

Post Holdings (POST)

\$88.37 (As of 08/11/20)

Price Target (6-12 Months): **\$75.00**

Long Term: 6-12 Months	Zacks Recommendation: Underperform (Since: 08/12/20) Prior Recommendation: Neutral
Short Term: 1-3 Months	Zacks Rank: (1-5) 5-Strong Sell Zacks Style Scores: VGM:C Value: B Growth: D Momentum: C

Summary

Post Holdings' shares have underperformed the industry on a year-to-date basis. The company's Foodservice unit is bearing the brunt of coronavirus-led woes. Notably, sales in this segment slumped 41.3% year over year in third-quarter fiscal 2020. The downside was caused by reduced demand from foodservice customers owing to coronavirus-led restrictions. Also, its BellRing Brands unit was affected by COVID-19. Notably, sales in the segment declined 14.1%. These factors marred overall sales, which fell 7.1% and missed the Zacks Consensus Estimate during the quarter. Apart from this, Post Holdings has been witnessing rising SG&A expenses in the past few quarters, which is a concern. Nevertheless, robust performance in Post Consumer Brands and Weetabix units offered some respite. Also, the company is gaining from prudent buyouts.

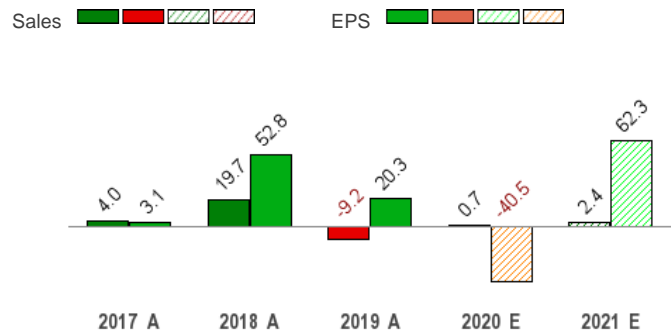
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$112.38 - \$68.97
20 Day Average Volume (sh)	353,725
Market Cap	\$6.0 B
YTD Price Change	-19.0%
Beta	0.62
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 46% (116 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.9%
Last Sales Surprise	-0.9%
EPS F1 Est- 4 week change	-5.8%
Expected Report Date	11/19/2020
Earnings ESP	-3.2%
P/E TTM	24.9
P/E F1	30.3
PEG F1	4.3
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,464 E	1,467 E	1,439 E	1,518 E	5,860 E
2020	1,457 A	1,494 A	1,336 A	1,430 E	5,720 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	\$0.95 E	\$1.05 E	\$1.33 E	\$1.37 E	\$4.74 E
2020	\$0.76 A	\$0.65 A	\$0.75 A	\$0.87 E	\$2.92 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

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.

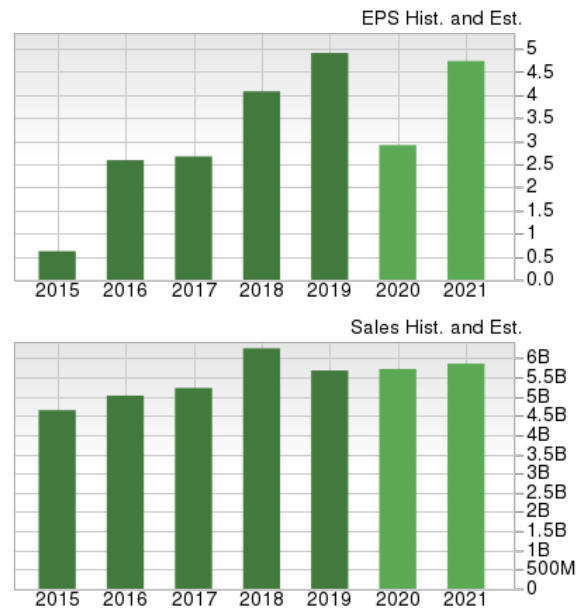
Post Consumer Brands (33% of FY19 sales) consists private label ready-to-eat (RTE) cereal products. Some notable brands of RTE include Honey Bunches of Oats, Pebbles, Oreo O's, Hostess Donettes, Hostess Honey Bun, Great Grains, Grape-Nuts, Post Shredded Wheat, Oh's, Honeycomb, Golden Crisp, Post Raisin 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 Sell:

▼ **Foodservice Unit Troubled:** Post Holdings' Foodservice sales slumped 41.3% year over year in the third quarter of fiscal 2020. Volumes declined 41.8% due to reduced away-from-home demand in various foodservice channels like full service restaurants, quick service restaurants, lodging, education and travel, thanks to the coronavirus outbreak. Segmental loss was \$40.3 million, down significantly on a year-over-year basis. Although, management expects to see improvement in the Foodservice business during the fiscal fourth quarter it is not expected to reach normal levels.

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

Moreover, weakness in the Foodservice segment also marred the company's overall sales, which declined 7.1% to \$1,336.4 million in the quarter. Also, the metric missed the Zacks Consensus Estimate of \$1,348 million. We note that, persistence of the trend in the Foodservice unit may continue to exert pressure on the company's top line. Incidentally, shares of the company have lost 19% year-to-date compared with the industry's decline of 1.9%.

▼ **Weakness in BellRing Brands:** Post Holdings' BellRing Brands business bore the brunt of coronavirus-induced hurdles. During third-quarter fiscal 2020, segment sales declined 14.1% year over year to \$204.2 million. Revenues in Premier Protein brand, which declined 11.9%, were hurt by reduced customer trade inventory levels of RTD protein shakes as well as lower on-the-go consumption amid the pandemic. Moreover, sales in Dymatize and PowerBar brands fell 16.6% and 44.2%, respectively. Segmental profit declined 45% due to increased marketing and advertising costs along with increased public company expenses. We note that, persistence of the trend is a threat to the company's performance.

▼ **High SG&A Costs a Concern:** The company has been witnessing increasing SG&A expenses for the past few quarters. Notably, the metric increased slightly to \$224.2 million in the third-quarter of fiscal 2020. SG&A expenses, as a percentage of sales, expanded 130 basis points (bps) to 16.8%. Notably, gross profit margin contracted 60 bps to 32.7% in fiscal third quarter.

Prior to this, SG&A expenses, as a percentage of sales, expanded 80 bps and 10 bps, in the first and the second quarter of fiscal 2020, respectively. We believe that persistence of the trend might continue to dent the company's margins.

▼ **Stock Looks Overvalued:** Considering price-to-earnings (P/E) ratio, Post Holdings looks pretty overvalued when compared with the industry as well as the S&P 500 over a year. The stock has a trailing 12-month P/E ratio of 24.89X. The trailing 12-month P/E ratio for the industry and the S&P 500 is 18.44X and 23.76X, respectively.

▼ **Intense Competition:** Post Holdings operates in the highly competitive food industry. The company competes with other major players on grounds of pricing, product innovation, brand recognition and loyalty, product quality, effectiveness of marketing and promotional activity and responsiveness to consumers' changing preferences. Such competitive pressures may compel the company to lower prices, which is a threat to its profits.

Risks

- **Coronavirus-Led Demand Drives Post Consumer Brands:** Sales in the Post Consumer Brands segment increased 11.4% year over year to \$528.1 million in the third-quarter of fiscal 2020. Volumes increased 7.5% on the back of higher at-home consumption amid the coronavirus pandemic along with distribution gains from private label. Reduced promotion expenses as well as a balanced mix drove net pricing by 3.4%. Moreover, segmental profit surged 54.3% to \$127.6 million. Adjusted EBITDA in the segment increased 35.3%. We believe that continuation of this trend will likely drive the top line in the future.
 - **Strength in Weetabix Unit:** Post Holdings' Weetabix segment has been performing well in the past few quarters. During third-quarter fiscal 2020, segmental sales increased 3.1% year over year. Volumes increased to the tune of 4.1%, while average net pricing was higher by 2.6%. Volumes gained from higher at-home consumption stemming from increased consumption of biscuit cereal products and favorable impact from food initiatives carried out by the government. Segmental profit of \$32.6 million increased 21.6%. Prior to this, sales in the segment grew 0.6% and 8.9% during the first and the second quarter of fiscal 2020, respectively. 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.
 - **Debt Analysis:** Post Holdings' cash position remains sufficient to meet current portion of long-term debt of \$36.1 million as of Jun 30, 2020. Further, its long-term debt of \$6,776.9 million (as on Jun 30) declined 5.5% on a quarter-on-quarter basis. Notably, the company drew down \$500 million from its revolving credit facility on Mar 23, 2020 to maintain financial flexibility amid the coronavirus pandemic. During third-quarter fiscal 2020, management paid back \$325 million. Also, the company repaid the remaining \$175 million on Jul 8.
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Last Earnings Report

Post Holdings Q3 Earnings Beat Estimates, Sales Down

Post Holdings reported third-quarter fiscal 2020 results, with the top line declining year over year. Also, sales missed the Zacks Consensus Estimate. Nevertheless, earnings surpassed the consensus mark.

The company 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 higher at-home consumption. However, Post Holdings' Foodservice business has been adversely impacted by lower demand from full service restaurants, quick service restaurants, education, and travel and lodging amid the pandemic. Nevertheless, volumes in the Foodservice unit improved in the third quarter from April levels.

Quarter Ending 06/2020

Report Date	Aug 06, 2020
Sales Surprise	-0.85%
EPS Surprise	11.94%
Quarterly EPS	0.75
Annual EPS (TTM)	3.55

Q3 in Detail

Adjusted earnings were 75 cents per share, surpassing the Zacks Consensus Estimate of 67 cents in the fiscal third quarter.

The company registered sales of \$1,336.4 million, reflecting a decline of 7.1% from \$1,439.2 million in the prior-year quarter. Moreover, the figure missed the consensus mark of 1,348 million. The downside was caused by decline in the Foodservice business stemming from reduced away-from-home consumption amid the coronavirus outbreak. Also, sluggishness in BellRing brands due to lower customer trade inventory levels was a reason.

Further, gross profit of \$436.8 million declined 5.5%, whereas the gross margin expanded 60 basis points (bps) to 32.7% in the quarter under review.

Meanwhile, the company witnessed SG&A expenses of \$224.2 million were slightly up from \$223.2 in the year-ago quarter. SG&A expenses, as a percentage of sales, expanded 130 bps to 16.8% in the reported quarter.

Post Holdings generated operating profit of \$172.1 million in the reported quarter. This depicts a decline of 13.2% from \$198.2 million in the year-ago quarter thanks to sluggishness in the Foodservice business.

Adjusted EBITDA declined 14.1% to \$270.9 million from \$315.4 million in the prior-year quarter. For fourth-quarter fiscal 2020, the company anticipates Adjusted EBITDA to be nearly similar to the figure reported in the fiscal third quarter.

Segment Details

Post Consumer Brands: Sales in the segment increased 11.4% year over year to \$528.1 million in the quarter. Volumes increased 7.5% on the back of higher at-home consumption amid the pandemic along with distribution gains from private label. Segmental profit was \$127.6 million, up 54.3% from the prior-year quarter's levels.

Weetabix: Segmental sales increased 3.1% to \$111.8 million in the reported quarter. Volumes increased to the tune of 4.1%, while average net pricing was higher by 2.6%. Volumes gained from higher at-home consumption stemming from increased consumption of biscuit cereal products and favorable impact from food initiatives carried out by the government. Segmental profit of \$32.6 million increased 21.6% year over year.

Foodservice: Sales slumped 41.3% to \$242.3 million in the quarter under review. Volumes declined 41.8% due to reduced away-from-home demand amid COVID-19 in various foodservice channels like full service restaurants, quick service restaurants, lodging, education and travel. Segmental loss was \$40.3 million, down significantly on a year-over-year basis.

Refrigerated Retail: Sales in the segment were \$250.3 million, up 20.9% from the year-ago quarter's levels. Volumes rose 5.1% year over year. Segmental profit of \$42.3 million improved significantly year over year.

BellRing Brands: Sales of \$204.2 million declined 14.1%. Sales in Premier Protein brand, which declined 11.9%, were hurt by reduced customer trade inventory levels of RTD protein shakes as well as lower on-the-go consumption amid coronavirus. Moreover, sales in Dymatize and PowerBar brands fell 16.6% and 44.2%, respectively. Segmental profit of \$30.6 million declined 45% 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 \$1,043.6 million, long-term debt of \$6,776.9 million and shareholders' equity of \$2,879.6 million.

Cash provided by operating activities was \$408.4 million at the end of nine months ended Jun 30, 2020. During the quarter under review, Post Holdings bought back 0.4 million shares worth \$33.1 million. Further, the company approved a new share repurchase program of \$400 million on Aug 4, 2020.

Valuation

Post Holdings' shares are down 19% in the year-to-date period and 9.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 1.9% and 6.3%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is up 6.8%, while the sector declined 2.8%.

The S&P 500 index is up 4.5% in the year-to-date period and 16.2% in the past year.

The stock is currently trading at 19.06X forward 12-month earnings, which compares to 19.27X for the Zacks sub-industry, 19.98X for the Zacks sector and 22.8X 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 20.38X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$75 price target reflects 16.18X 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	19.06	19.27	19.98	22.8
	5-Year High	87.69	22.9	22.37	22.8
	5-Year Low	13.86	14.82	16.63	15.25
	5-Year Median	20.38	18.57	19.58	17.58
P/S F12M	Current	1.03	1.71	9.46	3.67
	5-Year High	1.38	2.05	11.15	3.67
	5-Year Low	0.63	1.41	8.1	2.53
	5-Year Median	1	1.75	9.89	3.05
EV/EBITDA F12M	Current	9.69	13.15	32.76	13.18
	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	9.58	13.17	33.7	11.01

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Top 46% (116 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
TreeHouse Foods, Inc. (THS)	Outperform	1
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

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	POST	X Industry	S&P 500	FLO	MKC	THS
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	5	-	-	2	3	1
VGM Score	C	-	-	A	B	C
Market Cap	5.98 B	3.70 B	23.61 B	5.14 B	26.35 B	2.45 B
# of Analysts	4	3	14	3	6	6
Dividend Yield	0.00%	0.00%	1.69%	3.30%	1.25%	0.00%
Value Score	B	-	-	B	D	B
Cash/Price	0.17	0.08	0.07	0.06	0.01	0.12
EV/EBITDA	13.59	12.90	13.32	15.61	26.48	27.90
PEG Ratio	4.35	3.80	2.95	NA	5.94	2.10
Price/Book (P/B)	2.09	2.28	3.22	3.84	7.19	1.36
Price/Cash Flow (P/CF)	8.63	12.40	12.79	14.73	30.00	7.06
P/E (F1)	30.42	19.43	22.02	20.63	34.31	16.23
Price/Sales (P/S)	1.04	1.35	2.57	1.21	4.85	0.57
Earnings Yield	3.30%	4.86%	4.29%	4.86%	2.91%	6.16%
Debt/Equity	2.35	0.57	0.77	1.00	1.12	1.24
Cash Flow (\$/share)	10.24	2.81	6.94	1.65	6.59	6.13
Growth Score	D	-	-	A	B	D
Hist. EPS Growth (3-5 yrs)	27.01%	5.50%	10.41%	2.64%	12.19%	-8.24%
Proj. EPS Growth (F1/F0)	-40.58%	5.18%	-6.51%	22.57%	7.73%	11.72%
Curr. Cash Flow Growth	5.71%	4.03%	5.22%	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	2.85	1.61	1.34	1.58	1.02	1.48
Debt/Capital	70.18%	37.17%	44.59%	49.96%	52.90%	55.30%
Net Margin	-2.05%	2.44%	10.13%	2.29%	13.74%	-4.51%
Return on Equity	8.53%	9.79%	14.59%	18.50%	21.34%	8.12%
Sales/Assets	0.48	1.02	0.51	1.29	0.52	0.83
Proj. Sales Growth (F1/F0)	0.68%	0.00%	-1.45%	5.02%	3.38%	-8.61%
Momentum Score	C	-	-	A	C	C
Daily Price Chg	-0.97%	0.00%	-0.17%	0.83%	-2.01%	2.43%
1 Week Price Chg	0.21%	1.88%	2.30%	4.53%	3.41%	-1.30%
4 Week Price Chg	0.14%	4.41%	6.41%	9.67%	4.41%	-2.43%
12 Week Price Chg	1.21%	10.67%	15.42%	5.11%	14.64%	-14.37%
52 Week Price Chg	-9.08%	0.85%	2.88%	6.87%	18.33%	-17.09%
20 Day Average Volume	353,725	166,965	2,007,486	869,177	460,494	495,432
(F1) EPS Est 1 week change	-4.66%	0.00%	0.00%	6.55%	0.00%	3.02%
(F1) EPS Est 4 week change	-5.79%	0.00%	1.84%	11.93%	0.00%	3.49%
(F1) EPS Est 12 week change	-14.76%	2.56%	2.40%	17.31%	10.80%	3.49%
(Q1) EPS Est Mthly Chg	-14.95%	0.00%	0.72%	16.92%	0.00%	-1.08%

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	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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