

Post Holdings (POST)

\$92.05 (As of 08/04/20)

Price Target (6-12 Months): **\$97.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/13/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: D

Summary

Post Holdings has lagged the industry in the past six months. The company's Foodservice business is bearing the brunt of coronavirus-led woes. Notably, sales in this segment dipped 2.7% year over year in second-quarter fiscal 2020. The downside was caused by reduced demand from foodservice customers owing to coronavirus-led restrictions. Apart from this, the company has been witnessing rising SG&A expenses for the past few quarters, which is a threat. Nevertheless, overall sales in fiscal second-quarter rose 7.7% year-over-year, thanks to the coronavirus outbreak-led stockpiling and higher at-home consumption. Notably, robust performance in Post Consumer Brands, Weetabix, Refrigerated Retail and BellRing Brands business more than offset declines in the Foodservice channels. Additionally, the company has been gaining from prudent buyouts.

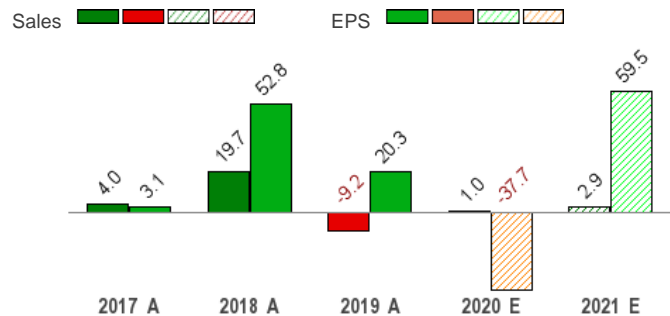
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$112.38 - \$68.97
20 Day Average Volume (sh)	365,349
Market Cap	\$6.3 B
YTD Price Change	-15.6%
Beta	0.62
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 44% (111 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-28.6%
Last Sales Surprise	5.7%
EPS F1 Est- 4 week change	-1.2%
Expected Report Date	08/06/2020
Earnings ESP	-3.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,461 E	1,470 E	1,476 E	1,537 E	5,902 E
2020	1,457 A	1,494 A	1,348 E	1,438 E	5,737 E
2019	1,411 A	1,388 A	1,439 A	1,443 A	5,681 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.04 E	\$1.16 E	\$1.29 E	\$1.40 E	\$4.88 E
2020	\$0.76 A	\$0.65 A	\$0.67 E	\$0.99 E	\$3.06 E
2019	\$1.11 A	\$1.28 A	\$1.19 A	\$1.39 A	\$4.91 A

*Quarterly figures may not add up to annual.

P/E TTM	23.1
P/E F1	30.1
PEG F1	4.3
P/S TTM	1.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/04/2020. The reports text is as of 08/05/2020.

Overview

Based in Missouri, Post Holdings is a consumer-packaged goods holding company, which is involved in the production of center-of-the-store, refrigerated, foodservice, food ingredient and convenient nutrition product categories. It also engages in the private brand food category.

The company comprises five segments, including BellRing Brands, which operates as a separate entity with Post Holdings having 71% stake in it.

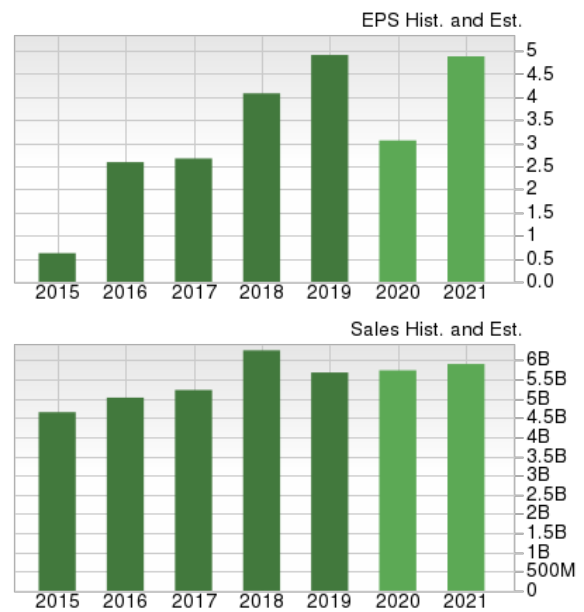
Post Consumer Brands (33% of FY19 sales) consists private label ready-to-eat (RTE) cereal products. Some notable brands of RTE include Honey Bunches of Oats, Pebbles, Oreo O's, Hostess Donettes, Hostess Honey Bun, Great Grains, Grape-Nuts, Post Shredded Wheat, Oh's, Honeycomb, Golden Crisp, Post Raisin Bran, Alpha-Bits, Shreddies, Malt-O-Meal-branded bagged cereal and Mom's Best.

Weetabix (7% of FY19 sales) comprises businesses of Weetabix Limited and its direct subsidiaries. It produces and distributes branded and private label RTE cereal, hot cereals, and other cereal-based food products, breakfast drinks and muesli mostly outside North America. The distribution part takes place through third-party services.

Foodservice (29% of FY19 Sales) engages in the production and distribution of egg and potato products in the foodservice and food ingredient space. It has a wide portfolio of egg products under brands, including Papetti's and Abbotsford Farms, and potato products under several brands, including Simply Potatoes.

Refrigerated Retail (16% of FY19 sales) produces and distributes refrigerated retail products such as egg, cheese and sausage under the brands namely, Michael Foods, Willamette, NPE and Bob Evans. The segment's refrigerated side dish, potato and sausage products are available under the Bob Evans, Bob Evans Farms, Simply Potatoes, Pineland Farms, Owens and Diner's Choice brands.

BellRing Brands (15% of FY19 sales) offers products in the convenient nutrition category, including ready-to-drink ("RTD")



Reasons To Buy:

▲ **Coronavirus-Led Demand Aid Sales:** Post Holdings' registered sales of \$1,494.2 million, up 7.7% year over year in second-quarter fiscal 2020. Moreover, the metric surpassed the Zacks Consensus Estimate in the quarter. The uptick can be attributed to increased demand for the company's products, which are sold online as well as through food, drug and mass channels. Demand was buoyed by coronavirus outbreak-led stockpiling and higher at-home consumption. Further, robust performance in Post Consumer Brands, Weetabix, Refrigerated Retail and BellRing Brands business more than offset declines in the company's Foodservice channels.

The company is gaining from strategic buyouts and solid performance in foodservice segment. Also, reduced cost bodes well.

▲ **Strength in BellRing Brands Unit:** Post Holdings' BellRing Brands segment has been performing well in the past few quarters. During second-quarter fiscal 2020, sales in the segment rose 18.9% mainly due to strength in its Premier Protein brand. Premier Protein brand expanded on the back of higher purchases thanks to the coronavirus outbreak-led pantry loading along with increased promotional activity. Prior to this, sales in the segment increased 31.3% during first-quarter fiscal 2020. We believe that continuation of this trend will likely drive the top line in the future.

▲ **Focus on Acquisitions:** The company has been actively pursuing acquisitions to expand the customer base. In this regard, the company's acquisition of Latimer Newco 2 Limited in July 2017 led to the addition of Weetabix North America and Weetabix Limited to its portfolio. The latter has now been operating as one of the five company segments. In April 2017, Post Holdings acquired Bob Evans, which strengthened its position in the foodservice and refrigerated retail channels. Some other notable buyouts included National Pasteurized Eggs, Inc in October 2016 and MOM Brands Company in May 2015.

Reasons To Sell:

▼ **Foodservice Unit Troubled:** Post Holdings' Foodservice sales declined 2.7% year over year in second-quarter fiscal 2020. Volumes in the segment were down 4.2% during fiscal second-quarter, including egg volumes decreasing 4.5% and potato volumes declining 2.0%. The downside was caused by reduced demand from foodservice customers like restaurants, education institutions and lodging among others, owing to coronavirus-led restrictions. Moreover, segmental profit came in at \$23.8 million, down 49.8% year over year. We note that, shares of the company have lost 12.6% in the past six months compared with the industry's decline of 0.7%.

Continued hike in SG&A expense remain a matter of concern. Also, dismal Foodservice unit is a deterrent.

▼ **High SG&A Costs:** The company has been witnessing increasing SG&A expenses for the past few quarters. Notably, the metric rose 8.5% year over year to \$245 million in second-quarter fiscal 2020. SG&A expenses, as a percentage of sales, expanded 10 basis points (bps) to 16.4% in the quarter. Notably, gross profit margin contracted 310 bps to 29.4% in fiscal second-quarter.

Prior to this, SG&A expenses, as a percentage of sales, expanded 80 bps to 16.2% in the first quarter of fiscal 2020. We believe that persistence of the trend might dent the company's margins in the near term.

▼ **Debt Analysis:** Post Holdings' long-term debt of \$7,171 million as of Mar 31, 2020, increased 12.4% from the preceding quarter. Moreover, its debt-to-capitalization ratio of 0.72 at the end of second-quarter fiscal 2020 stands higher than the industry's figure of 0.45. Further, the company's times interest earned ratio stands at 0.6, much lower than the industry's ratio of 3.7. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income.

Notably, the company drew down \$500.0 million from its revolving credit facility on Mar 23, 2020 to maintain financial flexibility amid the pandemic. On May 5, management repaid \$150.0 million of the outstanding principal amount on its revolving credit facility.

Last Earnings Report

Post Holdings Q2 Earnings Lag Estimates, Sales Rise

Post Holdings reported second-quarter fiscal 2020 results, wherein earnings declined year over year and missed the Zacks Consensus Estimate. Nonetheless, sales were strong – rising year over year and beating the consensus mark.

The company has witnessed an increase in demand for its products, which are sold online as well as through food, drug, mass, thanks to the coronavirus outbreak-led stockpiling and higher at-home consumption. However, Post Holdings' foodservice business has been adversely impacted by reduced demand from full service restaurants, quick service restaurants, education, and travel and lodging amid the pandemic.

To maintain financial flexibility amid the pandemic, the company has drawn down \$500.0 million from its revolving credit facility on Mar 23, 2020. Nevertheless, on May 5, management repaid \$150.0 million of the outstanding principal amount on its revolving credit facility. Apart from this, due to uncertainties related to the coronavirus outbreak, management withdrew its fiscal 2020 adjusted EBITDA and capital expenditure view, which was previously provided on Feb 6, 2020.

Q2 in Detail

Adjusted earnings were 65 cents per share, missing the Zacks Consensus Estimate of 91 cents in the fiscal second quarter. Also, the metric is lower than adjusted earnings of \$1.31 per share reported in the year-ago period.

The company registered sales of \$1,494.2 million, reflecting a rise of 7.7% from \$1,387.8 million in the prior-year quarter. Moreover, the figure surpassed the consensus mark of 1,413 million.

Further, gross profit of \$438.8 million declined 2.8%, whereas the gross margin contracted 310 basis points (bps) to 29.4% in the quarter under review.

Meanwhile, the company witnessed SG&A expenses of \$245 million, up 8.5% from \$225.8 in the year-ago quarter. SG&A expenses, as a percentage of sales, expanded 10 bps to 16.4% in the reported quarter.

Post Holdings generated operating profit of \$153.5 million in the reported quarter. This depicts a decline of 17.6% from \$186.3 million in the year-ago quarter. Adjusted EBITDA declined 2.4% to \$291.7 million from \$298.9 million in the prior-year quarter.

Segment Details

Post Consumer Brands: Sales in the segment increased 10.6% year over year to \$507.9 million in the quarter. Volumes increased 14.2%. Segmental profit was \$92.4 million, marking an increase of 11.1% from the prior-year period.

Weetabix: Segmental sales increased 8.9% to \$113.4 million in the reported quarter. Volumes grew to the tune of 6%. Segmental profit of \$28 million increased 18.6% year over year.

Foodservice: Sales declined 2.7% to \$378.4 million in the quarter under review. Segmental profit was \$23.8 million, reflecting year-over-year decline of 49.8%.

Refrigerated Retail: Sales in the segment were \$237.6 million, which increased 8.2% from the year-ago quarter. Segmental profit of \$30.2 million improved 14% year over year.

BellRing Brands: Sales of \$257.5 million rose 18.9% mainly due to strength in its Premier Protein brand. Premier Protein brand grew on the back of higher purchases, owing to the coronavirus outbreak-led pantry loading along with increased promotional activity. However, segmental profit of \$35.1 million decreased 20.2% due to increased marketing and advertising costs along with increased public company expenses.

Financial Details

The company concluded the quarter with cash and cash equivalents of \$1,179.4 million, long-term debt of \$7,171.3 million, and shareholders' equity of \$2,865.2 million.

Cash provided by operating activities was \$89 million at the end of six months ended Mar 31, 2020. Further, the company approved a new share repurchase program of \$400 million on Dec 6, 2019, for two years. During the quarter under review, Post Holdings bought back 2 million shares worth \$206.0 million. Following this, it had \$161.9 million remaining under its share-repurchase plan at the end of the fiscal second quarter.

Quarter Ending 03/2020

Report Date	May 07, 2020
Sales Surprise	5.72%
EPS Surprise	-28.57%
Quarterly EPS	0.65
Annual EPS (TTM)	3.99

Valuation

Post Holdings' shares are down 15.6% in the year-to-date period and 6.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 3.5% and 6.9%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is up 6.5%, while the sector declined 2.1%.

The S&P 500 index is up 3.4% in the year-to-date period and 16.9% in the past year.

The stock is currently trading at 20.01X forward 12-month earnings, which compares to 18.78X for the Zacks sub-industry, 19.9X for the Zacks sector and 22.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 87.69X and as low as 13.86X, with a 5-year median of 20.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$97 price target reflects 21.07X forward 12-month earnings.

The table below shows summary valuation data for POST

Valuation Multiples - POST					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.01	18.78	19.9	22.58
	5-Year High	87.69	22.9	22.37	22.58
	5-Year Low	13.86	14.82	16.63	15.25
	5-Year Median	20.4	18.54	19.57	17.55
P/S F12M	Current	1.07	1.68	9.41	3.6
	5-Year High	1.38	2.05	11.15	3.6
	5-Year Low	0.55	1.41	8.1	2.53
	5-Year Median	1	1.76	9.89	3.04
EV/EBITDA F12M	Current	9.89	13.15	32.76	13.21
	5-Year High	11.04	14.68	37.28	14.2
	5-Year Low	8.02	10.95	25.89	9.15
	5-Year Median	9.6	13.17	33.7	11

As of 08/04/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
BG Foods, Inc. (BGS)	Neutral	2
Flowers Foods, Inc. (FLO)	Neutral	2
General Mills, Inc. (GIS)	Neutral	3
Ingredion Incorporated (INGR)	Neutral	3
Lamb Weston Holdings Inc. (LW)	Neutral	4
McCormick Company, Incorporated (MKC)	Neutral	3
TateLyle PLC (TATYY)	Neutral	3
TreeHouse Foods, Inc. (THS)	Neutral	2

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	POST	X Industry	S&P 500	FLO	MKC	THS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	2	3	2
VGM Score	C	-	-	A	C	C
Market Cap	6.28 B	4.08 B	22.75 B	4.98 B	26.41 B	2.57 B
# of Analysts	4	3	14	2	6	6
Dividend Yield	0.00%	0.00%	1.76%	3.40%	1.25%	0.00%
Value Score	B	-	-	B	D	C
Cash/Price	0.20	0.07	0.07	0.05	0.01	0.13
EV/EBITDA	14.23	12.90	13.09	15.52	26.54	29.15
PEG Ratio	4.27	3.08	2.95	NA	5.96	2.70
Price/Book (P/B)	2.22	2.33	3.16	3.77	7.21	1.43
Price/Cash Flow (P/CF)	8.99	11.63	12.32	14.29	30.08	7.43
P/E (F1)	29.88	18.31	21.81	20.57	34.40	17.58
Price/Sales (P/S)	1.08	1.26	2.46	1.18	4.87	0.57
Earnings Yield	3.32%	4.84%	4.40%	4.84%	2.91%	5.68%
Debt/Equity	2.50	0.63	0.76	1.06	1.12	1.31
Cash Flow (\$/share)	10.24	2.81	6.94	1.65	6.59	6.13
Growth Score	D	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	31.08%	5.45%	10.46%	1.38%	12.19%	-9.29%
Proj. EPS Growth (F1/F0)	-37.68%	5.10%	-7.16%	19.27%	7.73%	8.44%
Curr. Cash Flow Growth	5.71%	4.39%	5.47%	1.85%	7.80%	-1.33%
Hist. Cash Flow Growth (3-5 yrs)	34.52%	6.08%	8.55%	1.66%	9.99%	5.96%
Current Ratio	3.23	1.59	1.32	1.65	1.02	1.58
Debt/Capital	71.45%	39.16%	44.36%	51.53%	52.90%	56.69%
Net Margin	-2.35%	2.44%	10.25%	2.21%	13.74%	-8.06%
Return on Equity	9.54%	9.71%	14.67%	17.35%	21.34%	7.25%
Sales/Assets	0.49	1.02	0.51	1.29	0.52	0.85
Proj. Sales Growth (F1/F0)	0.99%	0.00%	-1.71%	5.19%	3.38%	-8.39%
Momentum Score	D	-	-	B	D	D
Daily Price Chg	2.65%	0.67%	0.42%	1.29%	1.00%	3.33%
1 Week Price Chg	1.42%	0.32%	0.14%	1.43%	0.71%	0.32%
4 Week Price Chg	2.93%	3.47%	4.97%	6.95%	8.26%	5.39%
12 Week Price Chg	4.48%	9.76%	15.30%	4.90%	17.58%	-13.33%
52 Week Price Chg	-6.62%	-1.20%	2.34%	-2.12%	27.49%	-13.81%
20 Day Average Volume	365,349	169,604	2,082,836	765,921	463,464	446,098
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.18%	0.00%	0.93%	5.05%	0.00%	0.45%
(F1) EPS Est 12 week change	-23.83%	1.88%	0.78%	7.68%	10.80%	0.58%
(Q1) EPS Est Mthly Chg	-3.19%	0.00%	0.17%	3.08%	0.00%	-1.29%

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	B
Growth Score	D
Momentum Score	D
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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