

B&G Foods, Inc. (BGS)

\$13.83 (As of 02/10/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/24/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: F

Momentum: A

Summary

B&G Foods' shares have underperformed the industry in the past year. The company is being affected by increased inputs costs owing to short agriculture crop season, for a while now. The metric negatively impacted the company's performance in the third quarter of 2019 as well, wherein both top and bottom lines fell year over year. Moreover, sales in the fourth quarter are expected to continue bearing adverse impacts from Pirate Brands' divestiture. However, the company's buyouts have been yielding favorably. To this end, Green Giants has emerged as one of the leading brands of the company. Additionally, we commend the company's pricing strategies, which along with its savings efforts are expected to offset cost inflation.

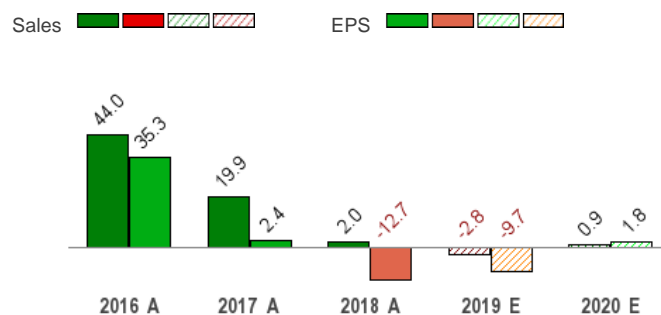
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$27.20 - \$13.80
20 Day Average Volume (sh)	1,396,524
Market Cap	\$885.7 M
YTD Price Change	-22.9%
Beta	0.50
Dividend / Div Yld	\$1.90 / 13.7%
Industry	Food - Miscellaneous
Zacks Industry Rank	Bottom 29% (180 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.9%
Last Sales Surprise	2.1%
EPS F1 Est- 4 week change	-5.6%
Expected Report Date	02/25/2020
Earnings ESP	0.0%
P/E TTM	8.1
P/E F1	8.1
PEG F1	NA
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	420 E	374 E	402 E	458 E	1,668 E
2019	413 A	371 A	406 A	463 E	1,653 E
2018	432 A	388 A	423 A	458 A	1,701 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.47 E	\$0.39 E	\$0.54 E	\$0.31 E	\$1.70 E
2019	\$0.44 A	\$0.38 A	\$0.54 A	\$0.31 E	\$1.67 E
2018	\$0.55 A	\$0.38 A	\$0.57 A	\$0.34 A	\$1.85 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/10/2020. The reports text is as of 02/11/2020.

Overview

Based in Parsippany, NJ, **B&G Foods, Inc.** along with its subsidiaries manufactures, sells and distributes high quality, shelf stable, frozen food and household products across the United States, Canada and Puerto Rico.

The company boasts of a diversified portfolio of 50 brands, including Back to Nature, B&G, B&M, Cream of Wheat, Green Giant, Las Palmas, Le Sueur, Mama Mary's, Maple Grove Farms, Mrs. Dash, New York Style, Ortega, Pirate's Booty, Polaner, SnackWell's, Spice Islands and Victoria. Many of these brands hold leading market shares in different regions.

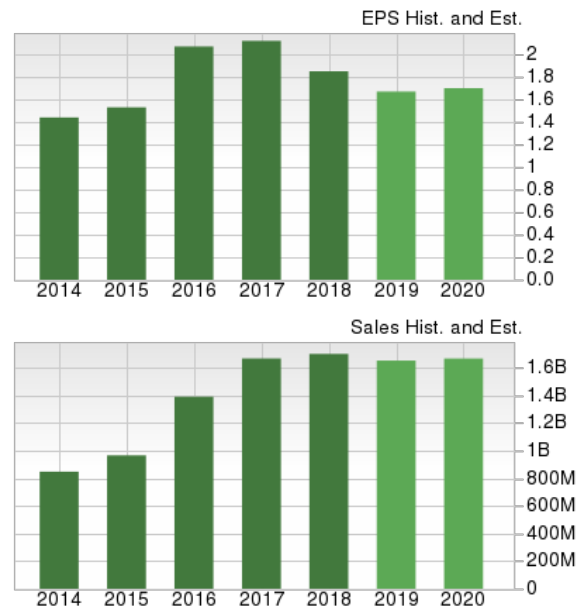
In order to further strengthen portfolio, the company frequently engages in acquisitions and innovations. Since 1996, B&G Foods has acquired and integrated more than 45 brands.

The company sources raw materials from suppliers located in the United States as well as overseas. In order to meet production need, it procures a range of raw materials such as agricultural items as well as meat, poultry and flour amongst others. Ingredients and packaging materials are sourced from growers, commodity processors other food companies and packaging suppliers

Alongside retail sales, the company also engages in institutional, foodservice and private label sales. It sells, distributes and markets products to supermarkets, mass merchants, warehouse clubs, specialty food distributors, wholesalers, foodservice distributors and direct accounts, military commissaries and non-food outlets such as drug and dollar store chains.

Many of these channels procure the company's products through broker sales network. Owing to differential product characteristics, the company maintain a different distribution system for frozen and shelf-stable products. Such items are handled by third-party logistics providers.

Further, marketing and trade spending support the company's brands. Such endeavors typically consist of advertising trade promotions, coupons and cross promotions with other products. It makes use of a range of media platforms to supplement its marketing and promotional ventures.



Reasons To Sell:

▼ **Dismal Sales Trend:** B&G Foods posted third-quarter 2019 results, wherein sales declined year over year. This marked the fourth consecutive quarter of sales decline. The Pirates Brands' divestiture to Hershey continued to negatively impact sales, which was somewhat compensated by the McCann and Clabber Girl acquisitions. The sale of Pirate Brands is expected to hurt results in the fourth quarter of 2019 as well. B&G Foods' shares have dropped 42.1% in the past year, against the industry's growth of 10.3%.

▼ **Input Costs to Dent Margins:** B&G Foods is being affected by increased inputs costs owing to short agriculture crop season, for a while now. . The metric negatively impacted the company's performance in the third quarter of 2019 as well. Adjusted gross margin was 27.2%, down 80 basis points (bps) year over year.

Prior to this, gross margin contracted 320 bps and 10 bps in the first and the second quarter of 2019, respectively. Input cost inflation is likely to persist in 2019, which will continue to put pressure on margins.

▼ **Intense Competition:** The company is facing stiff competition from its peers on the grounds of lower fixed cost, pricing, product quality, promotional activities and responsiveness to consumers changing needs. Further, the packaged food industry is exposed to intense competition of late.

Input cost inflation due to lean crop season is likely to be a headwind in 2019. Moreover, adverse impacts from the Pirate Brands divestiture is a worry.

Risks

- **Strategic Acquisitions Bode Well:** The company is actively pursuing strategic acquisitions to boost growth. The company has acquired notable brands such as Back to Nature, Green Giants, Victoria, Mama Mary, Specialty Brands from affiliates of American Capital, Rickland Orchardsn, TrueNorth and McCann's.

Markedly, Green Giants has emerged as one of the leading brands of the company. The company has a robust pipeline and new product innovations lined up, especially for Green Giant. Notably, B&G Foods is introducing 11 frozen innovation products in Green Giants portfolio, which are expected to generate approximately \$5-\$10 million in incremental net sales in the fourth quarter compared with the year-ago quarter's figure.

- **Net Pricing Strategies Bode Well:** The company's strategic pricing initiatives have played an important role in strengthening revenues and profitability for a while now. During the third quarter, the company's net sales gained \$5 million from rise in net pricing.

Management earlier stated that it expects pricing initiatives to be a strong driver in 2019, and aid sales by \$15-\$20 million. Notably, efficient pricing and the ongoing cost-saving efforts are expected to help B&G Foods counter input cost inflation in 2019. In 2020, such cost-savings initiatives are likely to deliver \$20-\$25 million.

- **Shareholder Friendly Moves:** B&G foods continues to focus on shareholder-friendly initiatives. The company is actively managing its capital, returning much of its free cash to shareholders via buybacks. During the third quarter, the company bought back and retired 1,330,865 shares for \$24.7 million. It has shares worth \$25.3 million remaining for repurchases.
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Last Earnings Report

B&G Foods Slashes Guidance Despite Q3 Earnings Beat

B&G Foods, Inc. posted third-quarter 2019 results, wherein both top and bottom lines surpassed the Zacks Consensus Estimate. However, both metrics fell year over year, impacted by Pirate Brands' divestiture. Further, management lowered its adjusted earnings per share and adjusted EBITDA guidance.

Adjusted earnings of 54 cents per share beat the Zacks Consensus Estimate of 51 cents. However, the bottom line declined 5.3% year over year. While interest expenses reduced, results were hampered by lower sales and a decline in adjusted EBITDA.

B&G Foods' net sales of \$406.3 million surpassed the Zacks Consensus Estimate of \$398 million, though it went down 3.9% year over year. The top line was hurt by the sale of Pirate Brands, which was partly made up by sales from McCann's (acquired in July 2018) and Clabber Girl (acquired in May 2019). McCann's and Clabber Girl contributed \$0.3 million and \$20.1 million, respectively, to B&G Foods' net sales in the third quarter of 2019.

Net sales from the company's base business dropped 2.5% to \$385.9 million, due to a \$14.8-million fall in unit volumes, partly compensated by improved net pricing to the tune of about \$5 million. Net sales from Green Giant products (including Le Sueur) fell 4.9%.

Adjusted gross margin was 27.2%, down 80 basis points (bps) year over year. SG&A expenses declined 4.7% to \$38.1 million, thanks to lower warehousing, selling and consumer marketing costs, partly negated by a rise in general and administrative expenses along with increased non-recurring costs and costs related to acquisitions/divestitures. As a percentage of sales, SG&A expenses expanded 10 bps to 9.4%.

Adjusted EBITDA fell 6.1% to \$86.2 million in the reported quarter on account of Pirate Brands' divestiture, partially cushioned by improved operating performance and the buyout of Clabber Girl. Adjusted EBITDA margin contracted 50 bps to 21.2%.

Other Financial Updates

The company concluded the quarter with cash and cash equivalents of \$267 million, long-term debt of \$2,133.5 million and shareholders' equity of roughly \$843.4 million.

During the third quarter, B&G Foods bought back and retired 1,330,865 shares for \$24.7 million, and has shares worth \$25.3 million remaining for repurchases.

Guidance

The company expects product innovation, prudent acquisitions, efficient pricing and cost of goods sold efforts to help it battle cost inflation in 2019. However, management earlier stated that it expects the sale of Pirate Brands to continue affecting results in the fourth quarter.

All said, management still expects 2019 net sales of \$1.665-\$1.700 billion.

However, adjusted EBITDA is now anticipated to be \$295-\$310 million compared with the previous guidance of \$305.0-\$320.0 million. Further, the company projects adjusted earnings per share of \$1.65-\$1.80, down from the earlier view of \$1.85-\$2.00.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	2.11%
EPS Surprise	5.88%
Quarterly EPS	0.54
Annual EPS (TTM)	1.70

Recent News

B&G Foods Announces Quarterly Dividend – Oct 29, 2019

B&G Foods' board approved quarterly dividend of 47.5 cents per share to be paid out on Jan 30, 2020 to shareholders as of Dec 31, 2019.

Valuation

B&G Foods shares are down 22.9% in the year-to-date period and 42.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 1.7% and the Zacks Consumer Staples sector is up 0.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry was up 10.3% and the sector was up 13.4%.

The S&P 500 index is up 3.4% in the year-to-date period and 22.9% in the past year.

The stock is currently trading at 8.11X forward 12-month earnings, which compares to 18.08X for the Zacks sub-industry, 19.67X for the Zacks sector and 19.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.23X and as low as 8.11X, with a 5-year median of 15.84X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$12 price target reflects 6.89X forward 12-month earnings.

The table below shows summary valuation data for BGS

Valuation Multiples - BGS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.11	18.08	19.67	19.12
	5-Year High	24.23	22.9	22.38	19.34
	5-Year Low	8.11	14.82	16.66	15.18
	5-Year Median	15.84	19.19	19.71	17.47
P/S F12M	Current	0.53	1.71	10.27	3.53
	5-Year High	2.4	2.05	11.13	3.53
	5-Year Low	0.53	1.44	8.09	2.54
	5-Year Median	1.37	1.81	9.88	3
EV/EBITDA F12M	Current	9.79	14.08	34.39	12.66
	5-Year High	14.51	16.59	37.23	12.66
	5-Year Low	9.21	11.67	29.38	9.08
	5-Year Median	11.48	13.27	33.58	10.79

As of 02/10/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (180 out of 255)



Top Peers

The Chefs Warehouse, Inc. (CHEF)	Neutral
Campbell Soup Company (CPB)	Neutral
Flowers Foods, Inc. (FLO)	Neutral
General Mills, Inc. (GIS)	Neutral
The Hain Celestial Group, Inc. (HAIN)	Neutral
J & J Snack Foods Corp. (JJSF)	Neutral
Kellogg Company (K)	Neutral
TreeHouse Foods, Inc. (THS)	Neutral

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	BGS Underperform	X Industry	S&P 500	CHEF Neutral	GIS Neutral	THS Neutral
VGM Score	B	-	-	C	B	B
Market Cap	885.74 M	4.23 B	24.17 B	1.19 B	31.67 B	2.61 B
# of Analysts	2	3.5	13	2	8	5
Dividend Yield	13.74%	0.12%	1.77%	0.00%	3.74%	0.00%
Value Score	A	-	-	D	B	A
Cash/Price	0.29	0.04	0.04	0.02	0.02	0.02
EV/EBITDA	7.15	13.40	13.89	19.56	13.05	16.98
PEG Ratio	NA	2.28	2.05	2.46	2.21	1.77
Price/Book (P/B)	1.07	2.71	3.27	3.68	3.95	1.45
Price/Cash Flow (P/CF)	5.03	13.02	13.60	24.30	12.28	6.80
P/E (F1)	8.41	17.50	19.00	36.89	15.44	17.52
Price/Sales (P/S)	0.54	1.30	2.66	0.76	1.89	0.51
Earnings Yield	12.29%	5.63%	5.26%	2.71%	6.47%	5.70%
Debt/Equity	2.57	0.62	0.71	0.87	1.37	1.29
Cash Flow (\$/share)	2.75	2.72	6.89	1.61	4.26	6.83
Growth Score	F	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	4.47%	5.29%	10.85%	3.99%	2.82%	-10.27%
Proj. EPS Growth (F1/F0)	1.80%	7.32%	7.22%	6.53%	5.32%	11.67%
Curr. Cash Flow Growth	-7.27%	1.85%	8.88%	41.46%	5.47%	-61.72%
Hist. Cash Flow Growth (3-5 yrs)	11.59%	7.12%	8.36%	13.27%	1.32%	10.92%
Current Ratio	3.47	1.57	1.22	2.35	0.61	1.49
Debt/Capital	71.99%	38.38%	42.90%	46.65%	57.73%	56.27%
Net Margin	10.80%	2.56%	11.81%	1.42%	12.62%	-7.65%
Return on Equity	12.70%	10.86%	16.98%	8.79%	27.33%	5.80%
Sales/Assets	0.51	1.16	0.54	1.86	0.55	0.92
Proj. Sales Growth (F1/F0)	0.91%	2.60%	4.06%	6.76%	2.23%	0.98%
Momentum Score	A	-	-	D	F	C
Daily Price Chg	-4.03%	0.00%	0.45%	0.26%	0.89%	1.20%
1 Week Price Chg	-10.27%	0.47%	2.47%	7.14%	-0.61%	2.98%
4 Week Price Chg	-15.72%	-1.17%	0.95%	1.43%	-1.32%	-1.32%
12 Week Price Chg	-15.05%	-0.68%	5.05%	9.99%	-1.00%	-6.01%
52 Week Price Chg	-46.64%	11.08%	16.18%	11.05%	19.03%	-21.10%
20 Day Average Volume	1,396,524	137,671	1,999,386	214,685	3,250,562	280,756
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.07%	0.00%
(F1) EPS Est 4 week change	-5.56%	0.00%	0.00%	-9.79%	-0.09%	0.38%
(F1) EPS Est 12 week change	-5.56%	-0.42%	-0.18%	-10.17%	0.83%	-1.85%
(Q1) EPS Est Mthly Chg	-1.06%	0.00%	0.00%	-21.43%	-0.56%	-5.06%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	F
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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