

Lamb Weston (LW)

\$62.42 (As of 07/28/20)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/03/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: A

Summary

Lamb Weston's shares have lagged the industry year to date. The stock took a hit when the company reported fourth-quarter fiscal 2020 results, with the top and the bottom line declining year over year. Also, earnings fell short of the Zacks Consensus Estimate. Volumes in the quarter declined 17% due to significant fall in demand for frozen potato products in the Foodservice unit amid the COVID-19 pandemic. Also, higher manufacturing and pandemic-related costs were a drag on the gross profit. In fact, management expects to keep incurring pandemic related costs. Due to uncertainties related to COVID-19, Lamb Weston is unable to foresee frozen potato products demand for fiscal 2021. Nonetheless, the company is seeing robust trends in the Retail unit due to higher at-home consumptions. Also, improved price/mix has been helping Lamb Weston.

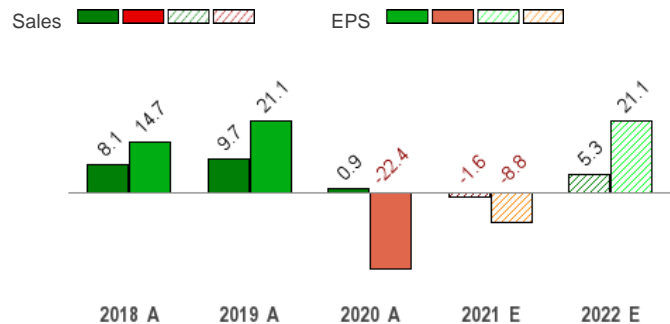
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$96.32 - \$39.06
20 Day Average Volume (sh)	1,094,551
Market Cap	\$9.1 B
YTD Price Change	-27.4%
Beta	0.82
Dividend / Div Yld	\$0.92 / 1.5%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 44% (112 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-108.3%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	2.0%
Expected Report Date	10/07/2020
Earnings ESP	15.9%
P/E TTM	25.0
P/E F1	27.4
PEG F1	3.7
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					3,929 E
2021	889 E	993 E	917 E	971 E	3,730 E
2020	989 A	1,019 A	937 A	847 A	3,792 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.64 E	\$0.80 E	\$0.79 E	\$0.57 E	\$2.76 E
2021	\$0.44 E	\$0.72 E	\$0.80 E	\$0.43 E	\$2.28 E
2020	\$0.79 A	\$0.95 A	\$0.77 A	-\$0.01 A	\$2.50 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 07/28/2020. The reports text is as of 07/29/2020.

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:

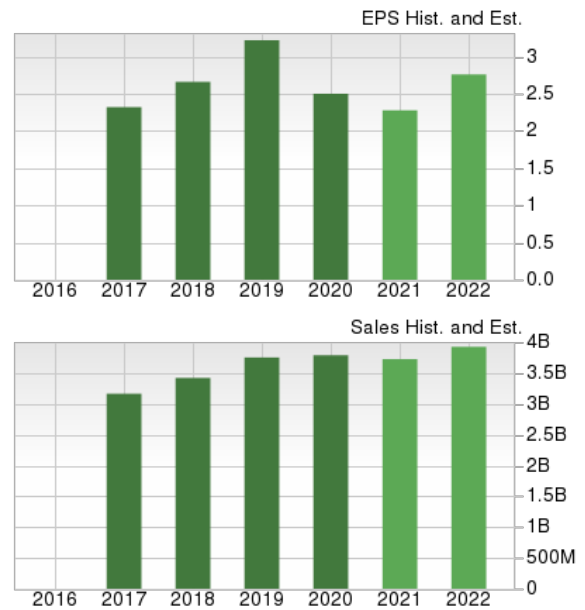
Global (50.7% of FY20 Sales): This includes the top 100 North American restaurant chains and international customers such as global and regional restaurant chains, foodservice distributors, and retailers. The segment also incorporates non-U.S. and non-Canadian retail and foodservice customers. Global segment products include frozen potatoes, sweet potatoes and appetizers sold under the Lamb Weston brand, alongside other customer labels.

Foodservice (20.8% of FY20 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 (23.8% of FY20 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 (4.7% of FY20 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:

▲ **Robust Price/Mix:** Lamb Weston's top line has been benefiting from robust price/mix, as also witnessed during the fourth quarter of fiscal 2020. During the quarter, price/mix rose 1% and aided sales growth, which was otherwise negatively impacted by lower volumes. Price/mix rose 17% in the Retail segment. This rise could be attributable to favorable mix on the back of increased branded product sales along with actions to enhance pricing. Continuity of such trends is likely to augment sales growth.

Lamb Weston's fourth-quarter fiscal 2020 results gained from robust pricing moves and strength in Retail segment.

▲ **Solid Growth in Retail Business:** Lamb Weston boasts a solid Retail segment which comprises of revenues of private label and branded items to mass merchant, grocery and club customers across North America. The company's Retail business sales surged 56% to \$201.9 million in fourth-quarter fiscal 2020. Price/mix and volumes increased 17% and 39%, respectively. Volumes improved on the back of higher at-home consumption of frozen potato products amid coronavirus-induced stay-at-home orders. Notably, demand for its premium and mainstream branded products along with private label items remained strong in the fourth quarter. We believe that higher consumption amid the pandemic is likely to keep helping the company's performance in the near term.

▲ **Reduced SG&A Expenses:** During the fourth quarter of fiscal 2020, Lamb Weston's SG&A expenses declined 21.8% year over year to \$80.2 million. This was driven by reduced incentive compensations, lower advertising and promotional costs. Additionally, reduced travel and meeting costs along with suspension of donations to charitable foundations contributed to the upside. Meanwhile, as a percentage of sales, SG&A expenses contracted 70 bps to 9.5% in the fourth quarter. We believe that persistence of this trend will aid the company's performance in the future.

▲ **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 fourth quarter of fiscal 2020, acquisitions aided volumes. 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.

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 in North America and key export markets as well as support production needs emerging from, innovation and LTO's.

Reasons To Sell:

- ▼ **COVID-19 Impact on Foodservice Business:** Shares of Lamb Weston have dropped 27% year to date, compared with the industry's decline of 3.2%. The stock got a hit when the company reported fourth-quarter fiscal 2020 results, with both top and bottom lines deteriorating year over year. Moreover, earnings fell short of the Zacks Consensus Estimate.

During the fourth quarter, Lamb Weston posted adjusted loss of 1 cent per share, against earnings of 74 cents reported in the year-ago quarter. The downside can be attributed to lower sales and gross profit. Net sales were down 16% year on year in the fourth quarter. Volumes declined 17% year over year thanks to significant fall in demand for frozen potato products in the Foodservice segment due to the coronavirus outbreak. The growing spread of coronavirus and increased social distancing caused the government to impose stay-at home orders which adversely impacted traffic in restaurants and other foodservice channels. Also, inventory destocking by chain restaurant as well as foodservice customers acted as a deterrent in the quarter. Moreover, considering uncertainties related to COVID-19, management is unable to foresee frozen potato products demand for fiscal 2021. Management is unsure about the impact of the pandemic on restaurant traffic in North America as well as international markets.

Management is unable to foresee frozen potato products demand in the near term, considering the uncertainty related to COVID-19. It refrained from providing guidance for fiscal 2021.

- ▼ **Weakness in Global Unit:** Lamb Weston's Global segment has been seeing soft sales and product contribution margin for the past two quarters. Sales in the segment dropped 18% year over year in the fourth quarter of fiscal 2020. Volumes and price/mix fell 16% and 2%, respectively, in the quarter. Volumes were hurt by the impact of reduced traffic in restaurants and other foodservice channels amid coronavirus-induced stay at home orders. Price mix bore the brunt of unfavorable mix of customers and reduced revenues from LTO products. Further, product contribution margin in the segment have tumbled 70% year over year thanks to higher production expense and pandemic related costs along with reduced sales volumes.
- ▼ **Escalated Manufacturing Costs a Worry:** In the fourth quarter of fiscal 2020, gross profit tumbled 56% to \$111.1 million. Higher manufacturing costs stemming from input cost inflation, inefficiencies as well as unfavorable mix were a drag on the gross profit. Also, escalated costs resulting from coronavirus outbreak were a reason. Rising costs were also a drag on product contribution margins in the Global and Foodservice segments during the fourth quarter. Going forward, management expects to continue incurring pandemic related costs like expenses related to maintaining enhanced worker safety and sanitization among others. We believe that, these escalated costs are a threat to the company's performance.
- ▼ **Financial Status:** Lamb Weston's long-term debt and financing obligations (excluding current portion) of \$2,992.6 million as of May 31, 2020, increased 36.3% from the preceding quarter's figure. Notably, the company has entered into a new term loan worth \$325 million along with taking out note offering of \$500 million amid the coronavirus pandemic. In the fourth quarter of fiscal 2020, Lamb Weston's cash flow from operations amounted to \$574 million down from \$680.9 million reported in the year-ago quarter.
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Last Earnings Report

Lamb Weston Q4 Earnings Lag Estimates, Sales Down Y/Y

Lamb Weston reported dismal fourth-quarter fiscal 2020 results, with the bottom line deteriorating year over year and missing the Zacks Consensus Estimate. The top line fell year over year. Nevertheless, sales surpassed the consensus mark.

Quarter in Detail

In fiscal fourth quarter, the company posted adjusted loss of 1 cent per share, against earnings of 74 cents reported in the year-ago quarter. The downside can be attributed to lower sales and gross profit. Moreover, the bottom line lagged the Zacks Consensus Estimate, which was pegged at earnings of 12 cents per share.

Net sales came in at \$846.9 million, down 16% year on year. Volumes declined 17% year over year due to significant fall in demand for frozen potato products in the Foodservice segment due to the coronavirus outbreak. Also, inventory destocking by consumers acted as a deterrent. Nevertheless, higher at-home consumption of frozen potato products amid the pandemic as well as positive contribution from buyouts offered some respite. Further, price/mix rose 1% on the back of higher prices in the Retail segment. Moreover, sales surpassed the consensus mark of \$845.3 million.

Gross profit tumbled 56% to \$111.1 million due to lower sales and increased manufacturing costs stemming from input cost inflation, inefficiencies as well as unfavorable mix. Also, escalated costs resulting from coronavirus outbreak were a reason.

SG&A expenses declined 21.8% to \$80.2 million on the back of reduced incentive compensations, lower advertising and promotional costs. Also, reduced travel and meeting costs along with suspension of donations to charitable foundations were a reason.

Adjusted EBITDA (including unconsolidated joint ventures) declined 64% to \$78.3 million due to lower operating income.

Segment Analysis

Sales in the **Global** segment dropped 18% to \$429.3 million. Volumes and price/mix fell 16% and 2%, respectively. Volumes were also hurt by the impact of coronavirus on restaurant and other foodservice channels. Price mix bore the brunt of unfavorable mix of customers and reduced revenues from LTO products. Product contribution margin in the segment tumbled 70% to \$33.5 million due to higher production costs, reduced sales volumes and pandemic related costs.

Foodservice sales declined 44% to \$175.8 million. Price/mix and volumes declined 2% and 42%, respectively. Product contribution margin fell 61% million to reach \$42.5 million, courtesy of elevated production costs, reduced sales volumes and pandemic related costs.

In the **Retail** segment, sales moved up 56% to \$201.9 million. Price/mix and volumes increased 17% and 39%, respectively. Product contribution margin improved 50% to \$31.4 million on the back of increased sales volumes, favorable mix as well as reduced advertising and promotional costs.

Other Financial Details

The company ended the quarter with cash and cash equivalents of \$1,364 million, long-term debt and financing obligations (excluding current portion) of \$2,992.6 million as well as total shareholders' equity of \$240 million.

Lamb Weston generated \$574 million as net cash from operating activities during the fifty-three weeks ended May 31, 2020.

Other Updates

Considering uncertainties related to COVID-19, management is unable to foresee frozen potato products demand for fiscal 2021. Management is unsure about the impact of the pandemic on restaurant traffic in North America as well as international markets.

The company provided an update on the shipping trends for seven weeks ending Jul 20. In this regard, the company's shipments in North America are nearly at 85% compared with prior-year levels, driven by demand from quick serve restaurants and retail. Also, demand from full-service restaurants increased sequentially in the region. Europe Shipments in the Europe region are at nearly 75% compared with year-ago levels as coronavirus-induced restrictions are being lifted. Moreover, shipments to China are nearly at 85% levels. However, the company is witnessing softness in International markets on rising coronavirus cases as well as destocking of inventory.

Quarter Ending **05/2020**

Report Date	Jul 28, 2020
Sales Surprise	0.19%
EPS Surprise	-108.33%
Quarterly EPS	-0.01
Annual EPS (TTM)	2.50

Recent News

Lamb Announces Dividend – Jul 23, 2020

Lamb Weston announced a quarterly dividend of 23 cents per share. This is payable on Sep 4, 2020 to shareholders of record as on Aug 7, 2020.

Valuation

Lamb Weston's shares are down 27% in the year-to-date period and 6.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 3.2% and 6.9%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is up 4.1%, while the sector declined 5.9%.

The S&P 500 index is up 1.8% in the year-to-date period and 10.1% in the past year.

The stock is currently trading at 26.5X forward 12-month earnings, which compares to 19.27X for the Zacks sub-industry, 20.15X for the Zacks sector and 22.61X for the S&P 500 index.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$66 price target reflects 28.02X forward 12-month earnings.

Industry Analysis Zacks Industry Rank: Top 44% (112 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
TateLyle PLC (TATYY)	Outperform	3
Darling Ingredients Inc. (DAR)	Neutral	3
Flowers Foods, Inc. (FLO)	Neutral	2
General Mills, Inc. (GIS)	Neutral	3
The Hain Celestial Group, Inc. (HAIN)	Neutral	3
McCormickCompany, Incorporated (MKC)	Neutral	3
Nomad Foods Limited (NOMD)	Neutral	2
Sysco Corporation (SYU)	Underperform	5

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	LW	X Industry	S&P 500	DAR	FLO	MKC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	B	-	-	A	A	B
Market Cap	9.12 B	3.70 B	22.47 B	4.47 B	4.79 B	25.71 B
# of Analysts	4	3	14	3	3	6
Dividend Yield	1.47%	0.00%	1.84%	0.00%	3.54%	1.28%
Value Score	C	-	-	B	B	C
Cash/Price	0.00	0.07	0.07	0.02	0.05	0.01
EV/EBITDA	13.58	12.95	13.04	7.78	15.03	25.93
PEG Ratio	3.61	4.02	2.97	NA	NA	5.80
Price/Book (P/B)	33.71	2.37	3.11	1.73	3.63	7.02
Price/Cash Flow (P/CF)	14.33	11.57	12.07	8.11	13.73	29.28
P/E (F1)	27.09	18.44	21.52	16.36	20.51	33.49
Price/Sales (P/S)	2.40	1.23	2.35	1.32	1.14	4.74
Earnings Yield	3.65%	4.86%	4.34%	6.12%	4.86%	2.98%
Debt/Equity	8.12	0.62	0.76	0.67	1.06	1.12
Cash Flow (\$/share)	4.36	2.81	7.01	3.40	1.65	6.59
Growth Score	B	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	18.82%	5.41%	10.85%	6.19%	1.38%	12.19%
Proj. EPS Growth (F1/F0)	-8.90%	5.10%	-7.56%	-9.32%	14.93%	7.73%
Curr. Cash Flow Growth	18.57%	4.76%	5.47%	16.44%	1.85%	7.80%
Hist. Cash Flow Growth (3-5 yrs)	12.76%	6.08%	8.55%	3.58%	1.66%	9.99%
Current Ratio	1.85	1.59	1.31	1.43	1.65	1.02
Debt/Capital	89.03%	38.87%	44.41%	40.24%	51.53%	52.90%
Net Margin	9.65%	3.49%	10.44%	11.24%	2.21%	13.74%
Return on Equity	195.76%	12.01%	15.10%	11.70%	17.35%	21.34%
Sales/Assets	1.12	1.08	0.54	0.65	1.29	0.52
Proj. Sales Growth (F1/F0)	-1.66%	0.00%	-1.97%	1.01%	5.19%	3.38%
Momentum Score	A	-	-	C	D	A
Daily Price Chg	-11.46%	0.25%	-0.80%	-0.36%	0.31%	-1.55%
1 Week Price Chg	2.09%	0.00%	0.37%	0.61%	2.42%	1.38%
4 Week Price Chg	-2.36%	2.05%	3.64%	12.10%	1.21%	7.57%
12 Week Price Chg	5.85%	9.03%	11.56%	34.57%	2.82%	20.46%
52 Week Price Chg	-7.58%	-1.91%	-3.92%	34.90%	-5.19%	19.61%
20 Day Average Volume	1,094,551	167,136	1,867,919	921,089	711,840	465,924
(F1) EPS Est 1 week change	-0.65%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	2.02%	0.00%	0.21%	0.00%	1.22%	1.32%
(F1) EPS Est 12 week change	1.45%	0.13%	-1.29%	7.66%	3.76%	10.80%
(Q1) EPS Est Mthly Chg	7.32%	0.00%	0.09%	0.00%	0.00%	1.47%

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	B
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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