

Post Holdings (POST)

\$107.31 (As of 02/13/20)

Price Target (6-12 Months): **\$114.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/05/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

Summary

Shares of Post Holdings have declined and underperformed the industry in the past three months. The stock came under pressure when it reported first-quarter fiscal 2020 results, wherein the top and bottom lines lagged the Zacks Consensus Estimate. Although sales grew, the bottom line decreased year over year. Further, the company has been witnessing rising SG&A expenses for the past few quarters, which remains a concern. Nevertheless, solid performance in the foodservice segment, driven by growth in Bob Evans side dishes, acts as a top-line driver. Apart from these, increasing trend in gross margin coupled with reduced debt bodes well. Additionally, the company remains poised to expand base with acquisitions.

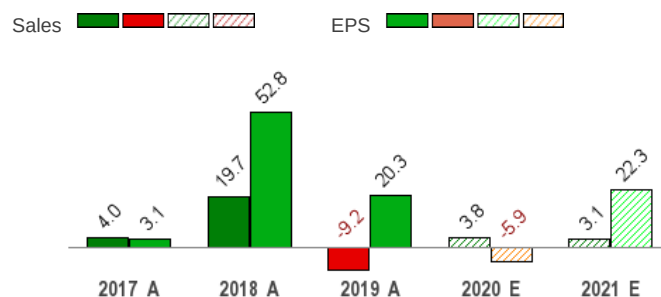
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$113.73 - \$94.19
20 Day Average Volume (sh)	508,826
Market Cap	\$7.5 B
YTD Price Change	-1.6%
Beta	0.37
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Food - Miscellaneous
Zacks Industry Rank	Bottom 34% (169 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-33.3%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	-9.8%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	23.2
P/E F1	23.2
PEG F1	3.3
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,506 E	1,468 E	1,538 E	1,566 E	6,077 E
2020	1,457 A	1,415 E	1,497 E	1,528 E	5,897 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	\$1.24 E	\$1.17 E	\$1.58 E	\$1.67 E	\$5.65 E
2020	\$0.76 A	\$0.91 E	\$1.43 E	\$1.55 E	\$4.62 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 02/13/2020. The reports text is as of 02/14/2020.

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.

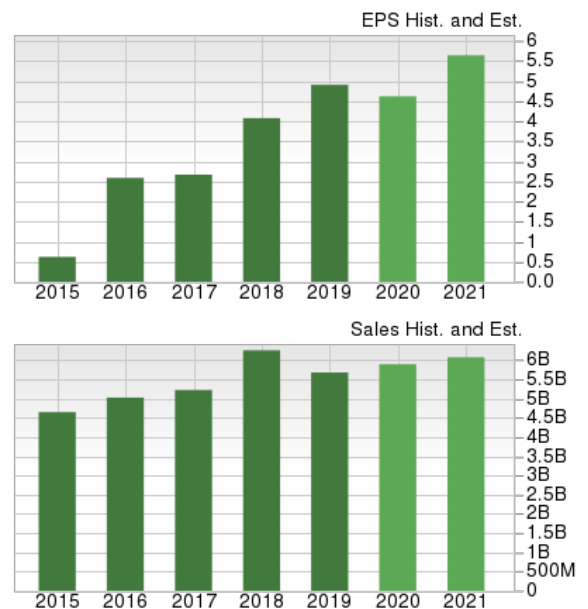
Post Consumer Brands (33% of FY19 sales) consists private label ready-to-eat (RTE) cereal products. Some notable brands of RTE include Honey Bunches of Oats, Pebbles, Oreo O's, Hostess Donettes, Hostess Honey Bun, Great Grains, Grape-Nuts, Post Shredded Wheat, Oh's, Honeycomb, Golden Crisp, Post Raisin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

▲ **Robust Foodservice Performance Aids Top Line:** The company's foodservice segment has been performing well for the past few quarters. Sales in the segment increased 3.1% to \$420.6 million in the first quarter of fiscal 2020. Moreover, volumes grew 3% on increased egg and potato volumes. Solid performance in Bob Evans side dishes also contributed to the foodservice segment. Prior to this, sales in the segment rose 4.5%, 3.3%, 2.3% and 10.6% in the fourth, third, second and first quarters, respectively. Continuation of the trend is likely to aid the top line.

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

▲ **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.

▲ **Robust Margin Trend Bodes Well:** The company has been witnessing solid performance in gross margins for quite some time now. In this regard, gross margin expanded 220 basis points (bps) to 32.4% in the first quarter of fiscal 2020. Earlier, the metric grew 90 bps, 180 bps and 190 bps in the second, third and fourth quarters of fiscal 2019, respectively. Such an upside, if continued is likely to have a favorable impact on the company's profitability.

▲ **Reduced Debt a Bright Spot:** Debt level is a measure of financial stability for a company. In this regard, Post Holdings has been gaining from declining trend in debt. The company's debt of \$6.4 billion dropped 9.7% in the first quarter of fiscal 2020. The metric fell 2.3% in the fourth quarter of fiscal 2019, following a decline of 12.5% each in the third and second quarters as well as a decrease of 12.4% in the first quarter.

Reasons To Sell:

- ▼ **Stock Seems Overvalued:** Considering price-to-earnings (P/E) ratio, Post Holdings looks overvalued when compared with the industry. The stock has a trailing 12-month P/E ratio of 23.23, which is below its median level of 23.02 and the high level of 25.48 scaled in a year. Meanwhile, the trailing 12-month P/E ratio for the industry and S&P are currently pegged at 19.05 and 20.89, respectively.
- ▼ **Dismal Q1 Results:** Post Holdings reported first-quarter fiscal 2020 results, wherein both top and bottom lines missed the Zacks Consensus Estimate. Notably, adjusted earnings were 76 cents per share, missing the Zacks Consensus Estimate of \$1.14. Also, the figure decreased 31.5% from the year-ago quarter. Further, the company's sales of \$1,456.8 million lagged the consensus mark of 1,463 million. We note that shares of the company have declined 0.5% in the past three months, underperforming the industry's growth of 3%.
- ▼ **High SG&A Costs:** The company has been witnessing increasing SG&A expenses for the past few quarters. Notably, the metric rose 8.4% to \$235.5 million in the first quarter of fiscal 2020. Further, SG&A expenses, as a percentage of sales, expanded 80 bps to 16.2% in the reported quarter. Prior to this, SG&A expenses increased 2.3% to \$245.5 million in the last reported quarter. Persistence of the trend may weigh on the company's bottom line in the near term.
- ▼ **Stiff Competition:** Post Holdings faces intense competition from other companies belonging to the consumer food and beverage and convenient nutrition category. It competes with these players on grounds of pricing strategies, quality of products, brand recognition, nutritional value, promotional activities and customer services. The company's inability to stay afloat amid such competition may result in the loss of market share and adversely impact its business.

Continued hike in SG&A expense remain a matter of concern. Also, intense competition acts as a deterrent.

Last Earnings Report

Post Holdings Q1 Earnings & Revenues Lag Estimates

Post Holdings reported first-quarter fiscal 2020 results, wherein both top and bottom lines missed the Zacks Consensus Estimate. Also, the bottom line declined year over year, while sales grew.

Adjusted earnings were 76 cents per share, missing the Zacks Consensus Estimate of \$1.14 in the first quarter. Also, the figure decreased 31.5% from the year-ago quarter.

The company registered sales of \$1,456.8 million, reflecting a rise of 3.2% from \$1,411.3 million in the prior-year quarter. However, the figure lagged the consensus mark of 1,463 million.

Further, gross profit of \$471.5 million grew 10.6% from \$426.5 million in the year-ago quarter. Meanwhile, gross margin expanded 220 basis points (bps) to 32.4% in the quarter under review.

Moreover, the company witnessed SG&A expenses of \$235.3 million, up 8.4% from \$217.1 in the year-ago quarter. SG&A expenses, as a percentage of sales, expanded 80 bps to 16.2% in the reported quarter.

Post Holdings generated operating profit of \$196 million in the reported quarter. This depicts a decline of 33.3% from \$293.9 million in the year-ago quarter.

Adjusted EBITDA grew 3.6% to \$303.1 million from \$292.5 million in the prior-year quarter.

Segment Details

Post Consumer Brands: Sales in the segment fell 3.1% year over year to \$441.2 million in the quarter. Volumes declined 3.4% due to increased promotional activity in the year-ago quarter coupled with customers' shopping patterns.

Weetabix: Segmental sales inched up 0.6% to \$101.5 million in the reported quarter. Volumes decline to the tune of 7.6%.

Foodservice: Sales grew 3.1% to \$420.6 million in the quarter under review. Moreover, volumes grew 3% on increased egg and potato volumes.

Refrigerated Retail: Sales in the segment were \$249.9 million, down 4.5% from the year-ago quarter. Further, volumes fell 7% due to side dish volume growth.

BellRing Brands: Sales of \$244 million rose 31.3%, with volume growth of 38.4% in the reported quarter. The upside can be attributable to distribution gains for RTD protein shakes and solid average net selling prices.

Business Development

On Jan 13, Post Holdings announced the termination of its deal with TreeHouse Foods, per which it was about to acquire the latter's private label RTE cereal business.

Financial Details

Cash provided by operating activities was \$108.4 million in the first quarter of fiscal 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 2.2 million shares worth \$223.1 million. Following this, it had \$367.9 million remaining under its new share-repurchase plan at the end of the first quarter.

Outlook

Management reiterated its fiscal 2020 view, which includes a 100% contribution from BellRing but excludes contributions from 8th Avenue. Adjusted EBITDA for the fiscal year is still anticipated to be \$1.22-\$1.27 billion, expecting the second half of fiscal 2020 to be more favorable. Further, the company continues to expect capital expenditure of \$240-\$260 million.

For BellRing brands, management still anticipates sales of \$1.0-\$1.05 billion for fiscal 2020. Also, adjusted EBITDA is envisioned to be \$192-\$202 million along with capital expenditure of nearly \$4 million.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	-0.41%
EPS Surprise	-33.33%
Quarterly EPS	0.76
Annual EPS (TTM)	4.62

Recent News

Post Holdings & TreeHouse Foods Calls Off Contract - Jan 13, 2020

Post Holdings and TreeHouse Foods mutually decided to pull the plug on their deal, as part of which the former would sell its ready-to-eat (RTE) cereal business to the latter. TreeHouse Foods and Post Holdings dismissed their deal for the RTE cereal business as a result of the Federal Trade Commission's (FTC) complaint (filed on Dec 19) opposing the transaction. The contract was originally penned in May 2019.

Post Holdings Unveils New Buyback Plan - Dec 6, 2019

Post Holdings unveiled a new share repurchase authorization worth \$400 million. As of December 5, 2019, the company had bought back shares worth roughly \$252 million as part of its previous program worth \$400 million.

Valuation

Post Holdings' shares are down 1.5% in the year-to-date period and up 4.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 1.3% and 0.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 7.6% and 10.9%, respectively.

The S&P 500 index is up 4.7% in the year-to-date period and 20.8% in the past year.

The stock is currently trading at 1.26X forward 12-month sales, which compares to 1.72X for the Zacks sub-industry, 10.08X for the Zacks sector and 3.57X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.38X and as low as 0.47X, with a 5-year median of 0.98X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$114 price target reflects 1.34X forward 12-month sales.

The table below shows summary valuation data for POST

Valuation Multiples - POST					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.26	1.72	10.08	3.57
	5-Year High	1.38	2.05	11.13	3.57
	5-Year Low	0.47	1.44	8.09	2.54
	5-Year Median	0.98	1.81	9.88	3
P/B TTM	Current	2.29	2.15	2.33	4.35
	5-Year High	2.72	4.72	3.19	4.42
	5-Year Low	0.88	1.6	1.81	2.85
	5-Year Median	1.81	2.19	2.54	3.62
EV/EBITDA F 12M	Current	10.59	14.08	34.39	12.66
	5-Year High	11.15	16.59	37.23	12.66
	5-Year Low	7.6	11.67	29.38	9.08
	5-Year Median	9.11	13.27	33.58	10.79

As of 02/13/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (169 out of 255)



Top Peers

Lamb Weston Holdings Inc. (LW)	Outperform
Flowers Foods, Inc. (FLO)	Neutral
General Mills, Inc. (GIS)	Neutral
Ingredion Incorporated (INGR)	Neutral
Tate & Lyle PLC (TATYY)	Neutral
TreeHouse Foods, Inc. (THS)	Neutral
B&G Foods, Inc. (BGS)	Underperform
McCormick & Company, Incorporated (MKC)	Underperform

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	POST Neutral	X Industry	S&P 500	FLO Neutral	MKC Underperform	THS Neutral
VGM Score	C	-	-	A	D	B
Market Cap	7.50 B	4.26 B	24.56 B	4.74 B	22.21 B	2.56 B
# of Analysts	4	3	13	3	6	6
Dividend Yield	0.00%	0.12%	1.78%	3.39%	1.48%	0.00%
Value Score	C	-	-	B	D	A
Cash/Price	0.11	0.04	0.04	0.00	0.01	0.02
EV/EBITDA	15.18	13.33	14.00	15.91	22.46	16.80
PEG Ratio	3.29	2.23	2.10	NA	4.47	1.74
Price/Book (P/B)	2.29	2.71	3.31	3.75	6.42	1.42
Price/Cash Flow (P/CF)	10.48	13.42	13.68	13.59	25.34	6.67
P/E (F1)	23.03	17.39	19.23	21.46	31.56	17.16
Price/Sales (P/S)	1.31	1.31	2.69	1.15	4.15	0.54
Earnings Yield	4.31%	5.59%	5.20%	4.64%	3.17%	5.82%
Debt/Equity	1.93	0.62	0.71	1.01	1.05	1.29
Cash Flow (\$/share)	10.24	2.72	6.92	1.65	6.59	6.83
Growth Score	B	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	34.78%	5.29%	10.85%	0.73%	11.46%	-10.27%
Proj. EPS Growth (F1/F0)	-5.86%	6.84%	7.17%	8.68%	-1.06%	11.02%
Curr. Cash Flow Growth	5.71%	1.85%	8.56%	1.85%	7.80%	-61.72%
Hist. Cash Flow Growth (3-5 yrs)	34.52%	7.12%	8.36%	1.66%	9.99%	10.92%
Current Ratio	2.18	1.57	1.23	1.14	0.72	1.49
Debt/Capital	65.84%	38.38%	42.91%	50.15%	51.19%	56.27%
Net Margin	1.72%	3.15%	11.81%	3.99%	13.14%	-7.61%
Return on Equity	10.86%	10.86%	16.86%	16.03%	21.00%	6.15%
Sales/Assets	0.49	1.16	0.54	1.28	0.52	0.86
Proj. Sales Growth (F1/F0)	3.79%	2.56%	3.85%	3.13%	2.60%	-8.33%
Momentum Score	F	-	-	D	F	F
Daily Price Chg	1.00%	0.00%	0.00%	0.58%	1.24%	-1.15%
1 Week Price Chg	-2.44%	0.47%	2.47%	3.58%	-0.16%	2.98%
4 Week Price Chg	-2.96%	-1.48%	0.56%	1.08%	-0.04%	-3.98%
12 Week Price Chg	5.59%	1.62%	6.96%	3.95%	0.39%	-4.99%
52 Week Price Chg	4.59%	10.17%	16.68%	7.96%	31.15%	-22.85%
20 Day Average Volume	508,826	134,666	2,020,569	1,195,028	766,808	317,735
(F1) EPS Est 1 week change	-7.36%	0.00%	0.00%	2.29%	0.00%	-1.73%
(F1) EPS Est 4 week change	-9.83%	-0.04%	-0.05%	3.30%	-4.21%	-1.36%
(F1) EPS Est 12 week change	-11.99%	-0.63%	-0.17%	1.29%	-6.26%	-3.55%
(Q1) EPS Est Mthly Chg	-24.79%	-0.10%	-0.24%	-1.49%	0.19%	-34.83%

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	F
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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