



Turning Point Brands (TPB)

Updated November 7th, 2024, by Kody Kester

Key Metrics

Current Price:	\$49	5 Year CAGR Estimate:	5.4%	Market Cap:	\$874M
Fair Value Price:	\$42	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	12/20/24
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date:	01/10/25
Dividend Yield:	0.6%	5 Year Price Target	\$62	Years Of Dividend Growth:	7
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Hold

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. Turning Point Brands 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 November 7th, TPB reported its third-quarter results for the period ended September 30th. The company's net sales increased by 3.8% year-over-year to \$105.6 million during the quarter. The Zig-Zag Products segment posted \$49.3 million in net sales in the quarter, which was up 5.5% over the year-ago period. That was driven by strength in its North American papers and wraps business and cigars. The Stoker's Products segment delivered \$41.4 million in net sales for the third quarter, which represented a year-over-year growth rate of 12.1%. These topline gains were partially countered by a 17.4% drop in Creative Distribution Solutions segment net sales to \$14.9 million from discontinuing unprofitable brands. TPB's adjusted EPS surged 14.5% higher over the year-ago period to \$0.87 during the quarter, which was \$0.09 better than expected.

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	\$2.69	\$3.95
DPS	-	-	-	\$0.04	\$0.16	\$0.18	\$0.20	\$0.22	\$0.24	\$0.26	\$0.28	\$0.39
Shares¹	-	-	-	19.2	19.6	19.7	19.1	18.4	17.5	17.6	17.7	17.7

We believe that after beating expectations in recent quarters, TPB can generate 8.0% annual adjusted diluted EPS growth over the next five years. Momentum from core products in the Zig-Zag Products and Stoker's Products segments looks poised to continue. The company's management team believes the FRE white pouch product is in the early stages of growth within a multi-billion-dollar market. Also, we expect high-single-digit annual dividend growth.

¹ Share count is in millions

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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	18.3	15.8
Avg. Yld.	-	-	-	0.2%	0.6%	0.6%	0.4%	0.6%	1.1%	1.0%	0.6%	0.6%

TPB's valuation multiple has ranged from the low to high teens (besides much of 2020 and 2022) in the last eight years. Given the company's growth prospects, we continue to think that a multiple of around 16 approximates fair value. The current P/E ratio of 18.3 is moderately above our fair value estimate.

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%	10%	10%

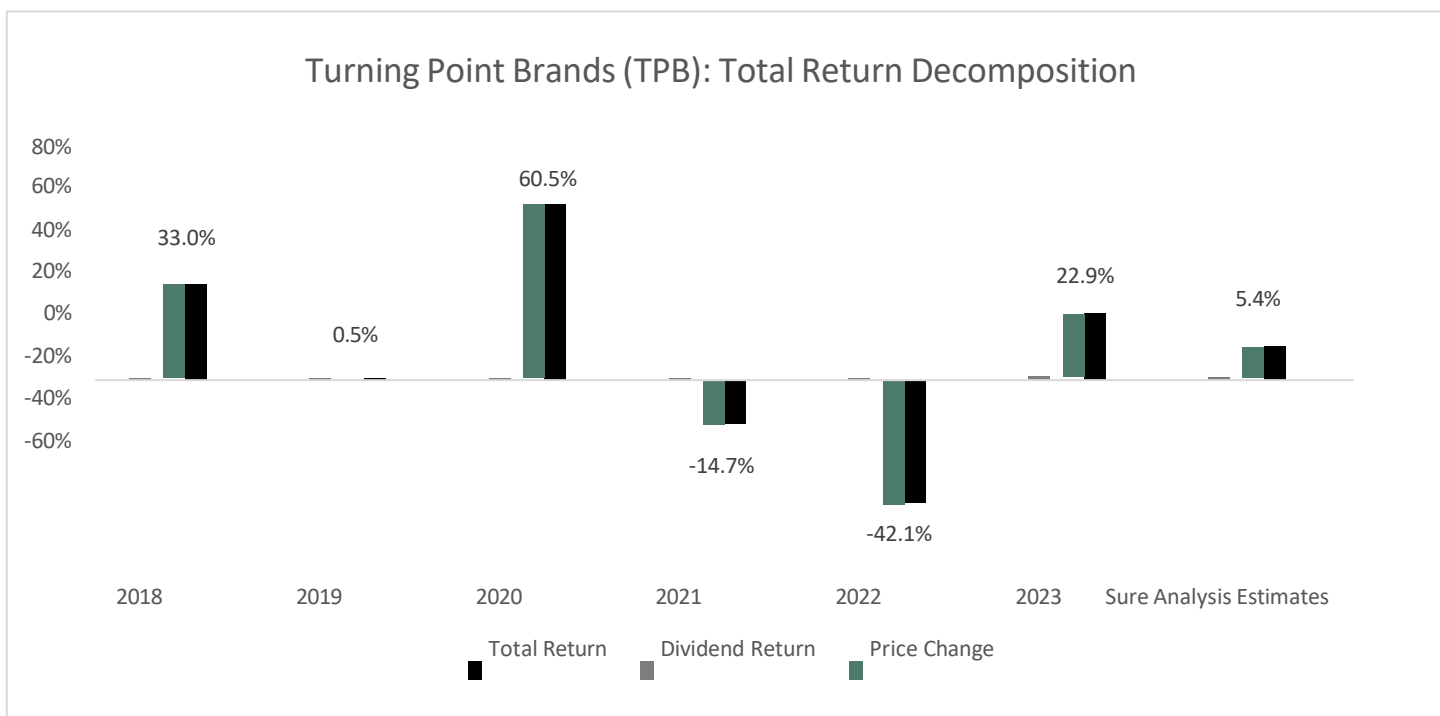
TPB's extensive product offerings resonate with customers, which is why its products are sold in a multitude of retail locations throughout the U.S. and Canada. This has allowed the company to achieve and maintain market-leading status with a handful of brands over the years.

TPB's interest coverage ratio was 6.1x in the third quarter. This suggests the company is reasonably solvent and could withstand a temporary downturn in profits. The payout ratio is also modest, with it likely to come in at just 10% in 2024.

Final Thoughts & Recommendation

TPB's 0.6% dividend yield, 8.0% annual earnings growth potential, and 2.9% annual valuation multiple compression could produce 5.4% annual total returns through the next five years. Most net sales (75%) came from outsourced production operations. If this production was interrupted, it could hurt the company's fundamentals. TPB remains fully valued, so we're reiterating our hold rating.

Total Return Breakdown by Year



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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.

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