

Lamb Weston (LW)

\$93.56 (As of 01/03/20)

Price Target (6-12 Months): **\$98.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

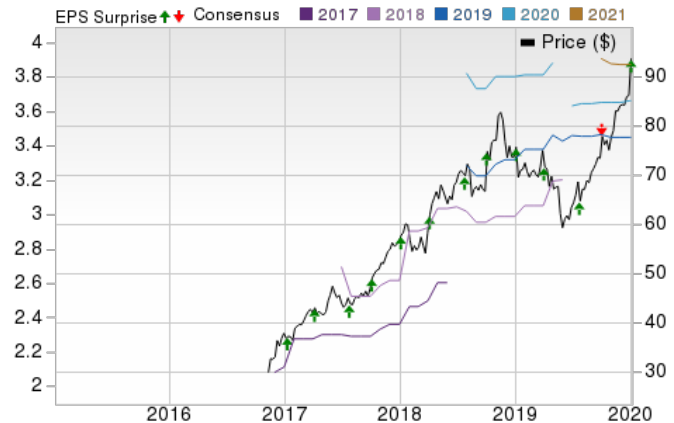
Growth: A

Momentum: D

Summary

Shares of Lamb Weston outpaced the industry in the past three months. The company's shares received a boost after second-quarter fiscal 2020 results, with the top and the bottom line surpassing the Zacks Consensus Estimate and rising year over year. The top-line growth was supported by robust volumes and price/mix. Moreover, the BSW buyout contributed to the bottom line and aided volume growth. Marvel Packers and Ready Meals buyouts also drove volumes. Further, the company is on track with capacity boosting endeavors. To this end, Lamb Weston completed the expansion of a facility located at Hermiston. Also, management raised net sales and adjusted EBITDA guidance for fiscal 2020. However, rising input and manufacturing costs have been a headwind. Also, higher SG&A expenses and poor potato harvest conditions in Europe are concerns.

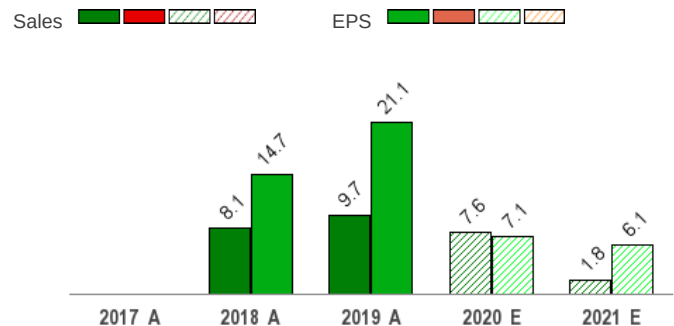
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$94.46 - \$58.83
20 Day Average Volume (sh)	784,097
Market Cap	\$13.7 B
YTD Price Change	8.8%
Beta	0.20
Dividend / Div Yld	\$0.92 / 0.9%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 38% (95 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.8%
Last Sales Surprise	5.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	27.3
P/E F1	27.1
PEG F1	3.6
P/S TTM	3.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,027 E	1,001 E	1,008 E	1,079 E	4,113 E
2020	989 A	1,019 A	967 E	1,122 E	4,042 E
2019	915 A	911 A	927 A	1,003 A	3,757 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.88 E	\$0.95 E	\$1.05 E	\$0.82 E	\$3.66 E
2020	\$0.79 A	\$0.95 A	\$0.98 E	\$0.83 E	\$3.45 E
2019	\$0.73 A	\$0.80 A	\$0.95 A	\$0.74 A	\$3.22 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 01/03/2020. The reports text is as of 01/06/2020.

Overview

Based in Eagle, ID, Lamb Weston Holdings, Inc. is a leading global manufacturer, marketer and distributor of value-added frozen potato products, particularly French fries, and also provides a range of appetizers.

Lamb Weston was formed in July 2016 as a wholly owned subsidiary of Conagra Brands, while it was spun off from the latter in November 2016 when it began operating independently. Lamb Weston, along with its joint venture allies, is the top frozen potato products supplier in North America, while it also operates internationally, with a robust and growing presence in emerging markets. The company mainly serves retail and foodservices customers.

Lamb Weston operates through the following segments:

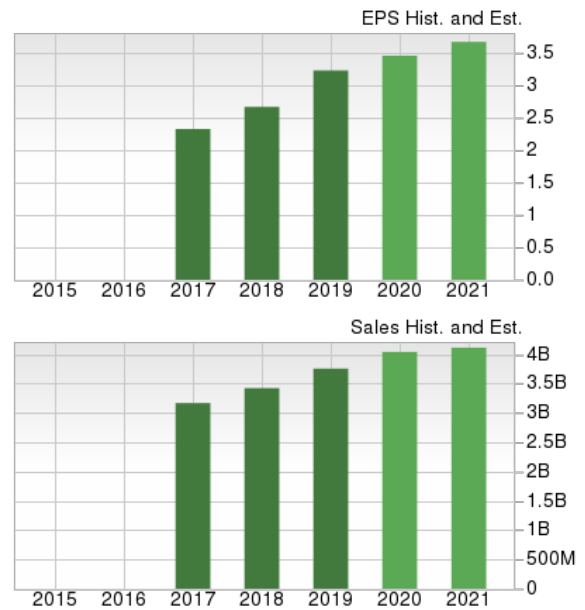
Global (52.2% of FY19 Sales): This includes the top 100 North American restaurant chains and international customers such as global and regional restaurant chains, foodservice distributors, and retailers. The segment also incorporates non-U.S. and non-Canadian retail and foodservice customers. Global segment products include frozen potatoes, sweet potatoes and appetizers sold under the Lamb Weston brand, alongside other customer labels.

Foodservice (30.8% of FY19 Sales): This includes products sold all over the United States and Canada, mainly to commercial distributors and restaurant chains, other than the top 100 North American restaurants. Foodservice, which also caters to non-commercial networks, sells frozen potatoes, sweet potatoes, commercial ingredients and appetizers.

Retail (13.3% of FY19 Sales): This includes customer-facing products sold mainly to grocery, mass merchants, clubs and specialty retailers. Main products of this segment include frozen potatoes and sweet potato items sold under the company's owned or licensed brands like Grown in Idaho and Alexia, among other selling channels.

Other (3.7% of FY19 Sales): This mainly includes the company's vegetable and dairy operations.

Also, Lamb Weston operates through two unconsolidated joint ventures ("JVs") and incorporates its share of earnings from these as equity method earnings. Lamb Weston has 50% stake in its JV with Meijer Frozen Foods and an equal stake in potato processing venture with RDO Frozen Co.



Reasons To Buy:

▲ **Strong Top-line Trend, Raised View:** Lamb Weston boasts a solid top-line trend. Markedly, the company's sales have been rising year over year for a while. Also, sales surpassed the Zacks Consensus Estimate for the 13th straight time, when it reported second-quarter fiscal 2020 results. Performance was supported by volume growth of 10% driven by strength in the Global and Foodservice segments, gains from acquisition as well as favorable price/mix impacts. Additional shipping days related to Thanksgiving also contributed to the top line by roughly 1 percentage point. Moreover, the bottom line increased 19% year over year. The upside was backed by higher income from operations and gains of nearly 4 cents from BSW acquisition. Sturdy performance in the quarter reflects continued gains from price/mix, expansion efforts, and strength in commercial and supply-chain networks along with brand development.

Lamb Weston is gaining from volume growth and robust pricing moves, as witnessed during second-quarter fiscal 2020. These trends and a favorable operating environment are upsides for fiscal 2020.

Markedly, management raised its net sales and adjusted EBITDA outlook for fiscal 2020. It expects net sales to increase at high end of mid-single digit range from its previous guidance of a mid-single digits growth. Adjusted EBITDA (including unconsolidated joint ventures) is expected in the range of \$965-\$985 million, up from its previous guidance of \$950-\$970 million. These factors gave a major boost to the stock that has gained 23.2% in the past three months compared with the industry's growth of 3.5%.

▲ **Robust Price/Mix:** Lamb Weston's top line has been gaining from robust price/mix, as also witnessed during the second quarter of fiscal 2020. During the quarter, price/mix rose 1% and 4% at the Global and Foodservice units, respectively, while the metric rose 3% in the retail segment. The rise in price/mix across these segments were supported by improved mix and pricing actions. In fact, improved price/mix and volumes drove gross profit growth during the second quarter. Continuity of such trends is likely to augment sales growth.

▲ **Efforts to Boost Offerings & Expand Capacity:** Lamb Weston has been undertaking initiatives to boost offerings and operating capacity. These efforts enable the company to effectively meet rising demand conditions for snacks and fries. Markedly, it completed the acquisition of joint venture interests in Lamb Weston BSW sometime around mid-fiscal 2019. During the second quarter of fiscal 2020, the BSW buyout contributed nearly 4 cents to the bottom line and drove overall volumes. Gains from this buyout were particularly witnessed in the Global segment. Among other moves, the company acquired Australia-based companies Ready Meals and Marvel Packers in 2019 and 2018, respectively. These buyouts have bolstered Lamb Weston's market share in Australia.

Markedly, the buyouts of Marvel Packers and Ready Meals supported the company's volume growth during fiscal second quarter. In recent developments, the company announced a joint venture with Sociedad Comercial del Plata in Argentina. Lamb Weston expects to capture greater revenue prospects in Argentina through this deal. Moreover, it will enable the company to cater to the growing needs of high-quality potato fries in the broader South American market. Including the latest deal in Argentina, Lamb Weston now operates 27 manufacturing facilities worldwide, independently or through joint ventures.

Speaking on capacity expansion endeavors, the company completed the expansion of a facility located at Hermiston, Oregon on Jun 18, 2019. The expansion has facilitated the addition of a new processing line for increasing the production of frozen french fries. This is expected to cater to demand conditions in North America and key export markets as well as support production needs emerging from, innovation and LTO's. The company is on track with ramping up the facility. Management expects that volume growth in fiscal 2020 is likely to be driven by the Oregon facility expansion.

▲ **LTO's a Major Sales Driver:** Lamb Weston has been benefitting from its limited time offers or LTO innovations, which form key part in the company's long-term prospects. Incidentally, LTOs helped drive growth and market share gains in fiscal 2018 and in fiscal 2019. More specifically, LTOs are aiding volume growth in the company's Global segment. Management remains positive about further prospects from new LTOs.

▲ **Strength in Global Segment:** Global segment accounted for more than half of Lamb Weston's second-quarter fiscal 2020 sales and remains a major driver for the future. Sales at this segment increased 15% to \$539.6 million. Volumes increased 14% on strong sales and gains from acquisitions as well as extra shipping days due to Thanksgiving holiday. Price/mix increased 1% on pricing adjustments in multi-year contracts. Going ahead, this segment is likely to remain a tailwind to Lamb Weston's growth in fiscal 2020.

Reasons To Sell:

- ▼ **Input Cost Inflation:** Lamb Weston is witnessing cost increases for input materials as well as manufacturing. Rise in manufacturing costs were caused by costs stemming from maintenance and other related costs along with depreciation associated with the company's french fry production line in Oregon. Such high costs exerted pressure on gross margin during fiscal second quarter. Rising costs were also a drag on product contribution margins in the Global, Retail and Foodservice units during the said period.

Incidentally, the company expects increased input and manufacturing costs to linger in fiscal 2020. This along with rising SG&A costs and challenges in Europe are headwinds for the company.

- ▼ **Increased SG&A Costs a Worry:** Lamb Weston's SG&A expenses have been rising year over year for the past few quarters. In second-quarter fiscal 2020, SG&A expenses increased 22.1% to \$91.6 million on account of higher incentive compensation expenses and investments in the company's sales, marketing, operating as well as systems capabilities. For fiscal 2020, management expects SG&A costs to increase due to planned investments undertaken to upgrade ERP system. These factors may be a burden on the bottom line.

- ▼ **Challenges in Europe:** Poor potato crop scenario in Europe has been a headwind for Lamb Weston for a while. Potato harvest in Europe will likely be under pressure due to adverse weather conditions. Notably, potato crops in Germany, Poland and the U.K. are looking more challenged. Nevertheless, crops in the Netherlands and Belgium appear in a better position in fiscal 2020, but still below average.

In fact, adversities related to the poor potato crop yield witnessed last year have led to higher raw potato costs that were reflected in fiscal second quarter of fiscal 2020. Markedly, costs of potatoes in Europe are higher compared with historical average but lower than what the company had experienced in the year-ago period. This put pressure on the company's earnings from unconsolidated joint ventures — Lamb Weston/Meijer in Europe and Lamb Weston/RDO in Minnesota.

- ▼ **Stiff Competition:** Lamb Weston Holdings operates in a highly competitive frozen potato-products industry. The company competes with big national and international firms, along with regional and local companies. Lamb Weston competes with these firms on the basis of sales and marketing, financial resources, customer service, product innovation, food safety, product quality, pricing and brand recognition, among others. This may hamper market share and hinder top and bottom-line growth.

The company expects increased input and manufacturing costs to prevail in fiscal 2020. Moreover, uncertainties in the European region stemming from poor potato harvests, are a concern.

Last Earnings Report

Lamb Weston's Q2 Earnings Beat Estimates, Sales Rise Y/Y

Lamb Weston delivered second-quarter fiscal 2020 results, with the top and the bottom line surpassing the Zacks Consensus Estimate and rising year over year. Sturdy performance in the Global as well as other units boosted the quarterly results. Moreover, management raised its net sales and adjusted EBITDA guidance for fiscal 2020.

Quarter in Detail

In fiscal second quarter, the company delivered adjusted earnings of 95 cents per share, up 19% year over year. The upside was backed by higher income from operations and gains of nearly 4 cents from BSW acquisition. Moreover, the bottom line surpassed the Zacks Consensus Estimate of 85 cents.

Net sales came in at \$1019.2 million, up 12% year on year and surpassing the consensus mark of \$964.39 million. Volumes grew 10% on the back of strength in the Global and Foodservice segments coupled with gains from acquisition and favorable price/mix impacts. Additional shipping days related to Thanksgiving also contributed to top-line growth.

Gross profit increased 14.5% to \$285.1 million, backed by price mix, greater volumes and lower transportation costs. These were somewhat countered by higher manufacturing costs stemming from maintenance and other related costs. Further, gross profits were hurt by higher input costs and depreciation expenses related to the company's french fry production line in Oregon.

SG&A expenses increased 22.1% to \$91.6 million due to higher incentive compensation expenses and investments in the company's sales, marketing, operating as well as systems capabilities. Nevertheless, foreign exchange expenses declined year over year.

EBITDA (including unconsolidated joint ventures) increased 17.1% to \$260.9 million, driven by higher operating income and benefits from BSW acquisition.

Segment Analysis

Sales in the Global segment rose 15% to \$539.6 million. Volumes increased 14% on strong sales, gains from acquisitions and extra shipping days due to Thanksgiving holiday. Price/mix increased 1% courtesy of pricing adjustments in multi-year contracts. Product contribution margin in the segment increased 15% to \$128.9 million, backed by higher volumes, lower transportation costs and price/mix gains.

Foodservice sales increased 9% to \$304.9 million. Price/mix improved 4%, driven by consistent favorable impact of strategic pricing actions undertaken during the quarter and better mix. Moreover, volumes moved up 5% on the back of branded and distributor private label products growth. Product contribution margin rose 14% million to reach \$111.3 million, owing to improved price/mix and volumes along with lower logistics cost.

In the Retail segment, sales went up 7% to \$132.1 million. Volumes in the category went up 4%, stemming from increased Grown sales in Idaho as well as branded and private label products sales. Additional shipping days related to Thanksgiving also contributed to volume growth. Price/mix improved 3% owing to gains from pricing actions and favorable mix. Product contribution margin increased 10% to \$28.5 million driven by improved price/mix and volumes as well as lower transportation cost.

Other Financial Details

The company ended the quarter with cash and cash equivalents of \$23.8 million, long-term debt and financing obligations (excluding current portion) of \$2,203.7 million as well as total shareholders' equity of \$201.1 million.

Lamb Weston generated \$345.3 million as net cash from operating activities at the end of fiscal second quarter.

Guidance

Management is encouraged with its quarterly results, which indicates consistent growth in segments. The upside can be attributed to gains from improved volumes and price/mix. Going ahead, management expects the operating environment to remain favorable and aid meeting set targets.

Moreover, management raised its net sales and adjusted EBITDA outlook for fiscal 2020. It expects net sales to increase at high end of mid-single digit range from its previous guidance of a mid-single digits growth.

Adjusted EBITDA (including unconsolidated joint ventures) is expected in the range of \$965-\$985 million, up from its previous guidance of \$950-\$970 million. Interest costs are projected to be nearly \$110 million. Further, the company plans to use cash of \$300 million for capital expenditures, excluding buyouts.

Quarter Ending **11/2019**

Report Date	Jan 03, 2020
Sales Surprise	5.68%
EPS Surprise	11.76%
Quarterly EPS	0.95
Annual EPS (TTM)	3.43

Recent News

Lamb Announces Dividend – Dec 19, 2019

Lamb Weston announced a quarterly dividend of 23 cents per share, an increase of nearly 15% from the last quarter's dividend. This is payable on Feb 28, 2020 to shareholders of record as on Jan 31, 2020.

Lamb Weston Forms JV in Argentina, Expansion Plans on Track – Oct 15, 2019

Lamb Weston announced a joint venture (JV) with Sociedad Comercial del Plata in Argentina. Each partner will have a 50% ownership in the newly-formed JV — Lamb Weston Alimentos Modernos S.A. Per the terms of the JV, frozen potato products will be sold under the Rapipap and Morixe brands. The deal also includes operating a manufacturing facility in Munro, Buenos Aires, Argentina. The facility has an annual capacity of approximately 130 million pounds of finished goods. The company expects to capture capturing greater revenue prospects in Argentina through this deal. Moreover, it will enable the company to cater to the growing needs of high-quality potato fries in the broader South American market.

Valuation

Lamb Weston's shares are up 32.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 15.7% and 17.5% in the past year, respectively.

The S&P 500 index is up 25.7% in the past year.

The stock is currently trading at 26.17X forward 12-month earnings, which compares to 18.33X for the Zacks sub-industry, 19.62X for the Zacks sector and 18.71X for the S&P 500 index.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$98 price target reflects 25.2X forward 12-month earnings.

Industry Analysis Zacks Industry Rank: Top 38% (95 out of 252)



Top Peers

Tate & Lyle PLC (TATYY)	Outperform
Darling Ingredients Inc. (DAR)	Neutral
Flowers Foods, Inc. (FLO)	Neutral
General Mills, Inc. (GIS)	Neutral
The Hain Celestial Group, Inc. (HAIN)	Neutral
McCormick & Company, Incorporated (MKC)	Neutral
Nomad Foods Limited (NOMD)	Neutral
Sysco Corporation (SYYY)	Neutral

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	LW Neutral	X Industry	S&P 500	DAR Neutral	FLO Neutral	MKC Neutral
VGM Score	B	-	-	A	B	C
Market Cap	13.67 B	4.33 B	23.66 B	4.73 B	4.52 B	22.62 B
# of Analysts	4	3	13	3	2	4
Dividend Yield	0.86%	0.11%	1.79%	0.00%	3.56%	1.46%
Value Score	C	-	-	B	B	D
Cash/Price	0.00	0.04	0.04	0.02	0.00	0.01
EV/EBITDA	19.09	14.28	13.88	11.82	15.21	24.66
PEG Ratio	3.62	2.36	1.99	NA	NA	3.84
Price/Book (P/B)	148.06	3.00	3.36	2.01	3.49	6.50
Price/Cash Flow (P/CF)	21.48	12.77	13.62	9.94	13.16	27.66
P/E (F1)	27.12	18.46	18.74	29.91	21.14	30.69
Price/Sales (P/S)	3.47	1.36	2.67	1.41	1.10	4.22
Earnings Yield	3.69%	5.24%	5.32%	3.36%	4.73%	3.26%
Debt/Equity	23.94	0.62	0.72	0.69	0.95	1.10
Cash Flow (\$/share)	4.36	2.72	6.94	2.91	1.62	6.15
Growth Score	A	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	NA%	5.08%	10.56%	-7.64%	0.55%	11.05%
Proj. EPS Growth (F1/F0)	7.07%	7.85%	7.41%	53.44%	5.21%	3.21%
Curr. Cash Flow Growth	18.57%	3.82%	14.83%	36.40%	2.49%	17.31%
Hist. Cash Flow Growth (3-5 yrs)	12.76%	6.91%	9.00%	16.52%	1.95%	9.17%
Current Ratio	1.68	1.68	1.23	1.43	1.08	0.78
Debt/Capital	95.99%	38.35%	42.92%	40.92%	48.63%	52.47%
Net Margin	12.44%	2.79%	11.08%	3.30%	4.48%	13.12%
Return on Equity	-1,426.55%	10.61%	17.10%	4.67%	15.74%	21.63%
Sales/Assets	1.23	1.17	0.55	0.68	1.31	0.52
Proj. Sales Growth (F1/F0)	7.59%	2.51%	4.20%	3.40%	2.46%	2.40%
Momentum Score	D	-	-	D	D	D
Daily Price Chg	11.26%	0.00%	-0.61%	2.26%	0.52%	1.59%
1 Week Price Chg	0.28%	0.14%	0.13%	1.16%	-1.54%	2.14%
4 Week Price Chg	10.84%	1.02%	2.60%	22.19%	-2.15%	-1.15%
12 Week Price Chg	22.44%	5.45%	8.87%	56.44%	-4.47%	2.72%
52 Week Price Chg	28.20%	23.00%	29.34%	51.20%	15.03%	24.91%
20 Day Average Volume	784,097	98,366	1,603,615	1,216,269	960,920	561,741
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-1.94%	-1.80%
(F1) EPS Est 12 week change	0.00%	-1.09%	-0.57%	-2.68%	-1.94%	-1.86%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-1.47%	-2.70%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	A
Momentum Score	D
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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