Lamb Weston Holdings, Inc. (LW)

Updated April 5th, 2025, by Ian Bezek

Key Metrics

Current Price:	$59	**5 Year CAGR Estimate:**	9.5%	**Market Cap:**	$8.3 B
Fair Value Price:	$63	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	05/02/25
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.2%	**Dividend Payment Date:**	05/30/25
Dividend Yield:	2.5%	**5 Year Price Target**	$84	**Years Of Dividend Growth:**	8
Dividend Risk Score:	C	**Sector:**	Consumer Staples	**Rating:**	Hold

Overview & Current Events

Lamb Weston is one of the dominant players in the frozen potato market, with an estimated 40% market share in North America. It primarily sells french fries, tater tots, hash browns and other potato-based items to restaurants and fast food chains. The company relies on a few key customers to drive sales, with McDonald's (MCD) in particular accounting for about 13% of Lamb Weston's total revenues.

Lamb Weston was founded in 1950 and has long operating ties and local connections in the Pacific Northwest. Its headquarters are in Idaho, and its potato sourcing from that region provides a lasting competitive advantage. However, Lamb Weston was part of packaged foods company Conagra (CAG) until November 2016, when the company was spun off and began trading as a separate entity. It has delivered strong returns for most of its time as a public company.

However, Lamb Weston is now facing a major slump. The company is currently modernizing its enterprise resource planning (ERP) program. There was a substantial mistake in this ERP transition process, causing a direct hit of more than $100 million so far, along with causing the loss of some customers who were impacted by ERP system disruptions. Lamb Weston announced its fiscal Q3 2025 earnings report on April 3rd, 2025. Lamb Weston's earnings of $1.10 beat expectations but slid from the $1.20 reported in the same quarter of the prior year. Revenues of $1.52 billion met expectations and grew 4.3% year-over-year. While earnings continue to decline from prior levels, this quarter was a significant improvement as margins have stabilized and customer demand has started to rebound.

Lamb Weston shares have been volatile over the past year. Poor earnings results have dimmed enthusiasm, however activist investors such as Jana Partners are pushing for major operational changes or an outright sale of the Lamb Weston business. As part of Lamb Weston's turnaround efforts, it appointed a new CEO, Michael Smith, who took over in January. With Lamb Weston likely to see EPS growth starting in FY' 26, LW stock could be set for better returns going forward, either from a takeover offer or an organic rebound in its business prospects.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$1.82	$1.92	$2.22	$2.82	$3.18	$2.49	$2.16	$1.92	$4.68	$4.98	***$3.30***	***$4.42***
DPS	$0.00	$0.00	$0.38	$0.76	$0.78	$0.86	$0.93	$0.96	$1.05	$1.12	***$1.48***	***$2.08***
Shares	--	146	146	146	147	146	146	146	145	145	***145***	***145***

Lamb Weston has been a successful, if volatile, earnings growth story. The company seized new markets and opportunities once it became fully independent from Conagra. However, the pandemic was a challenge. Lamb Weston's EPS fell three years in a row as the restaurant market was greatly impacted by that crisis. 2023 marked a huge upturn both from organic growth and better pricing along with the acquisition of the remaining 50% of its European business which transformed Lamb Weston's Europe operations from a joint venture into a wholly owned division.

We believe Lamb Weston's recent growth was supercharged by its dealmaking and the robust inflationary pricing environment. Going forward, we estimate 6% annualized earnings growth. Despite the soft earnings picture at the moment, Lamb Weston boosted its dividend from 36 to 37 cents per quarter in December 2024.

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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	--	--	20.7	22.4	18.1	24.0	37.9	48.5	16.6	16.7	***17.9***	***19.0***
Avg. Yld.	--	--	1.1%	1.0%	1.1%	1.4%	1.5%	1.3%	1.2%	1.3%	***2.5%***	***2.5%***

Lamb Weston has averaged a 26 times P/E ratio since going public, though this figure is somewhat inflated by the high readouts when earnings were depressed in 2021 and 2022. We believe a 19 P/E ratio is more sustainable, especially given the company's recent missteps. Shares appear to be slightly undervalued today.

The company's dividend yield has advanced to 2.5%, putting it far above its historical average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	--	--	17%	27%	25%	35%	43%	50%	22%	*22%*	***45%***	***47%***

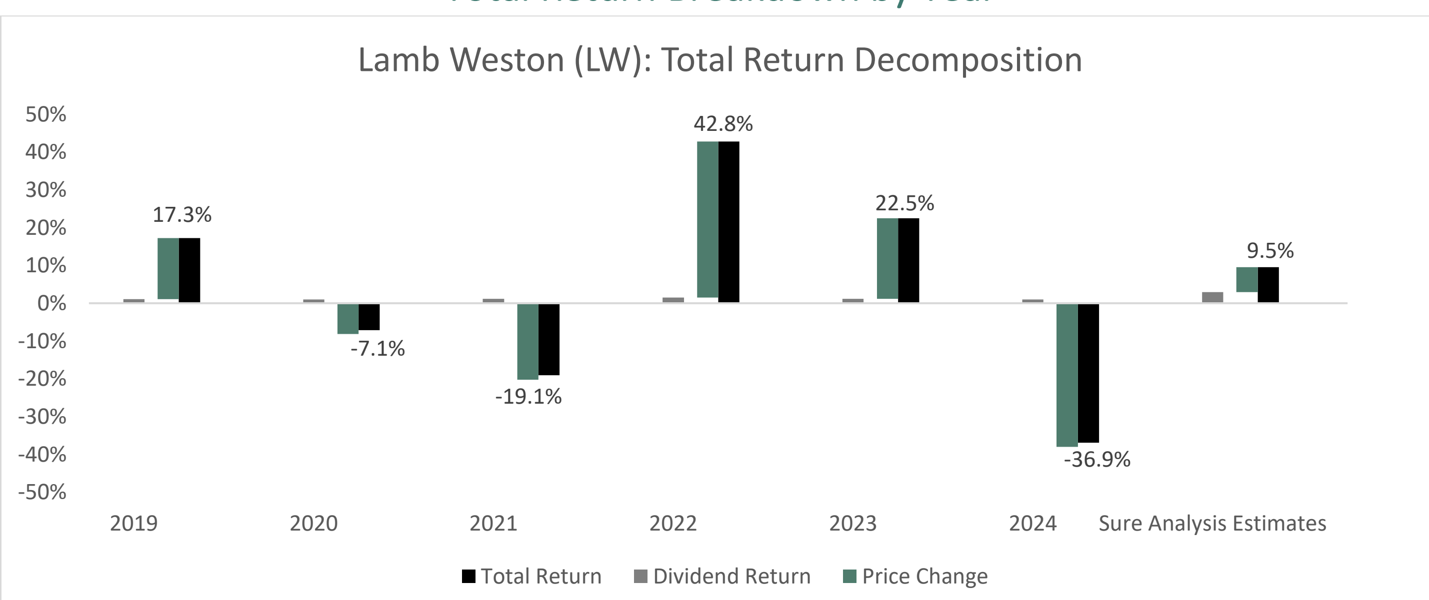
At first glance, Lamb Weston may seem like an undifferentiated commodity product producer, and it faces procurement risk since it doesn't grow its own potatoes. Changes in consumer behavior, such as a decline in french fry demand from weight loss drugs, low-carb diets, or other consumer trends would hit Lamb Weston hard. However, we believe the company's large market share, entrenched position in the key Idaho potato-growing region, and strong relationships with restaurants help protect its competitive position.

Lamb Weston has a fair bit of debt, and its BB+ credit rating from S&P Global puts it slightly below investment grade. A steep economic downturn could stress the company's dividend, that said the company's operations held up alright during the pandemic and the relatively low payout ratio leaves a significant margin of safety today.

Final Thoughts & Recommendation

Lamb Weston appeared to be firing on all cylinders until this past year. However, a combination of macroeconomic issues and operational setbacks have reset the narrative around LW stock. The stock bounced slightly following its better-than-expected Q3 earnings report, but the share price remains below our fair value estimate. We forecast 9.5% annualized total returns from here, and shares earn a hold rating today.

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.

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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	2,925	2,994	3,168	3,424	3,757	3,792	3,671	4,099	5,351	6,468
Gross Profit	587	662	779	880	1,004	895	832	832	1,432	1,767
Gross Margin	20.1%	22.1%	24.6%	25.7%	26.7%	23.6%	22.7%	20.3%	26.8%	27.3%
SG&A Exp.	206	289	261	299	335	338	357	388	550	701
D&A Exp.	96	96	109	143	162	182	188	192	223	307
Operating Profit	381	373	518	580	668	557	475	444	882	1,065
Op. Margin	13.0%	12.5%	16.4%	16.9%	17.8%	14.7%	12.9%	10.8%	16.5%	16.5%
Net Profit	268	285	327	417	479	366	318	201	1,009	726
Net Margin	9.2%	9.5%	10.3%	12.2%	12.7%	9.6%	8.7%	4.9%	18.9%	11.2%
Free Cash Flow	239	230	160	174	347	406	406	129	108	(131)
Income Tax	140	145	170	121	134	112	91	72	225	230

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2,056	2,158	2,486	2,753	3,048	4,662	4,209	4,140	6,520	7,367
Cash & Equivalents	31	36	57	56	12	1,364	784	525	305	71
Acc. Receivable	171	187	185	226	340	342	367	447	724	744
Inventories	488	499	525	550	498	487	514	574	932	1,139
Goodwill & Int.	177	174	170	171	244	342	371	352	1,151	1,165
Total Liabilities	698	758	3,133	3,087	3,053	4,422	3,729	3,779	5,109	5,579
Accounts Payable	236	238	295	254	289	244	359	403	637	834
Long-Term Debt	129	143	2,425	2,385	2,327	3,540	2,737	2,728	3,462	3,823
Total Equity	1,358	1,401	(647)	(335)	(5)	240	481	361	1,411	1,788
LTD/E Ratio	0.10	0.10	(3.75)	(7.12)	(51)	14.75	5.70	7.57	2.45	2.14

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	--	13.5%	14.1%	15.9%	16.5%	9.5%	7.2%	4.8%	18.9%	10.5%
Return on Equity	--	20.7%	86.8%	--	--	311%	88.2%	47.8%	114%	45.4%
ROIC	--	18.8%	19.7%	21.8%	21.9%	12.0%	9.1%	6.4%	25.3%	13.8%
Shares Out.	--	146	146	146	147	146	146	146	145	146
Revenue/Share	19.98	20.45	21.61	23.29	25.50	25.78	24.96	28.09	36.85	44.42
FCF/Share	1.63	1.57	1.09	1.19	2.35	2.76	2.76	0.88	0.74	(0.90)

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