Siena Market Line
3rd week of March 2016

Lancaster Colony Corporation

NASDAQ: LANC

Analyst: Senan Lonergan
Sector: Consumer Staples.

BUY

Price Target: $118.30

Key Statistics as of 3/13/2016

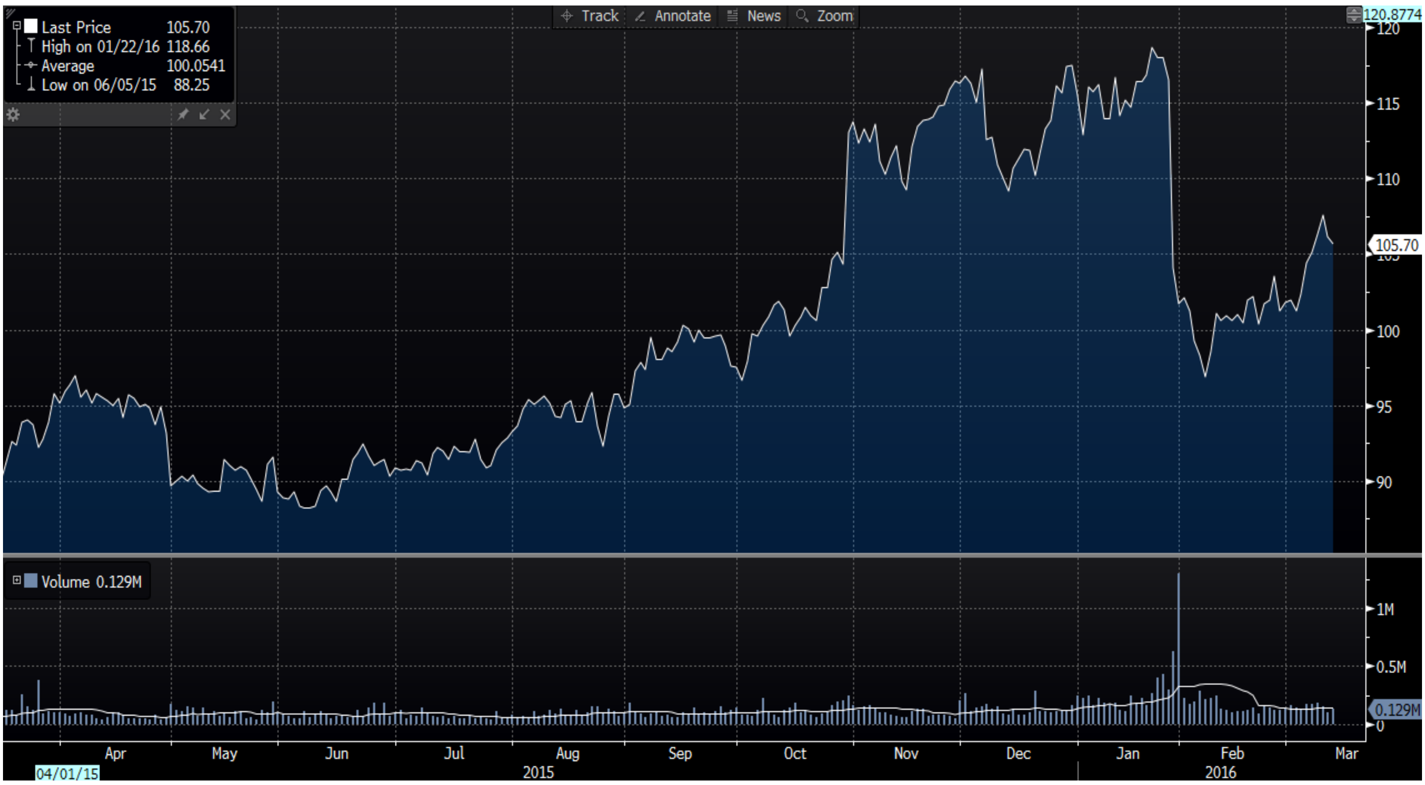
Market Price:	$105.70
Industry:	Major Foods - Diversified
Market Cap:	$2.89B
52-Week Range:	$87.23 - $119.80
Beta:	0.61

Thesis Points:

- Last quarter's earnings miss has presented a buying opportunity
- Impressive ROIC/WACC and margins
- Debt free balance sheet
- Increasing dividend payout ratio

Company Description:

Lancaster Colony Corporation was founded in 1961, is based in Columbus, Ohio, and is traded on the NASDAQ under the ticker name LANC. Lancaster Colony Corporation manufactures and markets specialty food products for the retail and foodservice markets in the United States. LANC is the parent company of 15 subsidiaries. The corporation offers salad dressings and sauces under the Marzetti, Cardini's, Simply Dressed, Katherine's Kitchen, and Girard's brand names; fruit glazes, vegetable dips, and fruit dips under the Marzetti brand name; Greek yogurt vegetable dips and hummus under the Otria brand name; and frozen garlic breads under the New York BRAND, Mamma Bella, and Mamma Bella's brand names. The company also provides frozen Parkerhouse style yeast dinner rolls and sweet rolls, as well as biscuits under the Sister Schubert's, Marshall's, and Mary B's brand names; premium dry egg noodles under the Inn Maid and Amish Kitchen brand names; frozen specialty noodles under the Reames and Aunt Vi's brand names; croutons and related products under the New York BRAND, Texas Toast, Chatham Village, Cardini's, Simply Dressed, and Marzetti brand names; snack sticks under the New York BRAND name; flatbread wraps and pizza crusts under the Flatout brand name; and caviar under the Romanoff brand name. In addition, it manufactures and sells other products to brand license agreements, including Olive Garden's dressing, Jack Daniel's mustards, Hungry Girl flatbreads, and Ortalli's balsamic vinegar. The company's products are sold through sales personnel, food brokers, distributors, retailers, and restaurants, as well as industrial customers.



Thesis

With $0 of debt, an ROIC/WACC of 4.39, and impressive dividends and margins, LANC is set to outperform the market, as well as its sector. Lancaster Corporation is the parent company of 15 subsidiaries, and plans to continue acquire businesses that add value. Furthermore, last quarter's earnings miss has left LANC undervalued, and investors with a buying opportunity. The corporation continues to increase their dividend payout ratio, and have also issued multiple special dividends. A buy of LANC will act as a stable investment, while also providing significant returns, through dividends and the stock's return to fair value.

Sector and Industry Outlook

The 2016 macro environment has staged the consumer staples sector to outperform the market. China's instability, volatile oil prices, the threat of Britain leaving the EU, the upcoming presidential election, and other factors, are increasing the possibility of a bear market or recession. Bull markets typically last five times longer than bear markets, and many economists expect 2016 to be a negative year, or at the very best, a flat year. Historically, the consumer staples sector far outperforms the S&P500 when the overall market is down. The sector has had only one year of negative returns since 2003, and that was in 2008. Still, CONS outperformed the market by 21.6% in 2008. Focusing more specifically on the Major Foods Diversified Industry, economists expect it to continue growing at its usual slow pace. While LANC does offer products that have a declining growth rate, such as frozen foods, its diversification shields them from this risk. Historically, consumers have made food purchases based on price, convenience and taste, but research produced by Deloitte shows that consumers largely take into effect health and transparency. Corporations in the food business, such as LANC, will need to adjust to the consumer's preferences by providing products that are healthy and transparent, but also remain convenient and tasteful. Overall, the industry outlook is not spectacular, but it will continue to grow with our population, and the corporations that adjust to consumer demand will lead the pack.

Earnings Miss

Shareholders of LANC have become accustomed to earnings beats with an average surprise of 14.84% for EPS since 2003. However, in late January of 2016, LANC missed analyst's estimates by 5.3%, with a revenue surprise of -2.35%. Management attribute the miss to uncontrollable factors such as egg prices, seasonal consumer preferences, and clean-floor policies. A large portion of LANC's daughter companies produce goods that require eggs. An unexpected avian influenza drove egg prices higher and diminished margins. Furthermore, management has admittedly misjudged the seasonal consumer preferences that come with their most recent acquisition, Flatout. Flatbreads and pizza crusts have proven to be much more seasonal than management expected. Although management expected this, shareholders and analysts did not fully consider Walmart's clean-floor policy and how it decreases LANC's frozen goods sales. These factors due in fact hurt LANC's sales and margins, but investors overreacted to this quarterly report and the stock is now undervalued. Overall sales for the corporation grew 7% YOY, as well as EPS up 4.2% YOY. Furthermore, for all of the factors that management has deemed responsible for the earnings miss, each are being addressed in an efficient manner. Firstly, egg prices are expected decrease in 2016 and plan to limit their exposure to commodity cost volatility by implementing structure purchasing programs. Second, seasonal segments such as Flatout will report higher sales that come with warm weather. Consumer preferences show that flatbreads and pizza crusts are in much higher demand in the Spring and Summer. Third, LANC has been decreasing its portion of revenue that comes from frozen foods. From 2013 to 2015, frozen foods as a portion of revenue has decreased from 35.9% to 32.8% and frozen foods has increased from 64.1% to 67.2%. Management continues evaluate consumer preferences and adjusts accordingly. As previously mentioned, shareholders have become accustomed to earnings beats, and this past quarter's miss has caused the price of the stock to drop by over 15%.

Capital Structure and Liquidity

LANC has proven to have a more stable capital structure than its competitors, and is also significantly more liquid. The company has $0 of short term and long term debt, compared to the industry average of nearly 43% debt to total capital. Moreover, LANC has a current ratio of 4.6 and a quick ratio of 3.28 while the industry's metrics are 3.32 and 2.31, respectively. Lastly, LANC's cash conversion cycle was over 54 days in 2010, and has since decreased to under 36 days. Management continues to become more efficient every year and stands as a safer investment than other Major Foods Diversified companies.

Acquisitions

LANC has a long history of acquisitions, the most recent being the Flatout segment. Management continues to evaluate businesses that may add value to the corporation. All acquisitions are purchased with cash, which allows the company to remain debt free while avoiding share dilution. Management has estimated that capital expenditures for 2016 could total approximately $15-$20M and that any perspective acquisitions will be again be purchased with cash only. Lastly, of Lancaster's long history of purchases, only one acquisition was deemed a failure by not adding value to the company.

Porter's Five Forces

The analysis has given LANC an overall score of 50 industry positioning. The intensity of existing rivalry is fairly high, as many of the products that LANC produces has a lot of competition. Although there is not one corporation that directly competes with Lancaster, several small companies compete with LANC subsidiaries. Furthermore, the bargaining power of customers is fairly high because of large number of substitutes. The bargaining power of suppliers is not too much of a risk for LANC, as there are numerous suppliers. However, the greater risk stems from macro factors that increase prices, such as the egg issue in 2015. Lastly, there is not a considerable threat of new competitors because sales are largely due to brand name. LANC's subsidiaries' products are recognized by consumers and brand loyalty is crucial in this industry.

Dividend Payout and Share Repurchase

This past fiscal year marked the 52nd consecutive year in which the dividend rate has increased. This indicates continued financial strength and stability. 2016 will yield approximately 2% in dividends for shareholders, with the possibility of another special dividend. Management has issued two special dividends in the past, one in 2012 and one this past December. Fiscal year 2015 yielded nearly 7% in dividends after a $5 special dividend was paid in December.

LANC authorized 2,000,000 shares in November, 2010 to be eligible for repurchase. There are currently 1,419,682 shares still available for repurchase with no official timeline for when they will be bought back.

Growth and Profitability

LANC demonstrates considerable growth and profitability. Revenue continues to grow YOY, with the last five quarters demonstrating significant growth. This past quarter revenue grew 7% YOY, and gross profit and EBITDA also increased. EPS has increased the last three quarters, and analysts expect Q3 2016 and Q4 2016 to grow by 19% and 15.7% respectively. COGS has remained relatively constant at about 76%, but analysts expect operating income to improve in the next two years. Lastly, LANC yields an impressive ROIC/WACC of 4.39. Over the last five years, ROIC has improved from 26% to 42.8%, while WACC has only increased from 6.4% to 8.8%. The corporations steady improvement in ROIC/WACC stems from its successful acquisitions and represents management's ability to add value to the company.

Conclusion

Lancaster is positioned to outperform the market in 2016. The stock is currently priced at $105.70, with an intrinsic value of $108.79. The combination of a 1.9% dividend, and 1 year target price of $118.30 will provide shareholders with a significant one year return. The markets over reaction to last quarter's earnings miss has left the stock undervalued. Investors overreacted to macro environment factors that were out of management's control. Lancaster has an ideal capital structure, is more profitable than its industry, and plans to continue acquiring business to further improve its ROIC/WACC.

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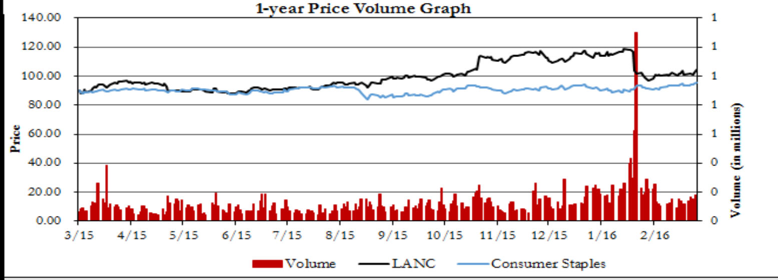
CENTER FOR GLOBAL FINANCIAL STUDIES

Lancaster Colony Corporation (LANC)

BUY

Analysis by Senan Lonergan	Current Price:	$105.70	Intrinsic Value	$108.79	Target 1 year Return: 10.65%
3/13/2016	Divident Yield:	1.9%	Target Price	$118.30	Probability of Price Increase: 0%

1-year Price Volume Graph



Description

Lancaster Colony Corporation manufactures and markets specialty food products for the retail and foodservice markets in the United States.

General Information

Sector	Consumer Staples
Industry	Food Products
Last Guidance	November 3, 2015
Next earnings date	April 28, 2016
Estimated Country Risk Premium	9.77%
Effective Tax rate	25%
Effective Operating Tax rate	32%

Market Data

Market Capitalization	$2,877.10
Daily volume (mil)	0.01
Shares outstanding (mil)	27.37
Diluted shares outstanding (mil)	27.35
% shares held by institutions	55%
% shares held by investments Managers	44%
% shares held by hedge funds	3%
% shares held by insiders	28.88%
Short interest	3.21%
Days to cover short interest	4.45
52 week high	$119.80
52-week low	$86.85
Levered Beta	0.61
Volatility	19.97%

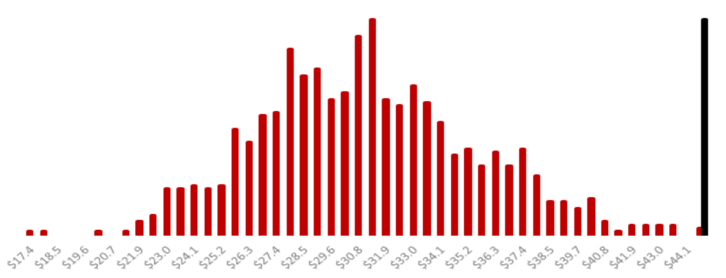
Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	1.14%	N/A
3/31/2015	3.36%	-0.83%
6/30/2015	0.75%	10.03%
9/30/2015	5.52%	11.64%
12/31/2015	-2.35%	-3.05%
Mean	1.68%	4.45%
Standard error	1.3%	3.7%

Peers

- J&J Snack Foods Corp.
- Snyder's-Lance, Inc.
- B&G Foods Inc.
- Flowers Foods, Inc.
- McCormick & Company, Incorporated
- Farmer Brothers Co.
- Pinnacle Foods Inc.
- Kellogg Company

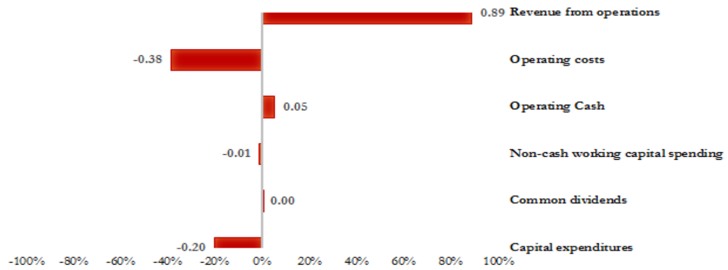
Target Price Distribution--Prob(Price Increase)= 0%



Management	Position	Total compensations growth	Total return to shareholders
Gerlach, John	Chairman, Chief Executive Of	3.39% per annum over 6y	3.37% per annum over 6y
Fell, Douglas	Chief Financial Officer, Vic	N/M	29.29% per annum over 1y
Rosa, Bruce	Vice President of Developmen	1.89% per annum over 6y	3.37% per annum over 6y
Ganobsik, Dale	Director of Investor Relatio	N/M	N/M
Shurte, Matthew	General Counsel and Company	N/M	N/M
Segal, David	Senior Corporate Counsel and	N/M	N/M

Profitability	LANC (LTM)	LANC (5 years historical average)	Industry (LTM)
ROIC	27.5%	30.74%	14.67%
NOPAT Margin	9%	12.53%	11.1%
Revenue/Invested Capital	3.00	2.45	1.32
ROE	28.0%	31.47%	17.29%
Adjusted net margin	9%	12.49%	9.4%
Revenue/Adjusted Book Value	3.07	2.52	1.85
Invested Funds	**LANC (LTM)**	**LANC (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	15.6%	26.0%	10%
Estimated Operating Cash/Total Capital	15.6%	13.7%	N/A
Non-cash working Capital/Total Capital	13.1%	16.3%	5%
Invested Capital/Total Capital	66.0%	65.7%	87%
Capital Structure	**LANC (LTM)**	**LANC (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.01	0.02	0.23
Cost of Existing Debt	1.58%	1.56%	4.31%
Estimated Cost of new Borrowing	1.40%	1.40%	4.30%
CGFS Risk Rating	AAA	AAA	B
Unlevered Beta (LTM)	0.60	0.44	0.50
WACC	8.80%	7.06%	7.68%

Sensitivity Analysis



Valuation

Period	Revenue growth	ROIC/WACC	Invested Capital	Net Claims	Price per share
Base Year			$440.94	$58.85	$106.88
12/31/2016	7.0%	4.38	$426.09	-$45.05	$116.41
12/31/2017	6.0%	4.36	$452.81	-$155.15	$125.88
12/31/2018	5.0%	4.41	$375.58	-$277.55	$135.72
12/31/2019	4.0%	4.45	$386.45	-$418.81	$146.15
12/31/2020	4.0%	4.56	$368.58	-$561.23	$156.60
12/31/2021	3.8%	4.66	$404.69	-$713.86	$167.38
12/31/2022	3.5%	4.77	$432.56	-$877.19	$178.46
12/31/2023	3.4%	4.90	$457.46	-$1,051.12	$189.84
12/31/2024	3.3%	5.04	$478.46	-$1,236.01	$201.49
12/31/2025	3.1%	5.20	$498.81	-$1,432.43	$213.40
Continuing Period	3.0%	5.38			