

## Utz Brands

## Thoughts on pending brand &amp; asset sale

Reiterate Rating: NEUTRAL | PO: 19.00 USD | Price: 17.63 USD

## Brand &amp; asset sale expected to be EPS accretive in FY24

This morning UTZ announced that it entered into a definitive agreement to sell Good Health (bought in 2014) and R.W. Garcia (bought in 2021) and three manufacturing facilities to Our Home for \$150mm in after-tax net proceeds. UTZ expects the proceeds to be directed toward debt paydown of its variable rate term loan immediately. The transaction is expected to close on February 5<sup>th</sup>, 2024. In Exhibit 1 we outline the financial impact of the sale: 1) UTZ estimates divested brand sales of ~\$65mm in FY23. UTZ plans to retain the DSD portion of the Good Health brands on its trucks and will continue to flow through its P&L (~\$16mm by our estimate). 2) Margin profile for both brands are similar to total company. 3) Last month [UTZ hosted an Investor Day](#) and expects to achieve \$45mm of cost savings from FY24 to FY26. Today's transaction is expected to pull forward cost savings from FY26 to FY25 while FY24 remains unchanged. 4) UTZ plans to use all the proceeds to pay down debt which is expected to lower interest expense in FY24 by \$12mm. UTZ now expects to achieve 3.0x leverage by FY25 which is one year earlier than its original target. 4) We estimate the transaction to be 4.3% accretive to EPS in FY24E. We reiterate our Neutral rating, but raise our PO from \$16 to \$19 which is now based on 15.5x our CY25E EV/EBITDAe (prior 14.0x). We believe a higher multiple is justified given that today's deal enables UTZ to de-lever quicker and is accretive to FY24E EPS. No changes to our 24 estimates given that UTZ is expected to report 4Q23 earnings before the open on Thursday February 29<sup>th</sup>.

## Prelim 4Q net sales of \$352mm versus BofAe \$356mm

In this morning's release UTZ also announced preliminary financial results for 4Q23 that included lower than expected sales and slightly better than anticipated adj. EBITDA. In addition, UTZ lowered its FY23 net sales outlook and narrowed its adj. EBITDA outlook range. 4Q net sales are now expected to be between \$350mm and \$354mm versus our prior \$356mm estimate and Visible Alpha Consensus of \$359mm. UTZ narrowed its FY23 adj. EBITDA outlook from \$184mm-\$189mm to \$187mm-\$188mm which implies 4Q adj. EBITDA of \$49.5mm (prior BofAe \$49.0mm, Visible Alpha Consensus \$48.6mm). All in, lower our 4Q net sales to \$352mm and raise our adj EBITDA to \$49.4mm.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.57	0.55	0.58	0.66	0.79
GAAP EPS	0.15	0	0.21	0.53	0.79
EPS Change (YoY)	-45.7%	-3.5%	5.5%	13.8%	19.7%
Consensus EPS (Bloomberg)			0.56	0.63	0.75
DPS	0.20	0.22	0.23	0.25	0.28
Valuation (Dec)					
P/E	30.9x	32.1x	30.4x	26.7x	22.3x
GAAP P/E	117.5x	NA	84.0x	33.3x	22.3x
Dividend Yield	1.1%	1.2%	1.3%	1.4%	1.6%
EV / EBITDA*	21.7x	19.8x	18.1x	16.4x	14.6x
Free Cash Flow Yield*	0.7%	-1.6%	1.8%	2.4%	3.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 7.

31 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	16.00	19.00

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## Stock Data

Price	17.63 USD
Price Objective	19.00 USD
Date Established	31-Jan-2024
Investment Opinion	B-2-7
52-Week Range	11.17 USD - 19.11 USD
Mrkt Val (mn) / Shares Out (mn)	2,512 USD / 142.5
Free Float	82.1%
Average Daily Value (mn)	15.13 USD
BofA Ticker / Exchange	UTZ / NYS
Bloomberg / Reuters	UTZ US / UTZ.N
ROE (2023E)	5.7%
Net Dbt to Eqty (Dec-2022A)	59.2%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

DSD: direct-store-delivery

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# iQprofile<sup>SM</sup> Utz Brands

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	5.1%	5.4%	5.9%	6.2%	6.8%
Return on Equity	5.4%	5.4%	5.7%	6.4%	7.4%
Operating Margin	13.1%	12.2%	13.0%	14.1%	15.1%
Free Cash Flow	17	(40)	45	59	83

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.6x	0.6x	1.2x	1.4x	1.4x
Asset Replacement Ratio	0.4x	1.0x	0.7x	0.9x	0.9x
Tax Rate	18.6%	18.7%	17.6%	21.0%	21.0%
Net Debt-to-Equity Ratio	57.5%	59.2%	58.1%	54.5%	49.2%
Interest Cover	5.0x	4.0x	3.4x	3.4x	3.9x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,181	1,408	1,438	1,464	1,530
% Change	22.4%	19.3%	2.1%	1.8%	4.5%
Gross Profit	425	504	511	536	575
% Change	16.3%	18.6%	1.5%	4.7%	7.4%
EBITDA	156	171	187	207	231
% Change	16.6%	9.2%	9.7%	10.5%	11.9%
Net Interest & Other Income	(57)	(77)	(85)	(88)	(88)
<b>Net Income (Adjusted)</b>	<b>80</b>	<b>78</b>	<b>83</b>	<b>94</b>	<b>113</b>
<b>% Change</b>	<b>27.5%</b>	<b>-3.0%</b>	<b>7.0%</b>	<b>12.7%</b>	<b>20.6%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	80	78	83	94	113
Depreciation & Amortization	81	87	80	84	88
Change in Working Capital	(24)	(11)	(1)	(24)	(21)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(89)	(105)	(65)	(20)	(20)
Capital Expenditure	(32)	(88)	(53)	(75)	(78)
<b>Free Cash Flow</b>	<b>17</b>	<b>-40</b>	<b>45</b>	<b>59</b>	<b>83</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>31.1%</b>	<b>40.1%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(12)	(17)	(19)	(21)	(23)
Change in Debt	56	64	(5)	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	42	73	89	117	166
Trade Receivables	131	137	130	140	147
Other Current Assets	105	162	159	165	178
Property, Plant & Equipment	304	345	327	360	393
Other Non-Current Assets	2,135	2,123	2,098	2,056	2,012
<b>Total Assets</b>	<b>2,716</b>	<b>2,840</b>	<b>2,803</b>	<b>2,839</b>	<b>2,897</b>
Short-Term Debt	11	19	21	21	21
Other Current Liabilities	177	219	206	198	197
Long-Term Debt	855	914	910	910	910
Other Non-Current Liabilities	238	238	219	219	219
<b>Total Liabilities</b>	<b>1,282</b>	<b>1,389</b>	<b>1,354</b>	<b>1,347</b>	<b>1,346</b>
<b>Total Equity</b>	<b>1,435</b>	<b>1,451</b>	<b>1,449</b>	<b>1,492</b>	<b>1,552</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,716</b>	<b>2,840</b>	<b>2,803</b>	<b>2,839</b>	<b>2,897</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Sector

Food Producers

## Company Description

UTZ is a leading pure-play salty snack platform company in the U.S. that is responsible for manufacturing, marketing and distributing a wide range of salty snacks (potato chips, tortilla chips, pretzels, cheese snacks and pork rinds). The company has been in business for over 100 years and went public through a special purpose acquisition fund in 2020. The company is responsible for producing the following brands: Utz, On the Border, Golden Flake, Zapp's and Good Health.

## Investment Rationale

We rate UTZ shares Neutral. Overall, we are positive on UTZ's category tailwinds and scale opportunity. However, at current valuation, UTZ's status a "show me story" and elevated leverage are less compelling, in our view.

## Stock Data

Average Daily Volume 858,187

## Quarterly Earnings Estimates

	2022	2023
Q1	0.11A	0.11A
Q2	0.13A	0.13A
Q3	0.16A	0.17A
Q4	0.15A	0.17E

## Pro-forma

### Exhibit 1: UTZ FY24 Pro-forma brand and asset sale

We expect the sale to be 4.3% accretive to adj. EPS

	FY24	Brand & asset sale	Pro-forma FY24
<b>Net sales</b>	\$1,464.5	-\$48.8	\$1,415.7
<u>Cost of goods</u>	<u>928.9</u>		<u>\$898.0</u>
Adjusted Gross profit	\$535.5	-\$17.8	\$517.7
Selling, general and administrative expenses	330.7		\$319.8
Gain (loss) on disposal of PPE	0.0		0.0
<u>Gain (loss) on sale of routes</u>	<u>2.0</u>		<u>2.0</u>
Adjusted Operating Profit (excludes D&A)	\$206.8	-\$6.9	\$199.9
Interest expense	60.0	12.0	48.0
Other income (expense)	2.0		2.0
Non-acquisition related D&A	-30.0		-30.0
Loss on re-measurement of warrant liability (gain)	0.0		0.0
Income before taxes	\$118.8		\$123.9
<u>Tax expense (benefit)</u>	<u>24.9</u>		<u>\$26.0</u>
<b>Adjusted net income</b>	<b>\$93.9</b>		<b>\$97.9</b>
<b>Shares outstanding</b>	142.8		142.8
<b>Adj. EPS</b>	\$0.66		\$0.69
<b>Accretive/dilutive</b>			<b>4.3%</b>
<b>Leverage profile</b>			
Adj. EBITDA	\$206.8		\$199.9
Current debt	\$935.3	\$150.0	\$785.3
Current cash	\$60.1		\$60.1
Net debt	\$875.2		\$725.2
Net debt to adj. EBITDA	4.2x		3.6x
<b>Key stats</b>			
Gross margin	36.6%	36.6%	36.6%
Operating profit margin	14.1%	14.1%	14.1%
Effective tax rate	21.0%		21.0%

Source: BofA Global Research

BofA GLOBAL RESEARCH



BofA forecasting FY24 adj. EPS of \$0.66

BofA forecasting FY24 adj. EPS of \$0.66

**Source:** BofA Global Research

BofA GLOBAL RESEARCH



## Price objective basis & risk

### Utz Brands (UTZ)

Our \$19 PO is based on our 15.5x CY25 EV/EBITDA estimate. At this multiple, we value shares of UTZ at a premium to "platform companies" and companies that compete in the salty snack category given what we believe is an embedded take-out premium.

Upside risks are 1) better pricing to cover inflation than anticipated, 2) faster category/brand growth vs peers and market share gains, 3) better-than-modeled cost synergies from M&A, 4) deflationary cost basket

Downside risks are 1) bigger-than-expected volume hit from price increases, 2) regional brands do not translate nationally, 3) cost synergies do not achieve targets, 4) leverage above peers, 5) inflation continues to accelerate.

## Analyst Certification

I, Peter T. Galbo, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
<b>NEUTRAL</b>				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLK	KLK US	Peter T. Galbo, CFA
<b>UNDERPERFORM</b>				
	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane

**US - Consumables Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEED	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
<b>RSTR</b>				
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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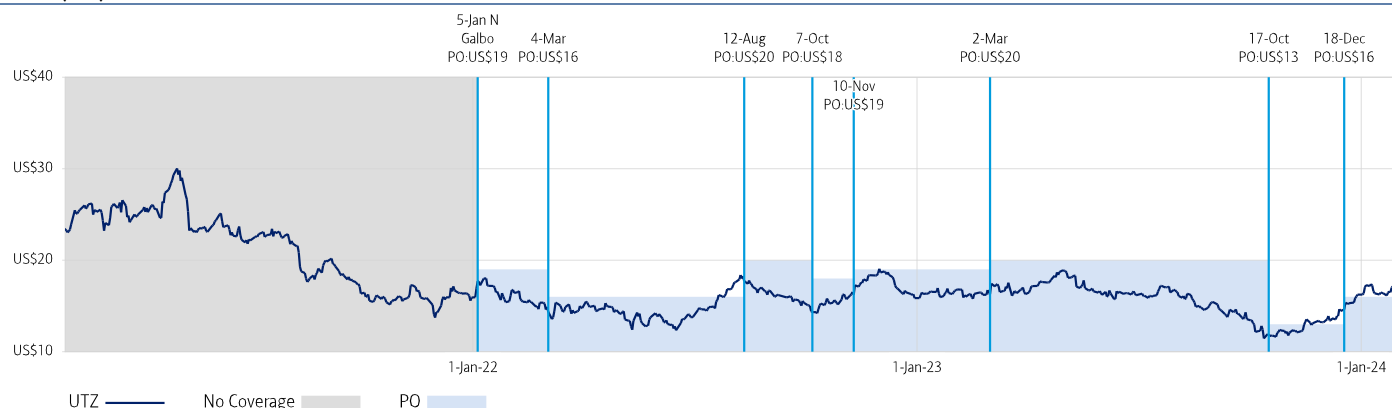
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# Disclosures

## Important Disclosures

### Utz Brands (UTZ) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Food Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	33	49.25%	Buy	16	48.48%
Hold	17	25.37%	Hold	10	58.82%
Sell	17	25.37%	Sell	8	47.06%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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