



Tootsie Roll Industries, Inc. (TR)

Updated February 16th, 2025 by Prakash Kolli

Key Metrics

| | | | | | |
|-----------------------------|------|--|------|---|----------|
| Current Price: | \$31 | 5 Year CAGR Estimate: | 8.1% | Market Cap: | \$2.11B |
| Fair Value Price: | \$38 | 5 Year Growth Estimate: | 3.0% | Ex-Dividend Date¹: | 03/05/25 |
| % Fair Value: | 82% | 5 Year Valuation Multiple Estimate: | 4.1% | Dividend Payment Date¹: | 03/25/25 |
| Dividend Yield: | 1.2% | 5 Year Price Target | \$44 | 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 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 2024 was about \$715.5M.

Tootsie Roll reported Q4 2024 results on February 12th, 2025. Net sales were down 2% to \$191.4M for the quarter versus \$195.4M in the prior year. In the same period, net earnings fell to \$22.5M compared to \$29.4M. Diluted EPS decreased 22% to \$0.32 per share from \$0.41 on a year-over-year basis on charges and lower sales volumes.

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 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS² | \$0.93 | \$0.96 | \$0.90 | \$0.86 | \$0.96 | \$0.89 | \$0.97 | \$1.10 | \$1.32 | \$1.22 | \$1.26 | \$1.46 |
| DPS | \$0.35 | \$0.36 | \$0.36 | \$0.36 | \$0.36 | \$0.36 | \$0.36 | \$0.36 | \$0.36 | \$0.36 | \$0.36 | \$0.36 |
| Shares³ | 80.1 | 78.8 | 77.6 | 76.6 | 75.8 | 74.8 | 73.6 | 73.0 | 71.3 | 70.6 | 69.9 | 66.5 |

Tootsie Roll should achieve on average 3% earnings per share growth moving forward to 2030, 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 by millions of shares since 2011. We expect the share count to decrease 1% on average annually.

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 ~29% 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 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.



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Valuation Analysis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now | 2030 |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 29.5 | 33.0 | 38.3 | 35.0 | 36.6 | 37.1 | 33.7 | 32.7 | 25.2 | 26.5 | 24.5 | 30.0 |
| Avg. Yld. | 0.8% | 1.0% | 1.0% | 1.2% | 1.0% | 1.1% | 1.1% | 1.1% | 1.1% | 1.1% | 1.2% | 0.8% |

Tootsie Roll's stock price is flat since our last report on mixed results. The company had an acceptable quarter, but revenue and earnings per share both declined on write offs and lower volumes. 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 \$38. Our 5-year price target is now \$44.

Safety, Quality, Competitive Advantage, & Recession Resiliency

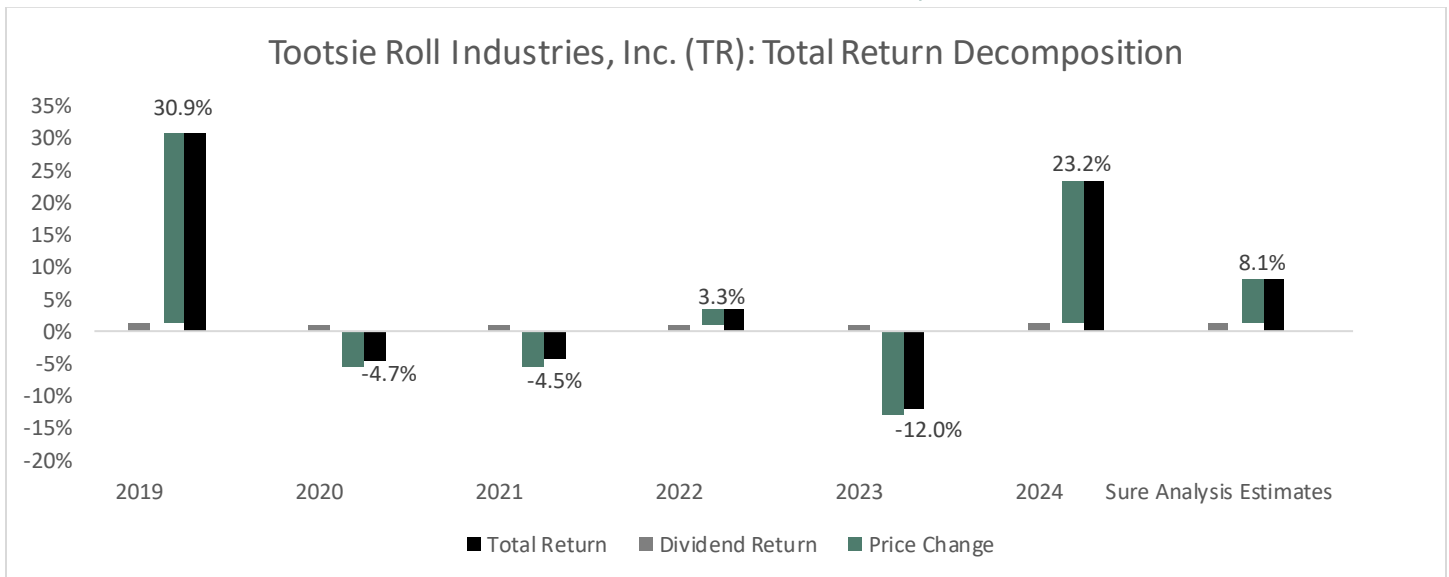
| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|--------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | 38% | 38% | 40% | 42% | 38% | 40% | 37% | 33% | 27% | 30% | 29% | 25% |

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 Q3 2024, Tootsie Roll had \$91.7M in cash and equivalents and \$71.5M in short-term investments. Interest coverage is rock solid.

Final Thoughts & Recommendation

At present we are forecasting 8.1% total annualized return over the next five years from a dividend yield of 1.2%, 3% EPS growth, and 4.1% 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 cocoa and chocolate costs are impacting it. Investors seeking safe yield may find it here with the combined cash and stock dividend of ~4%. We have changed our rating to a hold.

Total Return Breakdown by Year



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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

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