

TreeHouse Foods, Inc. (THS)

\$46.06 (As of 01/10/20)

Price Target (6-12 Months): **\$48.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/09/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: A

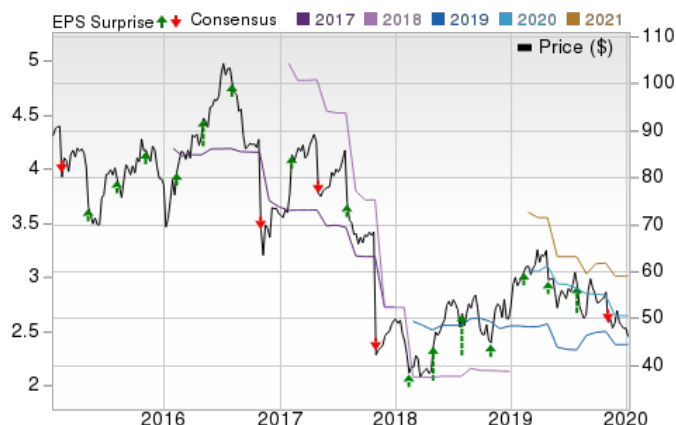
Growth: C

Momentum: B

Summary

TreeHouse Foods has lagged the industry in the past six months. The company has been seeing drab sales for a while now, which continued in third-quarter 2019. During the quarter, both earnings and sales lagged the Zacks Consensus Estimate and fell year over year. Notably, TreeHouse Foods is grappling with sluggish Baked Goods and Meal Solutions units, which were hurt by SKU rationalization, adverse volume/mix and currency woes in the third quarter. Further, management lowered its earnings guidance for 2019, wherein sales are likely to remain weak. Nonetheless, the company is on track with its Structure to Win program, which is aimed at cutting costs. Also, we commend TreeHouse Foods' focus on refining portfolio, as part of which it sold the Snacks unit and is on track to divest its ready-to-eat cereal business.

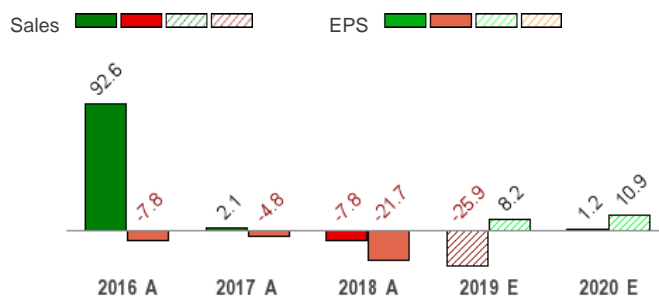
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$67.55 - \$44.61
20 Day Average Volume (sh)	390,556
Market Cap	\$2.6 B
YTD Price Change	-5.0%
Beta	0.70
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 42% (106 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-6.8%
Last Sales Surprise	-2.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/13/2020
Earnings ESP	0.0%
P/E TTM	22.3
P/E F1	17.5
PEG F1	1.3
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,077 E	1,037 E	1,078 E	1,191 E	4,359 E
2019	1,301 A	1,251 A	1,057 A	1,159 E	4,308 E
2018	1,481 A	1,456 A	1,394 A	1,481 A	5,812 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.45 E	\$0.50 E	\$0.63 E	\$1.07 E	\$2.64 E
2019	\$0.13 A	\$0.36 A	\$0.55 A	\$1.09 E	\$2.38 E
2018	\$0.18 A	\$0.37 A	\$0.62 A	\$1.03 A	\$2.20 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 01/10/2020. The reports text is as of 01/13/2020.

Overview

Oak Brook, Ill.-based Treehouse Foods, Inc. is a manufacturer of packaged foods and beverages with more than 50 manufacturing facilities across the United States, Canada and Italy servicing retail grocery, food away from home, and industrial and export customers.

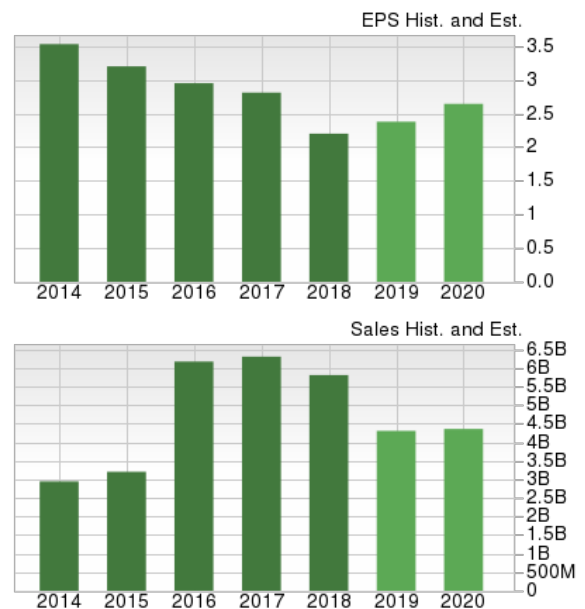
The company manufactures a variety of shelf-stable, refrigerated, and fresh products. The product categories include beverages; salad dressings; snacks; beverage enhancers; pickles; Mexican and other sauces; soup and infant feeding; cereals; dry dinners; aseptic products; jams; and other products. The company also offers natural, organic, and preservative-free ingredients in many categories.

On Aug 1, 2019, the company completed the divestiture of the Snack business to Atlas Holdings. Further, the sale of the ready-to-eat cereal business to Post Holdings on track, which is likely to be completed by the end of this year. The Snacks and the Ready-to-eat business segments have been categorized as discontinued operations from third-quarter 2019 onwards. The company now reports under the following four units:

Baked Goods (33% of Q3 Sales): This includes candy, in-store bakery products, crackers, cookies, pretzels, pita chips, refrigerated dough, pancakes, and French toast.

Beverages (22%): This includes non-dairy powdered creamers, broths, liquid non-dairy creamer, single serve hot beverages, powdered drinks, specialty teas and sweeteners.

Meals Solutions (45%): This includes baking and mix powders; condensed, ready to serve, and powdered soups and gravies; infant feeding products; macaroni and cheese; pasta; ready-to-eat and hot cereals; as well as skillet dinners. The segment also includes condiments now, which in turn comprises aseptic cheese and pudding products; jams, preserves, and jellies; mayonnaise; Mexican, barbeque, and other sauces; pickles and related products. It also offers refrigerated, shelf stable dressings and sauces, along with table and flavored syrups.



Reasons To Buy:

▲ **Structure to Win Plan on Track:** TreeHouse Foods is benefitting from its restructuring initiatives. To this end, the company's Structure to Win program focuses on aligning the company's SG&A expenses with its division structures. This, in turn, is likely to enrich customers' experience. Markedly, the company generated Structure to Win savings of \$75 million in 2018, which exceeded its original full-year target of \$30 million and its run-rate target of \$55 million. The company expects to maintain its solid cost control in 2019 as well, wherein it anticipates Structure to Win plan to continue yielding. This should help cut SG&A expenses, which were earlier expected to decline by nearly \$20 million (on a net basis) in 2019.

▲ **TreeHouse 2020:** TreeHouse Foods remains on track with its TreeHouse 2020 strategic plan that was announced in second-quarter 2017. The plan has been designed to restructure and realign the business as a whole. Alongside cost savings, the initiative is expected to manage the company's portfolio and optimize production and supply chain. The plan aims to improve the company's operating margin by 300 bps by the end of 2020, by undertaking complete business integration and expense reduction. The company expects to invest these savings in market-differentiated capacities to cater to consumers' ever-changing demands. In this regard, the company made certain achievements in the first phase of the program. TreeHouse Foods is also progressing well with its TreeHouse Management Operating Structure or TMOS.

▲ **Focus on Healthy and Organic Products:** The company focuses on organic foods, as consumers appear to be more interested in foods described as being "better for you," which include fresh or freshly prepared foods, and natural, organic, or specialty foods. Moreover, Treehouse Foods has witnessed positive comparable store sales growth trends in food away from home outlets, which mainly focuses on clean ingredients and labels, resulting in higher demand for "natural" or organic type products. Notably, premium, better for you, natural and organic offerings now form more than 21% of the company's sales. In fact, we note that the restaurants and retailers are increasing the use of cage-free eggs, as they are healthy. The company expects sustained growth in these areas and continues to focus on consumer's needs by developing new formulations, packaging, and sizes.

▲ **Focus on Refining Portfolio:** TreeHouse Foods has always been focused on expanding its product offerings through acquisitions. In February 2016, the company acquired Private Brands business for \$2.7 billion. The Private Brands Business is a leading manufacturer of private label refrigerated and shelf stable products in the bars, bakery, cereal, condiments, pasta, and snacks categories. The addition of Private Brands has added to the revenues and has helped the company to lower debt. The company's other acquisitions include Flagstone Foods, PFF Capital Group, Inc. ("Protenergy"), Cains Foods, L.P., Associated Brands, and Naturally Fresh, Inc.

On the flip side, the company remains committed toward exiting underperforming businesses and shifting focus toward areas with high growth potential. To this end, the company completed the divestiture of the Snack business to Atlas Holdings on Aug 1. Further, the sale of the ready-to-eat cereal business to Post Holdings is on track, which is likely to be completed by the end of this year. The ready-to-eat cereal business is a component of the Baked Goods unit. As a result, these businesses were categorized as discontinued operations from the third quarter of 2019. Management earlier stated that these divestitures are expected to be accretive by nearly 19 cents to the bottom line in 2019.

▲ **Diverse Customer Base:** Treehouse Foods sells to a wide and diverse customer base, including the leading grocery retailers and foodservice operators in the United States and Canada, and also a variety of customers that purchase bulk products for industrial food applications. The company supplies to more than 200 food retail customers in North America, including each of the 50 largest food retailers, and more than 500 foodservice customers, including 50 of the 100 largest restaurant chains.

TreeHouse Foods is benefitting from its restructuring initiatives. To this end, the company's Structure to Win program focuses on aligning the company's SG&A expenses with its division structures.

Reasons To Sell:

- ▼ **Drab Sales Trend Lingers, Stock Underperforms:** Shares of TreeHouse Foods have declined 16.6% in the past six months against the industry's growth of 4.5%. This can be attributed to a weak top-line trend. We note that the company's third-quarter 2019 results marked its tenth consecutive quarter of year-over-year sales decline. During the quarter, net sales of \$1,057.3 million missed the consensus mark of \$1,086 million and fell 5.4% year over year.

The downside was caused by adverse impacts from SKU rationalization and currency fluctuations. Excluding these factors, organic sales fell 4.4% primarily due to adverse volume/mix of almost 4.7%. Net sales for the fourth quarter of 2019 are expected in a band of \$1.11-\$1.21 billion, indicating a year-over-year decline of 3% at mid-point. Further, sales for 2019 are expected in the range of \$4.26-\$4.36 billion compared with \$5.8 billion reported in 2018.

TreeHouse Foods grapples with sluggish Baked and Meal Solutions units. Headwind in these units are likely to drag down the company's fourth-quarter sales.

- ▼ **Q3 Margins & Earnings Decline, 2019 View Lowered:** In third-quarter 2019, TreeHouse Foods' adjusted earnings from continuing operations amounted to 55 cents per share that missed the Zacks Consensus Estimate of 59 cents. The bottom line declined 3.5% from the year-ago quarter's 57 cents. Further, gross margin contracted 150 basis points due to lower volumes and increased expenses related to change in regulatory requirements. Moreover, adjusted EBITDA from continuing operations declined 2.6% due to fixed cost impacts stemming from lower volumes. Management now expects 2019 adjusted earnings from continuing operations of \$2.30-\$2.50 per share compared with the prior view of \$2.33-\$2.63.
- ▼ **Weak Baked Goods & Meal Solutions Units:** The company has been struggling with sluggish Baked Goods and Meal Solutions units. Sales at the Baked Goods segment fell 6.7% year over year in the third quarter, whereas net sales at the Meals Solutions unit declined 6.6%. Sales at both segments were hurt by SKU rationalization efforts, adverse volume/mix and currency rates. Sales at these segments have been declining for the last few quarters. Moreover, volume declines in Baked Goods and Meals Solutions units are expected to dent the company's fourth-quarter sales.
- ▼ **Unfavorable Currency Translations:** TreeHouse foods has manufacturing facilities in the United States, Canada and Italy. Thus, the company's overseas subsidiaries buy several raw materials abroad, keeping it exposed to the risk of adverse currency movements. This can hamper overall profitability. Evidently, foreign currency headwinds hurt net sales growth to some extent during the third quarter of 2019.
- ▼ **Stiff Competition:** TreeHouse foods operates in a highly competitive food industry, wherein it faces competition from other players on grounds of lower cost advantage, pricing, product assortment, geographic reach and responsiveness to changing consumer needs among others. Further, significant consolidation in the grocery and foodservice industry and consumers evolving preferences has intensified competition of late. Apart from this, volatile and price-sensitive demand for food-away-from-home products also creates pricing pressure for the company.
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Last Earnings Report

TreeHouse Foods Q3 Earnings Lag Estimates, Sales Down

TreeHouse Foods released third-quarter 2019 results. Adjusted earnings from continuing operations amounted to 55 cents per share that missed the Zacks Consensus Estimate of 59 cents. The bottom line declined 3.5% from the year-ago quarter's level of 57 cents.

Net sales of \$1,057.3 million missed the consensus mark of \$1,086 million and fell 5.4% year over year. The downside was caused by adverse impacts from SKU rationalization and currency fluctuations of 0.9% and 0.1%, respectively. Excluding these factors, organic sales fell 4.4% primarily due to adverse volume/mix of almost 4.7%. Pricing favorably impacted organic sales by almost 0.3%.

Gross margin came in at 17.6%, down 150 basis points (bps) from the year-ago quarter's figure. The downside was caused by lower volumes and increased expenses related to change in regulatory requirements.

Total operating expenses increased 38.2% year on year. As a percentage of sales, the same increased 7.2 percentage points to 22.9%.

Further, adjusted EBITDA from continuing operations declined 2.6% to \$118 million due to fixed cost impacts stemming from low volumes and related adverse impacts from fixed cost elements. These were partially offset by lower freight costs, savings from the Structure to Win and TreeHouse 2020 initiatives as well as efficient pricing actions.

Segment Details

Baked Goods: During the third quarter sales in the segment fell 6.7% year on year to \$351.8 million. The downside was caused by SKU rationalization, adverse volume/mix and currency. This was partially mitigated by favorable impacts from pricing. Direct operating income (DOI) margin in the segment advanced 20 bps to 8.7%, driven by favorable pricing and mix. These were partially negated by lower volumes.

Beverages: Sales fell 0.8% to \$234.4 million due to efforts to rationalize SKUs and unfavorable pricing. These were partly mitigated by improved volume/mix. DOI margin declined 240 bps to 16.3% thanks to unfavorable pricing, partially countered by lower commodity costs.

Meals Solutions: Net sales declined almost 6.6% to \$471.1 million thanks to SKU rationalization efforts, adverse volume/mix and currency rates. However, the decline was partly compensated by improved pricing. DOI margin declined 110 bps to 12.8% due to higher operating costs and fixed cost impacts stemming from lower volumes. These were partially mitigated by lower freight costs, savings from the TreeHouse 2020 and Structure to Win initiatives as well as lower SG&A expenses.

Other Financial Updates

The company concluded the reported quarter with cash and cash equivalents of \$45.1 million, long-term debt of \$2,158 million and total shareholders' equity of \$1,806 million.

For the first nine months of 2019, cash provided by operating activities amounted to \$5.8 million.

Guidance

Sales for 2019 are expected in the range of \$4.26-\$4.36 billion. Management now expects adjusted earnings from continuing operations for 2019 in the band of \$2.30-\$2.50 compared with the prior view of \$2.33-\$2.63.

Net sales for the fourth quarter of 2019 are expected in the band of \$1.11-\$1.21 billion, reflecting a decline of 3% at mid-point. Decline in volumes in the Baked Goods and Meals Solutions units is likely to dent quarterly performance and will be partially offset by growth in Beverages division. Further, management expects fourth-quarter adjusted earnings from continuing operations in the range of \$1.03-\$1.23, suggesting a rise of 13% year on year at midpoint.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	-2.66%
EPS Surprise	-6.78%
Quarterly EPS	0.55
Annual EPS (TTM)	2.07

Valuation

TreeHouse Foods shares are down 20.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 13.1% and 17.1% over the past year, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 17.35X forward 12-month earnings, which compares to 18.29X for the Zacks sub-industry, 19.7X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.56X and as low as 11.73X, with a 5-year median of 21.11X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$48 price target reflects 18.08X forward 12-month earnings.

The table below shows summary valuation data for THS

Valuation Multiples - THS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.35	18.29	19.7	18.88
	5-Year High	28.56	22.9	22.38	19.34
	5-Year Low	11.73	14.82	16.66	15.17
	5-Year Median	21.11	19.19	19.7	17.44
P/S F12M	Current	0.59	1.73	9.88	3.5
	5-Year High	1.16	2.05	11.13	3.5
	5-Year Low	0.34	1.44	8.09	2.54
	5-Year Median	0.66	1.81	9.87	3
EV/EBITDA F12M	Current	9.9	14.08	34.37	12.66
	5-Year High	13.65	16.59	37.22	12.66
	5-Year Low	7.27	11.67	29.37	9.08
	5-Year Median	9.72	13.26	33.52	10.78

As of 01/10/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 254)



Top Peers

B&G Foods, Inc. (BGS)	Neutral
Conagra Brands Inc. (CAG)	Neutral
Campbell Soup Company (CPB)	Neutral
Flowers Foods, Inc. (FLO)	Neutral
General Mills, Inc. (GIS)	Neutral
Ingredion Incorporated (INGR)	Neutral
McCormick & Company, Incorporated (MKC)	Neutral
The J. M. Smucker Company (SJM)	Neutral

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	THS Neutral	X Industry	S&P 500	CPB Neutral	MKC Neutral	SJM Neutral
VGM Score	B	-	-	B	C	B
Market Cap	2.59 B	4.37 B	24.03 B	14.40 B	21.83 B	11.91 B
# of Analysts	5	3.5	13	5	5	6
Dividend Yield	0.00%	0.11%	1.78%	2.93%	1.51%	3.37%
Value Score	A	-	-	C	D	B
Cash/Price	0.02	0.04	0.04	0.00	0.01	0.00
EV/EBITDA	16.90	14.45	14.04	14.75	23.92	11.39
PEG Ratio	1.27	2.28	2.02	3.16	3.71	5.12
Price/Book (P/B)	1.43	2.96	3.32	11.53	6.27	1.47
Price/Cash Flow (P/CF)	6.74	12.75	13.52	12.59	26.69	7.99
P/E (F1)	17.50	18.29	18.82	18.82	29.72	12.81
Price/Sales (P/S)	0.51	1.35	2.63	1.63	4.07	1.56
Earnings Yield	5.73%	5.19%	5.31%	5.32%	3.37%	7.81%
Debt/Equity	1.29	0.62	0.72	5.37	1.10	0.58
Cash Flow (\$/share)	6.83	2.72	6.94	3.79	6.15	13.07
Growth Score	C	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	-10.27%	5.08%	10.56%	-0.30%	11.05%	10.38%
Proj. EPS Growth (F1/F0)	11.16%	8.40%	7.49%	10.26%	2.94%	-1.67%
Curr. Cash Flow Growth	-61.72%	3.82%	14.83%	-12.42%	17.31%	1.65%
Hist. Cash Flow Growth (3-5 yrs)	10.92%	7.12%	9.00%	0.50%	9.17%	11.97%
Current Ratio	1.49	1.65	1.23	0.60	0.78	0.72
Debt/Capital	56.27%	38.35%	42.99%	84.30%	52.47%	36.74%
Net Margin	-7.65%	2.79%	11.08%	2.07%	13.12%	7.30%
Return on Equity	5.80%	11.60%	17.16%	64.48%	21.63%	11.60%
Sales/Assets	0.92	1.17	0.55	0.66	0.52	0.46
Proj. Sales Growth (F1/F0)	1.17%	2.51%	4.20%	-12.79%	2.40%	-3.12%
Momentum Score	B	-	-	B	F	B
Daily Price Chg	-0.82%	0.00%	-0.33%	0.23%	1.23%	0.74%
1 Week Price Chg	0.10%	-0.64%	-0.30%	-2.08%	-0.96%	-0.79%
4 Week Price Chg	-8.16%	1.03%	1.71%	0.04%	-1.34%	1.86%
12 Week Price Chg	-15.33%	4.71%	6.05%	-0.48%	1.31%	-3.61%
52 Week Price Chg	-18.29%	16.87%	22.39%	38.43%	16.57%	2.86%
20 Day Average Volume	390,556	108,515	1,580,816	1,770,589	642,778	819,556
(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%	0.04%	-1.80%	0.07%
(F1) EPS Est 12 week change	-7.06%	-0.77%	-0.50%	0.34%	-1.86%	-2.61%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.08%	-2.70%	-0.06%

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	A
Growth Score	C
Momentum Score	B
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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