

TreeHouse Foods, Inc. (THS)

\$42.66 (As of 08/18/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 08/11/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: B

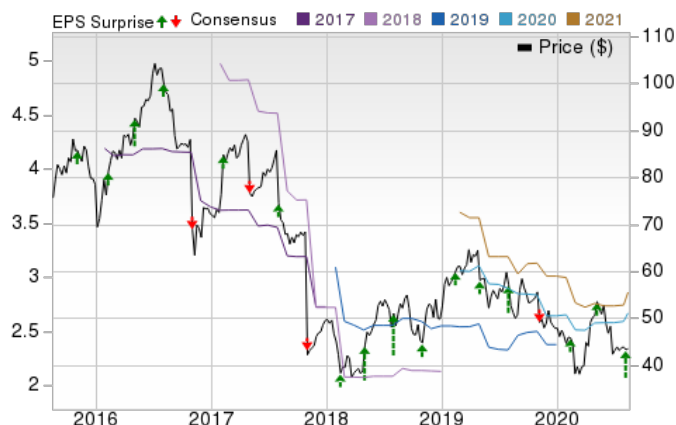
Growth: C

Momentum: C

Summary

Though shares of TreeHouse Foods have lagged the industry in three months, the stock is likely to pace up in the near term. The company has been gaining from rising demand due to the coronavirus-led stockpiling and increased at-home consumption. This bolstered the company's second-quarter 2020 results, wherein top and bottom lines grew year over year and the latter beat the consensus mark. Also, the company's retail business catered well to the unexpected rise in demand amid the pandemic. Given the current situation, such trends are likely to continue boosting sales in the near term. This along with other prudent restructuring initiatives led management to raise 2020 view and offer an optimistic guidance for the third quarter. However, softness in the food-away-from-home business and escalated COVID-19 costs remain concerns.

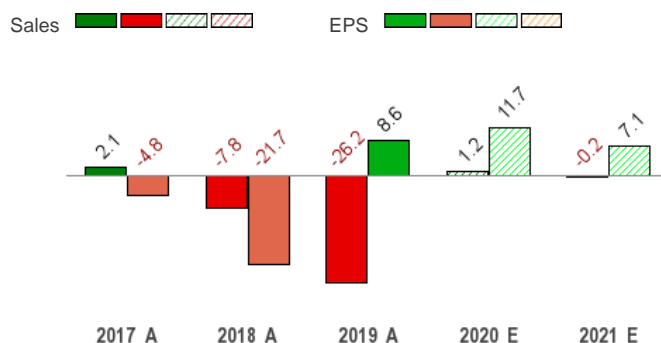
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.47 - \$33.84
20 Day Average Volume (sh)	499,759
Market Cap	\$2.4 B
YTD Price Change	-12.0%
Beta	0.67
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 49% (123 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	23.4%
Last Sales Surprise	-2.6%
EPS F1 Est- 4 week change	3.5%
Expected Report Date	11/05/2020
Earnings ESP	0.0%
P/E TTM	16.4
P/E F1	16.0
PEG F1	3.0
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,077 E	1,023 E	1,074 E	1,161 E	4,333 E
2020	1,085 A	1,042 A	1,066 E	1,147 E	4,340 E
2019	1,301 A	1,251 A	1,057 A	1,140 A	4,289 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.36 E	\$0.60 E	\$0.67 E	\$1.23 E	\$2.86 E
2020	\$0.37 A	\$0.58 A	\$0.61 E	\$1.10 E	\$2.67 E
2019	\$0.13 A	\$0.36 A	\$0.55 A	\$1.10 A	\$2.39 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 08/18/2020. The reports text is as of 08/19/2020.

Overview

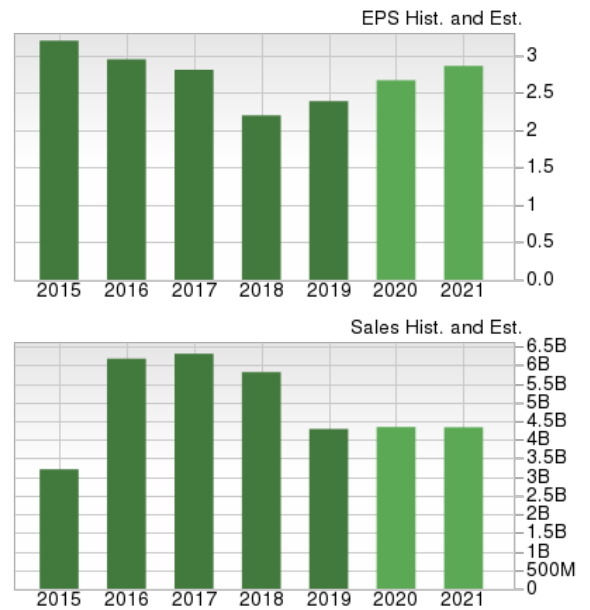
Oak Brook, Ill.-based Treehouse Foods, Inc. is a manufacturer of packaged foods and beverages with more than 50 manufacturing facilities across the United States, Canada and Italy servicing retail grocery, food away from home, and industrial and export customers.

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.

The company, which was earlier operating under Baked Goods, Beverages and Meal Solutions segments, has reorganized itself into two segments on the basis of market dynamics – Snacking & Beverages, and Meal Preparation. The reorganization took effect from the first quarter of 2020.

- The **Snacking & Beverages** segment includes categories with increased market growth potential. These particularly include Bars, Broth, Powdered & Liquid Beverages, Griddle, Candy, Cookies & Crackers, Tea, Pita, Pretzels, and Other Blends. The segment will be focused on driving revenues, and undertaking research, development and commercialization per the changing consumer trends. Notably, the Snacking & Beverages division generated revenues of \$1.7 billion in 2019.
- The **Meal Preparation** unit consists of categories — including Bouillon, Cheese & Pudding, Pickles, Pourable & Spoonable Dressings, Hot Cereal, Preserves, Red Sauces, Refrigerated Dough, Non-Dairy Creamer, Pasta & Dry Dinners, Sauces, Single Serve Coffee, and Syrup. The segment will be concentrated on enhancing productivity, efficiency and cash flow. In 2019, the unit produced revenues of \$2.6 billion.



Reasons To Buy:

▲ **COVID-19-Led Demand Aids Q2 Results, Optimistic View:** Although shares of TreeHouse Foods have declined 15.8% in three months against the industry's growth of 12.5%, the stock is likely to pace up in the near term. The company has been benefiting from rising demand due to coronavirus-led stockpiling and increased at-home consumption. This bolstered the company's second-quarter 2020 results, wherein both top and bottom lines advanced year over year and the latter beat the Zacks Consensus Estimate. The company's retail business catered well to the unexpected rise in demand amid the pandemic. This compensated for softness in the food-away-from-home business and distribution losses. Further, adjusted EBITDA from continuing operations rose 13.1% on productivity gains and improved channel mix.

TreeHouse Foods is gaining on increased demand amid coronavirus-led higher at-home consumption. Apart from this, the company has been benefiting from its portfolio refining initiatives.

Management remains pleased with its second-quarter performance amid the coronavirus crisis. This alongside expectations of continued rise in demand conditions and prudent reorganization actions prompted management to raise its guidance for 2020 and offer a decent third-quarter view. Revenues are now expected to be toward the upper end of its previously guided range of \$4.10-\$4.40 billion. Additionally, adjusted earnings from continuing operations are expected in the range of \$2.55-\$2.75 per share compared with \$2.40-\$2.65 forecasted earlier. Net sales for the third quarter of 2020 are expected in a band of \$1.04-\$1.08 billion, nearly flat (on a year-over-year basis) at the midpoint. Organic sales are likely to rise 2%. Adjusted EBITDA from continuing operations is anticipated in a band of \$112-\$127 million, suggesting almost a 6% increase at the midpoint. Further, management expects adjusted earnings from continuing operations of 55-65 cents, suggesting a roughly 9% increase at the midpoint.

▲ **Healthy and Organic Products Offerings:** 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. 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, 2019. Further, TreeHouse Foods inked a deal to offload two of its in-store bakery facilities to Rich Products Corporation, which is likely to help the former focus on core growth areas.

▲ **Debt Analysis:** TreeHouse Foods' long-term debt (including operating lease liabilities) of \$2,231.7 million declined 4.6% sequentially at the end of the second quarter of 2020 (Jun 30, 2020). Further, the company's debt-to-capitalization ratio has improved to 0.56 from 0.57 at the end of the first quarter. Moreover, the company's cash and cash equivalents of \$293.9 million as on Jun 30 is sufficient to meet its current portion of long-term debt of \$15.4 million.

▲ **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.

Risks

- **Gross Margin Pressurized:** TreeHouse Foods' gross margin has been contracting year over year for the last few quarters. In the second quarter of 2020, gross margin came in at 18.4%, down 10 basis points (bps) from the year-ago quarter's figure. This was accountable to higher costs incurred in connection with the pandemic, like higher production shifts, increased sanitization measures, supplemental payments and protective equipment. Prior to this, the metric contracted 40 bps during the first quarter of 2020 and 130 bps, 150 bps, 30 bps and 70 bps in the fourth, third, second and first quarters of 2019, respectively.
 - **COVID-19 Related Costs:** While management is encouraged about the rise in demand owing to pantry hoarding and increased stay-at-home trends, it incurs incremental costs to cater to the rising demand. Incidentally, the company is witnessing higher costs to increase production shifts and ensure the availability of labor at all manufacturing and distribution facilities. Additionally, costs related to increased sanitization measures and protective equipment, as mentioned above, pose threats to margins.
 - **Food Away from Home Sales Soft:** Increased social distancing and at-home consumption has marred the Food Away From Home channel for many companies, including TreeHouse Foods. During the second quarter of 2020, Food Away From Home business went down by nearly \$40 million or 47%. Prior to this in first-quarter 2020, the Food Away From Home business witnessed a decline of \$11 million. This channel is likely to remain weak, given the continuation of stay-at-home trends. Also, competition from private label brands is a concern.
 - **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 organic sales during the second quarter of 2020. In fact, currency woes were a headwind upon sales across both the Meal Preparation and Snacking & Beverages segments in said quarter.
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Last Earnings Report

TreeHouse Foods Perks Up Guidance on Q2 Earnings Beat

TreeHouse Foods released strong second-quarter 2020 results, wherein both top and bottom lines advanced year over year and the latter beat the Zacks Consensus Estimate. The company's retail business catered well to the unexpected rise in demand amid the coronavirus pandemic, which compensated for softness in the food-away-from-home business and distribution losses. Encouraged by a solid performance, the company raised its financial guidance for 2020.

Adjusted earnings from continuing operations amounted to 58 cents per share that surpassed the Zacks Consensus Estimate of 47 cents. Further, the bottom line grew 45% year over year on the back of better operational performance, as the company continued to cater to the burgeoning demand amid the pandemic.

Net sales of \$1,041.9 million came below the consensus mark of \$1,069 million, while it advanced 1.6% year over year. Organic sales grew 3.7% owing to higher volume/mix, backed by elevated retail demand due to the pandemic, which countered distribution loss impacts and weak demand in the food-away-from-home channel. Also, adverse pricing, divestiture of two in-store Bakery facilities and currency woes partly hurt organic sales. Notably, organic sales improved in both Meal Preparation and Snacking & Beverages segments.

Gross margin came in at 18.4%, down 10 basis points (bps) from the year-ago quarter's figure. This was accountable to higher costs incurred in connection with the pandemic, like higher production shifts, increased sanitization measures, supplemental payments and protective equipment. This was partly compensated by improved channel mix of greater retail business along with elevated throughput at the company's production and distribution centers. In fact, adjusted gross margin expanded 120 bps to 20.1%, thanks to productivity gains across manufacturing and distribution facilities.

Total operating expenses, as a percentage of sales, dropped 3.3 percentage points to 15.9%, courtesy of reduced restructuring costs and SG&A control measures, somewhat negated by elevated employee costs. However, adjusted EBITDA from continuing operations rose 13.1% to \$119.2 million on productivity gains and improved channel mix, partially countered by higher employee costs.

Segment Details

Meal Preparation: During the quarter, sales in the segment climbed 1.6% year over year to \$657.5 million. The upside was backed by improved volumes/mix, primarily stemming from the coronavirus-led increase in retail demand, which compensated for distribution losses and lower food-away-from-home demand. This was partially mitigated by currency woes. Direct operating income (DOI) margin in the segment rose 1.6 percentage points on better channel mix and a decline in SG&A expenses.

Snacking & Beverages: Net sales rose 1.7% to \$367.8 million on improved volumes/mix, courtesy of the coronavirus-led increase in retail demand, which compensated for distribution losses and adverse mix associated with divestitures. Also, adverse pricing and currency woes were deterrents. DOI margin rose 1.5 percentage points due to productivity gains led by pandemic-induced demand.

Other Financial Updates & Guidance

The company concluded the quarter with cash and cash equivalents of \$293.9 million, long-term debt (excluding operating lease liabilities) of \$2,086.6 million and total shareholders' equity of \$1,803.7 million. In the first six months of 2020, cash provided by operating activities of continuing operations amounted to \$123.3 million.

Management remains encouraged with its operations amid the pandemic-led burgeoning demand. Also, the company is impressed with its restructuring and reorganization actions, which helped it perform well even amid the crisis. The company remains optimistic about its prospects for the private label space and expects revenues to remain strong in the remainder of 2020. It also expects high costs associated with COVID-19-related safety measures.

All said, the company raised its guidance for 2020. Revenues are now expected to be toward the upper end of its previously guided range of \$4.10-\$4.40 billion. The company delivered net sales of \$4288.9 million (nearly \$4.29 billion) in 2019. For 2020, management now expects adjusted earnings from continuing operations of \$2.55-\$2.75 per share compared with \$2.40-\$2.65 forecasted earlier. The company recorded EPS of \$2.39 in 2019.

Net sales for the third quarter of 2020 are expected in a band of \$1.04-\$1.08 billion, nearly flat (on a year-over-year basis) at the midpoint. Organic sales are likely to rise 2%. Adjusted EBITDA from continuing operations is anticipated in a band of \$112-\$127 million, suggesting almost a 6% increase at the midpoint. Further, management expects adjusted earnings from continuing operations of 55-65 cents, suggesting a roughly 9% increase at the midpoint.

Quarter Ending 06/2020

Report Date	Aug 06, 2020
Sales Surprise	-2.58%
EPS Surprise	23.40%
Quarterly EPS	0.58
Annual EPS (TTM)	2.60

Valuation

TreeHouse Foods shares are down 12% in the year-to-date period and 15.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 1.7% in the year-to-date period, while the Zacks Consumer Staples sector is down 6.6%. Over the past year, the Zacks sub-industry is up 6.8%, while the sector declined 4.8%.

The S&P 500 index is up 4.9% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 15.28X forward 12-month earnings, which compares to 19.44X for the Zacks sub-industry, 20.26X for the Zacks sector and 22.86X 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 20.45X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$51 price target reflects 17.91X 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	15.28	19.44	20.26	22.86
	5-Year High	28.56	22.9	22.37	22.86
	5-Year Low	11.73	14.82	16.63	15.25
	5-Year Median	20.45	18.57	19.58	17.58
P/S F12M	Current	0.56	1.74	9.59	3.71
	5-Year High	1.16	2.05	11.15	3.71
	5-Year Low	0.34	1.41	8.1	2.53
	5-Year Median	0.63	1.75	9.89	3.05
EV/EBITDA F12M	Current	8.74	13.21	35.53	12.87
	5-Year High	13.65	14.65	37.49	14.23
	5-Year Low	7.27	10.97	25.81	9.05
	5-Year Median	9.47	13.2	33.82	11.02

As of 08/18/2020

Industry Analysis Zacks Industry Rank: Top 49% (123 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Flowers Foods, Inc. (FLO)	Outperform	1
Campbell Soup Company (CPB)	Neutral	2
Darling Ingredients Inc. (DAR)	Neutral	3
Lamb Weston Holdings Inc. (LW)	Neutral	4
McCormick Company, Incorporated (MKC)	Neutral	2
TateLyle PLC (TATYY)	Neutral	3
Post Holdings, Inc. (POST)	Underperform	5
Sysco Corporation (SYU)	Underperform	4

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	THS	X Industry	S&P 500	CPB	FLO	LW
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	2	1	4
VGM Score	B	-	-	B	B	B
Market Cap	2.41 B	3.84 B	23.71 B	15.85 B	5.31 B	9.24 B
# of Analysts	6	3	14	7	3	4
Dividend Yield	0.00%	0.00%	1.63%	2.67%	3.19%	1.45%
Value Score	B	-	-	B	C	C
Cash/Price	0.12	0.08	0.07	0.08	0.06	0.14
EV/EBITDA	27.66	13.41	13.45	13.87	16.05	14.67
PEG Ratio	3.03	3.88	3.01	2.21	NA	8.44
Price/Book (P/B)	1.33	2.38	3.18	6.14	3.97	38.51
Price/Cash Flow (P/CF)	6.96	12.60	12.70	13.83	15.23	16.75
P/E (F1)	15.98	19.89	21.98	18.30	20.57	30.39
Price/Sales (P/S)	0.56	1.40	2.46	1.89	1.25	2.44
Earnings Yield	6.26%	4.86%	4.33%	5.47%	4.86%	3.29%
Debt/Equity	1.24	0.57	0.76	2.01	1.00	12.47
Cash Flow (\$/share)	6.13	2.81	6.94	3.79	1.65	3.78
Growth Score	C	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	-8.24%	5.50%	10.44%	-2.14%	2.64%	11.76%
Proj. EPS Growth (F1/F0)	11.72%	3.22%	-5.97%	-2.38%	27.08%	-16.70%
Curr. Cash Flow Growth	-1.33%	3.40%	5.22%	-12.42%	1.85%	-13.39%
Hist. Cash Flow Growth (3-5 yrs)	5.96%	5.90%	8.52%	0.50%	1.66%	8.09%
Current Ratio	1.48	1.62	1.33	0.84	1.58	2.25
Debt/Capital	55.30%	37.17%	44.50%	66.79%	49.96%	92.58%
Net Margin	-4.51%	2.44%	10.13%	18.34%	2.29%	9.65%
Return on Equity	8.12%	9.79%	14.59%	46.05%	18.50%	183.08%
Sales/Assets	0.83	1.02	0.51	0.66	1.29	1.02
Proj. Sales Growth (F1/F0)	-8.61%	0.00%	-1.54%	-4.83%	5.02%	-2.29%
Momentum Score	C	-	-	F	D	A
Daily Price Chg	-1.30%	0.09%	-0.41%	0.31%	1.33%	-0.27%
1 Week Price Chg	0.46%	0.64%	1.09%	3.32%	3.11%	3.03%
4 Week Price Chg	-1.32%	4.05%	3.41%	6.26%	10.04%	-4.03%
12 Week Price Chg	-17.10%	10.46%	9.80%	10.73%	10.19%	4.25%
52 Week Price Chg	-15.10%	3.40%	3.43%	21.73%	10.04%	-7.28%
20 Day Average Volume	499,759	202,003	1,894,669	1,525,384	832,682	1,143,084
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.20%	0.00%	0.00%
(F1) EPS Est 4 week change	3.49%	0.00%	1.86%	0.20%	11.93%	-9.16%
(F1) EPS Est 12 week change	3.49%	2.50%	2.86%	1.62%	11.93%	-6.09%
(Q1) EPS Est Mthly Chg	-1.08%	0.00%	0.80%	0.00%	16.92%	-28.41%

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	C
Momentum Score	C
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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