B&G Foods, Inc. (BGS)

$17.20 (As of 03/19/20)

Price Target (6-12 Months): **$15.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/24/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:C
	Value: B | Growth: D | Momentum: C	

Summary

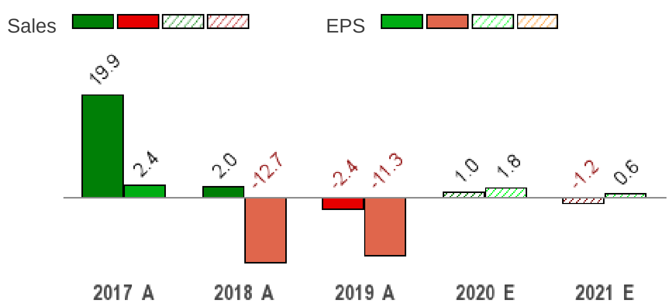
B&G Foods' shares have lagged the industry in a year. The company is witnessing increased input costs due to short agriculture crop season. The metric negatively impacted the company's operating performance in the fourth quarter of 2019, wherein the bottom line fell year over year. Apart from this, the company saw a rise in general and administrative expenses, and selling costs. Moreover, base business sales declined due to a $14.9-million fall in unit volumes. Management expects cost inflation in 2020, for inputs, labor and tariffs. Nonetheless, the company's efficient pricing initiatives and cost-saving efforts are helping it tackle the cost inflation. Also, the company's buyouts have been yielding results. To this end, Green Giants is likely to remain a leading brand in 2020.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$26.13 - $10.39**
20 Day Average Volume (sh)	**3,003,243**
Market Cap	**$1.1 B**
YTD Price Change	**-4.1%**
Beta	**0.58**
Dividend / Div Yld	**$1.90 / 11.0%**
Industry	**Food - Miscellaneous**
Zacks Industry Rank	**Top 43% (108 out of 254)**
Last EPS Surprise	**0.0%**
Last Sales Surprise	**1.9%**
EPS F1 Est- 4 week change	**-1.8%**
Expected Report Date	**05/07/2020**
Earnings ESP	**0.0%**
P/E TTM	**10.5**
P/E F1	**10.3**
PEG F1	**NA**
P/S TTM	**0.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	422 E	376 E	400 E	470 E	1,656 E
2020	420 E	373 E	402 E	481 E	1,676 E
2019	413 A	371 A	406 A	470 A	1,660 A

EPS Estimates

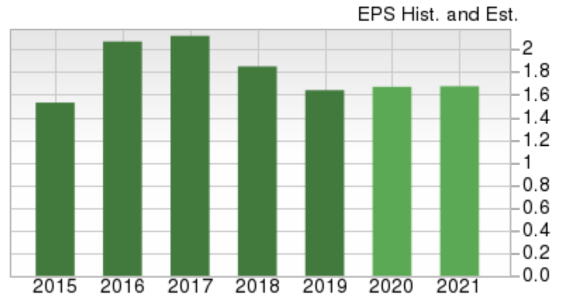
	Q1	Q2	Q3	Q4	Annual*
2021	$0.44 E	$0.37 E	$0.53 E	$0.35 E	$1.68 E
2020	$0.43 E	$0.37 E	$0.53 E	$0.36 E	$1.67 E
2019	$0.44 A	$0.38 A	$0.54 A	$0.28 A	$1.64 A

*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 03/19/2020. The reports text is as of 03/20/2020.

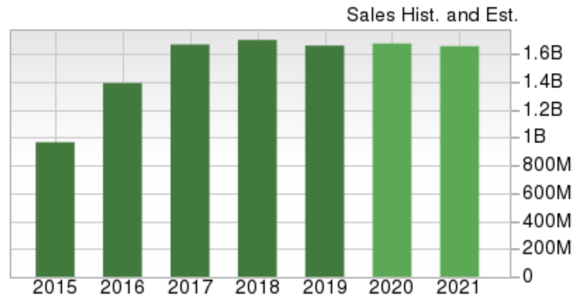
Overview

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:

- **Input Cost Inflation:** B&G Foods' shares have dropped 29% in the past year compared with the industry's decline of 13.2%. 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 operating performance in the fourth quarter of 2019 as well. Apart from this, the company also saw a rise in general and administrative expenses and escalated selling costs in the quarter. Cost inflation is likely to persist in 2020, for inputs, tariffs and labor. This remains a threat to margins.

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- **Q4 Earnings Soft:** In fourth-quarter 2019, adjusted earnings of 28 cents per share were in line with the Zacks Consensus Estimate. However, the bottom line declined 17.6% year over year. The year-over-year decline could be blamed on higher net interest expenses, which rose 13.2%. Also, base business sales declined. In fourth-quarter 2019, base business sales declined 2.4% to $445 million due to a $14.9-million fall in unit volumes.

- **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.

Risks

- **Strategic Acquisitions, Green Giant Strong:** The company is actively pursuing strategic acquisitions to boost growth. To this end, the company recently announced the buyout of Farmwise, while it also acquired and integrated retail baking powder maker, Clabber Girl (acquired in May 2019). Incidentally, Clabber Girl contributed to fourth-quarter 2019 top line by $25.2 million. Apart from this, 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 is driving growth in its plant-based innovation by Green Giant and has a robust pipeline and new product innovation lined up, especially for this business.

  In fact, Green Giant is expected to be a leading brand in 2020 as well, courtesy of its range of innovation across frozen food categories outside frozen vegetables. These include Cauliflower Hash Browns, Cauliflower Crust Pizza, Cauliflower Gnocchi, and Cauliflower Breadsticks and frozen bread sticks made with 40% cauliflower. Apart from this, the company is on track to launch Green Giant Riced Veggies. All said, management expects $20-million additional sales from Green Giant's innovation in 2020.

- **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 fourth quarter, the company's net sales benefited from a rise in net pricing to the tune of $4.1 million. Management expects efficient pricing and the ongoing cost-saving efforts to help B&G Foods counter input cost inflation in 2020. In 2020, such cost-savings initiatives are likely to deliver $20-$25 million.

- **Cost-Saving Efforts:** Management has been strategically tackling cost inflation through solid saving efforts. In 2019, the company generated savings of $20 million, which met the higher end of its estimated range of $15-$20 million. This was backed by solid logistics infrastructure savings. For 2020, management expects savings of $15-$20 million. This along with pricing is likely to help B&G Foods counter cost inflation.

Last Earnings Report

B&G Foods Q4 Earnings Meet Estimates, Decline Y/Y

Quarter Ending	12/2019
Report Date	**Feb 25, 2020**
Sales Surprise	**1.91%**
EPS Surprise	**0.00%**
Quarterly EPS	**0.28**
Annual EPS (TTM)	**1.64**

B&G Foods posted fourth-quarter 2019 results, wherein adjusted earnings of 28 cents per share were in line with the Zacks Consensus Estimate. However, the bottom line declined 17.6% year over year. The year-over-year decline could be blamed on higher net interest expenses, which rose 13.2%. Also, base business sales declined.

B&G Foods' net sales of $470.2 million grew 2.6% year over year and surpassed the Zacks Consensus Estimate of $461 million. The top line was buoyed by the contribution of $25.2 million from Clabber Girl (acquired in May 2019), partly negated by the divestiture of Pirate Brands (concluded in October 2018). Notably, Pirate Brands recorded sales of $2.1 million in the fourth quarter of 2018.

Net sales from the company's base business dropped 2.4% to $445 million due to a $14.9-million fall in unit volumes, partly compensated by improved net pricing to the tune of $4.1 million. Net sales from Green Giant products (including Le Sueur) fell 0.8%.

Adjusted gross margin was 20.6%, up 160 basis points (bps) year over year. SG&A expenses declined 6.5% to $44.5 million, thanks to lower warehousing and consumer marketing costs along with a decline in certain non-recurring costs and costs related to acquisitions/divestitures. This was partly negated by a rise in general and administrative expenses and escalated selling costs. As a percentage of sales, SG&A expenses dipped 0.9% to 9.5%.

Adjusted EBITDA increased 18.8% to $69.5 million on enhanced operating performance along with contributions from Clabber Girl, partly countered by Pirate Brands' divestiture. Operating performance was backed by gains from pricing and cost-saving efforts, partially offset by inflated input costs. Adjusted EBITDA margin expanded 200 bps to 14.8%.

Other Financial Updates

The company concluded the quarter with cash and cash equivalents of $11.3 million, long-term debt of $1,874.2 million and shareholders' equity of $812.5 million.

In a separate press release, B&G Foods announced a quarterly cash dividend of 47.5 cents per share, payable Apr 30, to shareholders of record as of Mar 31.

Guidance

The company remains pleased with its 2019 performance, and expects its efficient pricing and cost-saving efforts to keep helping it battle cost inflation. Additionally, management remains focused on innovation and acquisitions. To this end, the company is generating growth on its plant-based innovations by Green Giant. Moving on similar lines, it announced the buyout of Farmwise last week, while it also acquired and integrated retail baking powder maker, Clabber Girl, in 2019.

All said, management expects net sales of $1.660-$1.680 billion for 2020, whereas it recorded $1,660.4 million (around $1.660 billion) in 2019.

Adjusted EBITDA for 2020 is anticipated to be $302.5-312.5 million, whereas it reported $302.5 million in the previous year. Further, the company projects adjusted earnings per share of $1.60-$1.80, whereas it recorded $1.64 in 2019.

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 4% in the year-to-date period and 15.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 24.6% in the year-to-date period, while the Zacks Consumer Staples sector declined 23.8%. Over the past year, the Zacks sub-industry and the sector declined 15.3% and 17.6%, respectively.

The S&P 500 index is down 25.4% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 10.39X forward 12-month earnings, which compares to 14.02X for the Zacks sub-industry, 15.48X for the Zacks sector and 14.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.23X and as low as 7.03X, with a 5-year median of 15.08X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $15 price target reflects 9.06X 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	10.39	14.02	15.48	14.12
	5-Year High	24.23	22.9	22.37	19.34
	5-Year Low	7.03	14.02	15.48	14.12
	5-Year Median	15.08	19.1	19.66	17.42
P/S F12M	Current	0.66	1.31	7.68	2.58
	5-Year High	2.4	2.05	11.16	3.43
	5-Year Low	0.45	1.31	7.68	2.54
	5-Year Median	1.3	1.81	9.89	3
EV/EBITDA F12M	Current	9.18	13.78	34.16	12.28
	5-Year High	14.89	16.59	37.75	12.64
	5-Year Low	9.18	11.67	29.77	9.09
	5-Year Median	11.47	13.26	34.04	10.79

As of 03/19/2020

Industry Analysis **Zacks Industry Rank:** Top 43% (108 out of 254)

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)**	Underperform
TreeHouse Foods, Inc. **(THS)**	Underperform

Industry Comparison Industry: Food - Miscellaneous

Industry Peers

	BGS Underperform	X Industry	S&P 500	CHEF Neutral	GIS Neutral	THS Underperform
VGM Score	C	-	-	A	B	A
Market Cap	1.10 B	2.70 B	16.45 B	147.12 M	32.54 B	2.22 B
# of Analysts	2	3.5	13	2	8	6
Dividend Yield	11.05%	0.16%	2.67%	0.00%	3.65%	0.00%
Value Score	B	-	-	A	C	B
Cash/Price	0.01	0.04	0.06	0.26	0.02	0.09
EV/EBITDA	10.80	10.81	10.36	4.99	13.51	27.18
PEG Ratio	NA	2.27	1.49	NA	2.27	2.42
Price/Book (P/B)	1.36	1.69	2.16	0.44	4.14	1.21
Price/Cash Flow (P/CF)	6.11	9.99	8.92	2.52	12.59	6.45
P/E (F1)	10.30	13.30	13.12	5.00	15.86	15.75
Price/Sales (P/S)	0.66	0.93	1.72	0.09	1.94	0.47
Earnings Yield	9.71%	7.05%	7.54%	20.00%	6.30%	6.35%
Debt/Equity	2.35	0.60	0.70	1.15	1.47	1.23
Cash Flow ($/share)	2.81	2.75	7.01	1.92	4.26	6.13
Growth Score	D	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	2.38%	5.54%	10.85%	7.27%	2.82%	-10.02%
Proj. EPS Growth (F1/F0)	1.83%	7.54%	4.90%	-3.96%	5.12%	5.02%
Curr. Cash Flow Growth	-0.56%	3.82%	6.03%	20.81%	5.47%	-1.33%
Hist. Cash Flow Growth (3-5 yrs)	4.81%	5.35%	8.55%	19.83%	1.32%	5.96%
Current Ratio	3.05	1.58	1.23	3.02	0.64	1.50
Debt/Capital	70.11%	38.43%	42.57%	53.47%	59.59%	55.14%
Net Margin	4.60%	3.90%	11.57%	1.52%	12.68%	-7.61%
Return on Equity	12.50%	10.86%	16.74%	9.38%	26.40%	6.26%
Sales/Assets	0.51	1.15	0.54	1.75	0.55	0.87
Proj. Sales Growth (F1/F0)	0.92%	0.77%	3.13%	17.94%	2.13%	-10.79%
Momentum Score	C	-	-	A	A	A
Daily Price Chg	-0.35%	0.72%	1.03%	34.72%	-7.05%	1.28%
1 Week Price Chg	-17.35%	-12.52%	-11.01%	-33.33%	-2.36%	-4.03%
4 Week Price Chg	24.55%	-27.30%	-33.45%	-86.71%	-0.83%	-12.12%
12 Week Price Chg	-3.43%	-24.96%	-30.67%	-87.22%	2.40%	-17.16%
52 Week Price Chg	-30.51%	-24.37%	-23.69%	-84.40%	7.27%	-36.66%
20 Day Average Volume	3,003,243	196,681	3,981,936	909,671	7,735,384	686,896
(F1) EPS Est 1 week change	1.21%	0.00%	-0.01%	0.00%	2.77%	0.74%
(F1) EPS Est 4 week change	-1.76%	-0.13%	-0.85%	0.00%	2.44%	-0.13%
(F1) EPS Est 12 week change	-7.22%	-0.57%	-1.70%	-17.45%	1.94%	-5.04%
(Q1) EPS Est Mthly Chg	-8.60%	-0.37%	-0.88%	0.00%	0.40%	9.29%

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	B
Growth Score	D
Momentum Score	C
VGM Score	C

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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