



Tootsie Roll Industries, Inc. (TR)

Updated October 28th, 2024 by Prakash Kolli

Key Metrics

Current Price:	\$30	5 Year CAGR Estimate:	10.0%	Market Cap:	\$2.23B
Fair Value Price:	\$41	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	12/19/24
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	6.0%	Dividend Payment Date¹:	01/10/25
Dividend Yield:	1.2%	5 Year Price Target	\$47	Years Of Dividend Growth:	58
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Tootsie Roll Industries, Inc. traces its roots 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 2023 was about \$763.3M.

Tootsie Roll reported Q3 2024 results on October 23rd, 2024. Net sales were down 10% to \$223.9M for the quarter versus \$248.3M in the prior year. In the same period, net earnings fell to \$32.8M compared to \$34.4M. Diluted EPS decreased 4% to \$0.46 per share from \$0.48 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 were under pressure. Although volumes and revenue are declining in 2024, margins are higher because of lower freight costs and higher prices. That said, customers are starting to resist higher prices.

Inflation is a concern and input costs have risen for labor, ingredients, freight and delivery, fuel, packaging materials, energy and manufacturing supplies. The company raised prices in response to restore margins.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS²	\$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
Shares³	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 2023. 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

¹ Estimated Date.

² Earnings per share and dividend per share data is not adjusted for the 3% annual stock dividend.

³ 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.



Tootsie Roll Industries, Inc. (TR)

Updated October 28th, 2024 by Prakash Kolli

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.

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	22.4	30.0
Avg. Yld.	1.1%	0.8%	1.0%	1.0%	1.2%	1.0%	1.1%	1.1%	1.1%	1.1%	1.2%	0.8%

Tootsie Roll's stock price is up slightly since our last report on lower results. The company had a decent quarter, but revenue and earnings per share both declined. 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

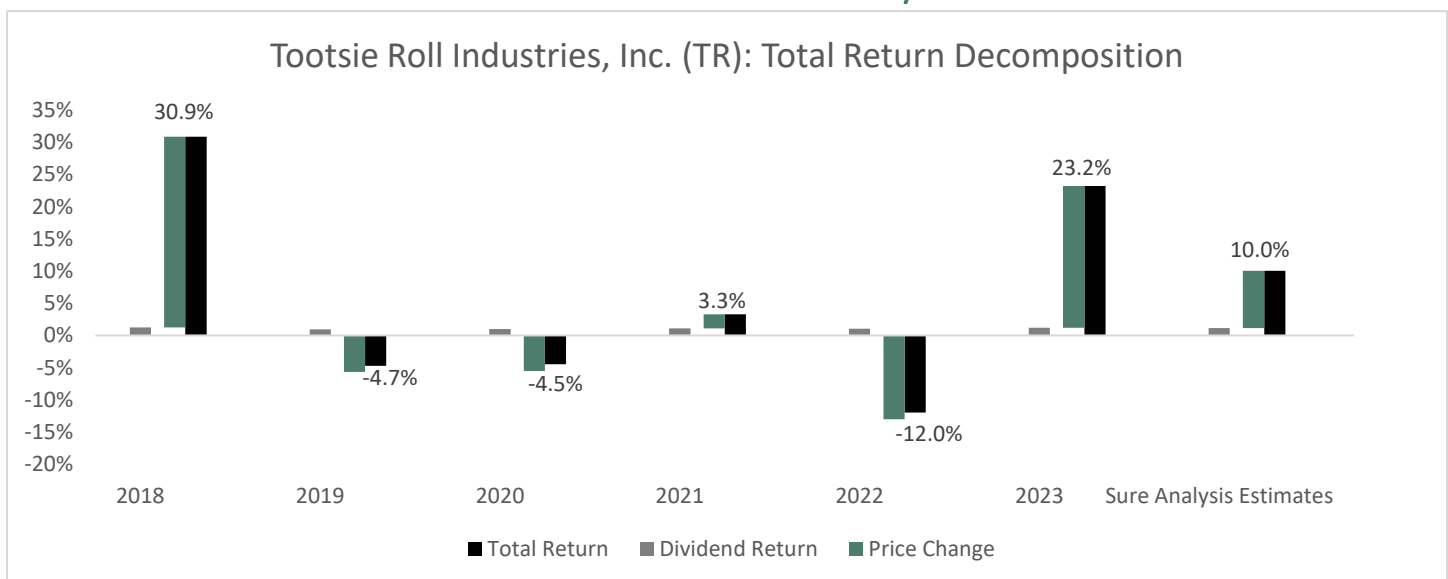
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2059
Payout	36%	38%	38%	40%	42%	38%	40%	37%	33%	27%	26%	23%

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 adversely 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 Q2 2024, Tootsie Roll had \$45.6M in cash and equivalents and \$85.5M in short-term investments. Interest coverage is rock solid.

Final Thoughts & Recommendation

At present we are forecasting 10.0% total annualized return over the next five years from a dividend yield of 1.2%, 3% EPS growth, and 6.0% P/E multiple expansion. The stock traded at an elevated earnings multiple for years, but a falling share price and rising earnings reduced the valuation to the lowest ratio in years before bouncing back from its lows. The company continues to perform well, but higher cost inputs are impacting it. Investors seeking safe yield may find it here with the combined cash and stock dividend of ~4%. At the present stock price, we have maintained our 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.



Tootsie Roll Industries, Inc. (TR)

Updated October 28th, 2024 by Prakash Kolli

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	544	540	521	519	519	527	471	571	687	769
Gross Profit	202	199	199	192	188	197	170	199	233	257
Gross Margin	37.1%	36.9%	38.2%	37.0%	36.3%	37.4%	36.2%	34.8%	33.9%	33.4%
SG&A Exp.	118	108	108	121	118	128	112	132	122	155
D&A Exp.	21	20	20	19	19	19	18	18	18	18
Operating Profit	84	91	91	70	70	69	58	67	111	102
Operating Margin	15.4%	16.9%	17.5%	13.6%	13.6%	13.1%	12.4%	11.7%	16.2%	13.2%
Net Profit	63	66	68	81	57	65	59	65	76	92
Net Margin	11.6%	12.2%	13.0%	15.6%	11.0%	12.3%	12.5%	11.4%	11.1%	11.9%
Free Cash Flow	78	76	82	26	73	80	57	54	49	68
Income Tax	28	26	31	4	16	21	17	20	22	28

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	910	909	978	947	931	920	985	1019	1019	1084
Cash & Equivalents	100	126	139	111	96	119	167	106	53	76
Accounts Receivable	43	51	45	50	47	43	41	55	59	56
Inventories	70	62	59	55	55	58	60	56	84	95
Goodwill & Int. Ass.	248	248	248	248	248	248	248	248	248	248
Total Liabilities	219	210	218	197	197	209	221	250	236	261
Accounts Payable	12	11	13	12	12	10	13	15	25	16
Long-Term Debt	8	8	8	8	8	8	8	8	9	9
Shareholder's Equity	691	698	760	751	734	711	763	769	783	823
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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.0%	7.3%	7.4%	8.7%	6.1%	6.7%	6.0%	6.5%	7.5%	8.7%
Return on Equity	9.2%	9.5%	9.6%	11.2%	7.7%	8.6%	7.7%	8.5%	9.8%	11.4%
ROIC	9.1%	9.4%	9.5%	11.1%	7.6%	8.5%	7.7%	8.4%	9.7%	11.3%
Shares Out.	71.8	70.5	69.6	68.6	69.0	67.0	66.3	69.5	70.9	71.9
Revenue/Share	7.53	7.59	7.67	7.53	7.62	7.82	6.88	8.22	9.69	10.70
FCF/Share	1.08	1.06	1.21	0.38	1.08	1.19	0.83	0.78	0.69	0.94

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.