

March 2, 2018

Lamb Weston Holdings, INC: (LW)

Jacob Perry

Sector: Consumer Staples

Industry: Beverages

Current Price: \$54.46

Target Price: \$59.49

Company Description:

Lamb Weston Holdings, Inc. produces and markets value-added frozen potato products worldwide. It operates through four segments: Global, Foodservice, Retail, and Other. The company, headquartered in Eagle, Idaho, offers frozen potatoes, sweet potatoes, and appetizers under the Lamb Weston brand name, as well as various customer labels. It serves retail and foodservice customers; grocery, mass, club, and specialty retailers; and businesses, independent restaurants, regional chain restaurants, and convenience stores, as well as educational institutions.

Buy

Current Price: \$54.46

Target Price: \$59.49

LTM EBITDA margin: 21%

ROIC: 19.17%

WACC: 8.6%

Market Cap: 7.963B

52 Week Range: \$39.53-\$60.85

Avg. Volume:

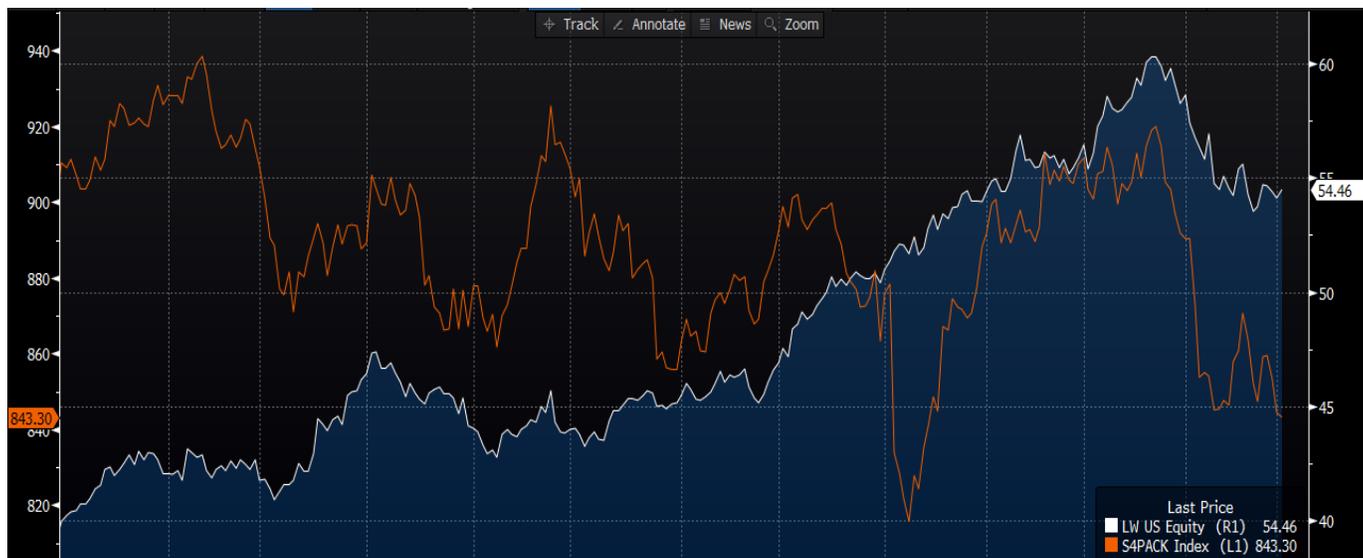
Operating Margin: 12%

Net Margin: 11.1%

Thesis: Lamb Weston shows potential growth prospects among a mid to long term growth time horizon. I think that Lamb Weston has a track record of increasing their value and will continue to do that into the future. Regardless if Lamb Weston is priced fairly or undervalued, I still believe a buy will deliver noticeable returns. At the current projections, Lamb Weston is poised to earn just over nine percent meaning that they are a strong buy especially with the corporation announcing a higher targeted dividend yield per share.

Catalysts:

- Short Term(within the year): Potential acquisitions by Lamb Weston to expand capacities.
- Mid Term(1-2 years): Development of more regional-based farms.
- Long Term(3+): Lamb Weston/Meijer joint venture grows further into Europe.



Company breakdown:

Lamb Weston is a global company with many different segments. In particular, their corporation is comprised of four major components: global, foodservice, retail, and other.

Global: The global segment includes branded and private label frozen potato products sold in North America and international markets. This segment includes the 100 North American based restaurant chains and international customers consisted of global and regional restaurant chains, foodservice distributors, and retailers. The segment also includes non-U.S. and non-Canadian retail and foodservice customers. The product portfolio consists of frozen potatoes, sweet potatoes, and appetizers sold by the Lamb Weston brand, as well as additional various customer labels.

Foodservice: The foodservice segment includes branded and private label frozen potato products sold throughout the United States and Canada. The foodservice segment's primary products are frozen potatoes, sweet potatoes, commercial ingredients, and appetizer items sold underneath the Lamb Weston brand, as well as various customer chains, and non-commercial channels.

Retail: The retail segment includes consumer facing retail branded and private label frozen potato products. The primary products of the retail segment are frozen potatoes and sweet potato products sold under Lamb Weston owned or licensed brands (which include Grown in Idaho, and Alexia), other licensed equities consisted of brand names of major North American restaurant chains, and the retailers' own brands.

Other: The "other" segment primarily includes the company's vegetable and dairy businesses. They are negligible compared to their primary potato businesses.



Joint Venture Relationships:

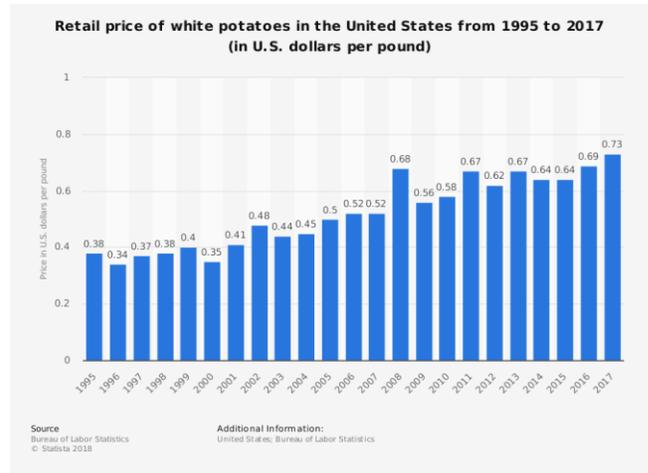
Lamb Weston utilizes partnerships with corporations to further align themselves with their target markets. The company conducts its business through two major unconsolidated joint ventures which produce market value-added frozen potato products for retail and foodservice customers. Lamb Weston holds 50 percent ownership interest in Lamb-Weston/Meijer v.o.f., Meijer Frozen Foods. Headquartered in the Netherlands, Meijer gives Lamb Weston the access to its manufacturing and sales in Europe. The second joint venture Lamb Weston is RDO Frozen Company. In the 50 percent ownership interest in Lamb-Weston/RDO Frozen, RDO provides Lamb Weston with sales and marketing services. In addition to the company's two joint ventures, they also have 49.99 percent interest in Lamb Weston BSW which is a potato processing venture with Ochoa Ag Unlimited Foods. Ochoa Ag also provides sales and marketing services to Lamb Weston BSW.



Three Tier Strategy to Increasing Value:

Lamb Weston utilizes a strategic plan which addresses three areas: category and customer growth, global supply chain to drive growth, investment in growth. The category in which Lamb Weston conducts its business is extremely specialized and therefore needs to grow in order for the corporation to grow as well.

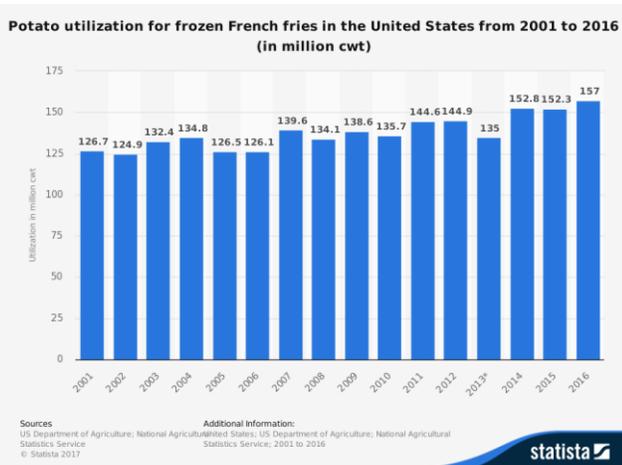
As a major producer of potato products, Lamb Weston has an inherent benefit to gain as the category and customers grow in the future. With this being said, Lamb Weston has been turning its focus to a group of different segments in the market. Investments in the traditional restaurant segments and customers such as quick-service and fast casual burger and chicken chains have been a backbone of Lamb Weston’s strategy to boost the category in which they maintain a 90 percent market share. In addition to the traditional segments, Lamb Weston also invests in non-traditional frozen potato product outlets like convenience stores and coffee houses. Collectively, the investments are focused to gain more market share in key markets in China and Southeast Asia while maintaining dominant stances in the North American markets. Through developing more targeted products such as premium branded Alexia products and mainstream products like Grown in Idaho, Lamb Weston expands distribution across their markets while retaining or growing current market share. Lastly, Lamb Weston has noticed another potential source for growth in smaller quick-service and fast casual chains in North America which are looking to add more units and expand geographically.



Global supply chain growth is crucial to help strengthen the competitive advantage as a low-cost producer for Lamb Weston. The culture at Lamb Weston seeks to drive productivity and cost savings by leveraging improvement in their processes. They have consistently expanded capacity limits in order to support volume growth, improve raw recovery rates, and manage manufacturing costs to expand gross margins. The continuation of their improvement of their end-to-end global supply chain will further enhance production efficiencies and cost savings across North America and with their joint venture partners. The focus is to create a raw potato sourcing model in emerging growing regions that is similar to the one they built in the Pacific Northwest. The model will enable Lamb Weston to have an ongoing supply of cost-advantage raw products that would meet the needs of our customers over the long-term.

Lamb Weston has consistently committed capital to increase capacity and furthermore increase the overall growth of their company. In the past five years, and including their recent announcement to expand their

Hermiston facility, they will have invested more than \$800 million to expand capacity. Lamb Weston continues their base capital program by reducing cost, stretching capacity, and keeping factories well maintained so they operate at high utilization rates while maintaining high standards for quality. In their Q2 earnings call, Lamb Weston announced intentions to invest another \$250 million into their Hermiston facility to support an increase of 300 million pounds, or 150,000 tons, of French fry production capacity. In perspective, McDonald’s Corporation (Lamb Weston’s biggest client) sold four trillion french fries in the last year. They comprise 11 percent of net sales for Lamb Weston.



Management:

Lamb Weston is led by a group of executives who have a combined 107 years' worth of experience at Lamb Weston or aligned companies. They have brought a notion to the company of sustained long-term growth and secure investments that will promote value creation and solid returns. On an annual basis, they earn just over \$11 million in compensation comprised of salary and stock options. This seems like a fair reward for the sustained growth and improved prospects this company faces for the future based on current and past results.

Compensation Analysis		2017
Name	Title	Total Compensation
1) Thomas Werner	President/CEO	4,616,955 (USD)
2) Eryk Spytek	Sr VP/General Counsel/...	1,575,987 (USD)
3) Timothy McLevish	Chairman	1,512,507 (USD)
4) Micheline Carter	Senior VP/Chief Human...	1,251,908 (USD)
5) John Gehring	Sr VP/Interim CFO	1,155,537 (USD)
6) Robert McNutt	Senior VP/CFO	1,058,023 (USD)

Ownership:

54) Ownership Type	02/25/18	Curr	Change
41) Investment Advisor	79.04	79.07	+0.03
42) Hedge Fund Manager	14.40	14.38	-0.02
43) Pension Fund	2.64	2.65	+0.01
44) Bank	1.02	1.02	0.00
45) Sovereign Wealth Fund	0.99	0.99	0.00
46) Insurance Company	0.83	0.83	0.00
47) Individual	0.41	0.41	0.00
48) Brokerage	0.22	0.21	-0.01
49) Government	0.20	0.20	0.00

The ownership of Lamb Weston is significant in an investor's case due to the overwhelming amount of hedge fund ownership in the company. A majority of the ownership is held by investment advisors but collectively, investment advisors and hedge funds hold just under 93.5 percent of Lamb Weston's equity. With that being said, Lamb Weston who is historically seen as a longer buy and hold

strategy for returns is now transitioning to a short to mid-term investment. This is a reach of an assumption given no other observations of the transactions. Although, it can be said with certainty that Lamb Weston is seen as a strong candidate for increased returns.

Short Interest:

In addition to the ownership of the company, Lamb Weston has a historically lower short interest than the segment and industry average. According to Bloomberg, Lamb Weston carries a 1.07 percent short interest of float. When considering the 14 percent ownership by hedge funds, adding knowledge of the short interest can help determine what their positions in the stock are. Given a very low short interest, it can be assumed that a vast majority of the ownership of Lamb Weston by hedge funds are long positions. Also, given the nature of hedge funds' time horizon to invest, it can be assumed that there is a strong possibility that there will be increases of short-term returns.

Mkt Cap (USD)	8,171.0M
Shrs Out/Float	146.2M/145.6M
SI/% of Float	1.6M/1.07%
Days to Cover	0.8

Conclusion:

Given all information available, I believe that Lamb Weston is a strong buy for any time horizon of investment. Short, mid, and long-term catalysts all point to value creation approach to business by senior executives who have track records of obtaining sustainable, growing returns. The global increase of potato prices, decreasing production and sourcing costs are giving Lamb Weston larger operating margins than they have had previously, and larger margins than that of competitors in the same segment. These margins are being withheld by Lamb Weston due to their increasing investments in capacity utilization and development of more complete supply-chain relationships. Market segments globally are providing favorable environments for Lamb Weston's products which are going to be reflected by higher net sales and transfer to higher profits given the decrease in production costs.



Lamb Weston® 

SEEING POSSIBILITIES IN POTATOES

Lamb Weston Holdings, Inc.

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

(lv)

Analysis by **Jacob Perry**

Current Price: **\$54.34**

\$54.34

Intrinsic Value: **\$54.25**

\$54.25

Target 1 year Return: **10.72%**

3/5/2018

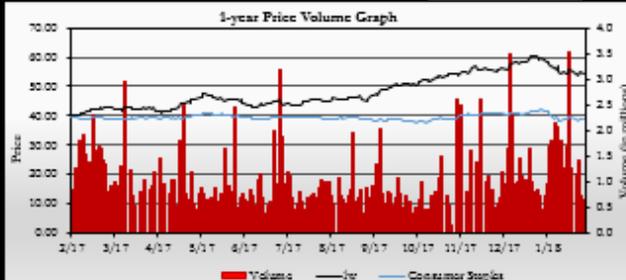
Dividend Yield: **1.4%**

1.4%

Target Price: **\$59.40**

\$59.40

Probability of Price Increase: **55%**



Description	
Lamb Weston Holdings, Inc. producer and marketer value-added frozen potato products worldwide.	
General Information	
Sector	Consumer Staples
Industry	Food Products
Last Guidance	February 12, 2018
Next earnings date	April 4, 2018
Market Assumptions	
Estimated Equity Risk Premium	6.36%
Effective Tax rate	22%

Market Data	
Market Capitalization	\$7,953.13
Daily volume (mil)	0.73
Shares outstanding (mil)	146.22
Diluted shares outstanding (mil)	146.85
% shares held by institutions	109%
% shares held by investment Managers	63%
% shares held by hedge funds	14%
% shares held by insiders	0.23%
Short interest	1.07%
Days to cover short interest	1.26
52-week high	\$60.85
52-week low	\$39.07
Volatility	0.00%

Part Earning Surprises		
Quarter ending	Revenue	EBITDA
11/27/2016	2.41%	-5.49%
2/26/2017	1.06%	1.02%
5/28/2017	2.38%	-9.94%
8/27/2017	2.48%	-5.01%
11/26/2017	1.12%	-3.02%
Mean	1.89%	-4.49%
Standard error	1.0%	47.3%

Market and Credit Scores	
Recommendation (STARS) Value--0	
Recommendation (STARS) Description--0	
Quality Ranking Value--0	
Quality Ranking Description--0	
Short Score--0	
Market Signal Probability of Default % (Non-Rating)--0.09%	
Credit Model Score (Non-Rating)--bbb-	

Industry and Segment Information	
LTM Revenue by Geographic Segment	LTM Revenue by Business Segment
outside of The United States and Canada--21%	Global--51%
United States--79%	Foodservice--33%
--	Retail--12%
--	Other--4%
--	--

Management		Paritina	
Warner, Thomas	President, CEO & Director	Total Compensation Growth	
McNutt, Robert	Senior VP & CFO	14.02% per annum over 3y	
Spytek, Erik	Senior VP, General Counsel & Corporate Seco	Stock Price Growth During Tenure	
Carter, Micholne	Senior VP & Chief Human Resources Officer		
Heppnerall, Rodney	Senior VP and GM of Foodservice & Retail Burir		
Martin, Richard	Senior VP & Chief Supply Chain Officer		

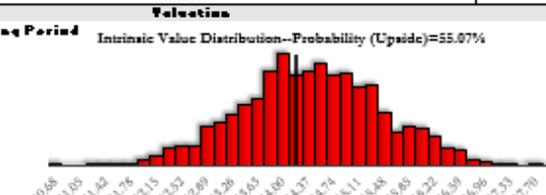
Profitability			
	In (LTM)	In Historical	Peerz' Median (LTM)
Return on Capital (GAAP)	19.7%	33.53%	7.86%
Operating Margin	12%	10.91%	10.28%
Revenue/Capital (GAAP)	1.66	3.07	0.77
ROE (GAAP)	-1211.9%	49.8%	15.4%
Net margin	11.1%	11.5%	6.7%
Revenue/Book Value (GAAP)	-108.80	4.34	2.31

Invested Funds			
	In (LTM)	In Historical	Peerz' Median (LTM)
Capx/Capital	2.7%	2.7%	4.4%
HW/Capital	18.2%	37.0%	8.7%
Operating Assets/Capital	71.6%	50.5%	46.4%
Goodwill/Capital	7.5%	9.8%	40.5%

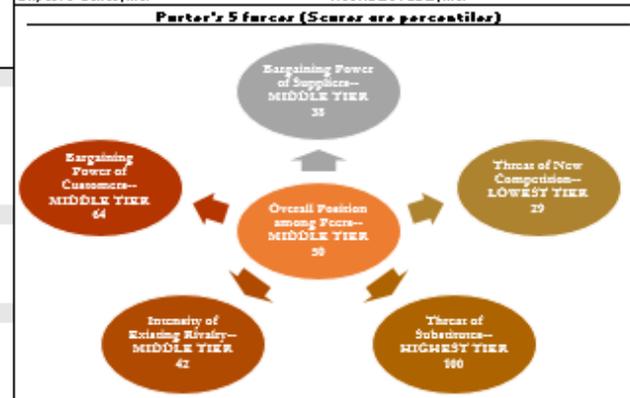
Capital Structure			
	In (LTM)	In Historical	Peerz' Median (LTM)
Total Debt/Market Capitalization	1.54	0.74	0.52
Cost of Debt	4.2%	5.0%	4.1%
CGFS Rating (F=care, Z=care, and default Probability: 000			
WACC	8.6%	10.1%	8.5%

Forecast Assumptions		
	Explicit Period (5 years)	Continuing Period
Revenue Growth CAGR	3%	2%
Average Operating Margin	22%	24%
Average Net Margin	15%	16%
Growth in Capital CAGR	10%	2%
Growth in Claims CAGR	-1%	2%
Average Return on Capital	13%	8%
Average Return on Equity	66%	9%
Average Cost of Capital	8%	8%
Average Cost of Equity	9%	9%

Valuations	
Intrinsic Value Distribution--Probability (Upside)=55.07%	



Peerz	
Pinnacle Foods, Inc.	Conagra Brands, Inc.
The Hain Celestial Group, Inc.	--
B&G Foods, Inc.	General Mills, Inc.
Sanderson Farms, Inc.	McCormick & Company, Incorporated
Snyder's-Lance, Inc.	TreeHouse Foods, Inc.



Sensitivity Attribution Analysis	
Revenue	49.3%
Operating costs	49.3%
Capital expenditures	1.5%
Discount Rate	8.8%