	53	63	60	39	45	42	43	23	32	47

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	702	635	716	804	905	993	1,101	1,090	1,113	1,207
Cash & Equivalents	182	118	143	206	196	198	188	60	88	163
Accounts Receivable	62	66	70	73	76	87	98	135	115	96
Inventories	78	76	76	91	86	85	122	145	158	173
Goodwill & Int. Ass.	192	189	228	224	279	274	267	241	213	208
Total Liabilities	121	121	140	152	179	210	258	246	251	281
Accounts Payable	39	40	41	58	77	71	110	115	112	119
Long-Term Debt	---	---	---	---	---	---	---	---	0	0
Shareholder's Equity	581	514	576	652	727	783	843	845	862	926
LTD/E Ratio	---	---	---	---	---	---	---	---	0	0

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	15.2%	18.2%	17.1%	17.8%	17.6%	14.4%	13.6%	8.2%	10.1%	13.7%
Return on Equity	18.3%	22.2%	21.2%	22.0%	21.8%	18.1%	17.5%	10.6%	13.0%	17.7%
ROIC	18.3%	22.2%	21.2%	22.0%	21.8%	18.1%	17.5%	10.6%	13.0%	17.7%
Shares Out.	27	27	27	28	28	28	28	27	27	27
Revenue/Share	40.42	43.51	43.80	44.54	47.49	48.53	53.31	61.02	66.32	68.16
FCF/Share	4.19	4.72	4.35	4.72	4.60	3.21	3.14	-1.10	4.94	6.70

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