

Lamb Weston Holdings Inc

**2Q24 beat even with inventory charge;
FY24 EPS raise, EBITDA re-affirmed**

Maintain Rating: BUY | PO: 130.00 USD | Price: 104.93 USD

2Q24 adj EPS of \$1.45 vs BofA estimate of \$1.38

Lamb Weston (LW) 2Q24 adjusted EPS of \$1.45 was above our \$1.38 and Visible Alpha consensus of \$1.42, while adjusted EBITDA of \$377mm was below our \$394mm estimate and consensus of \$390mm driven by a one-time \$71mm charge (\$0.37/share after tax) related to a write-off of excess raw potatoes. Excluding the one-time charge, adj EPS and adj EBITDA were \$1.82 and \$448mm in the quarter, which would have been substantial beats. LW also updated its FY24 financial outlook (see below). Total company organic volumes were better at -6% versus our expectations of -7% and street of -6.6% with North America of -4% YoY (BofA -3.5%) and International of -22% (BofA -25%). Total company price/mix of +12% YoY was 2pts higher vs our estimate. In addition, adjusted gross margin of 27.6% was below our 28.9% and consensus of 28.8% due to the one-time charge. Excluding the one-time charge (~\$65mm in COGS), adj GM was 31.3%. We expect a positive stock reaction once accounting for the one-time charge, which was larger than we expected, but all in underlying trends/fundamentals continue to be strong.

Key takeaways: beat on better sales

Net sales of \$1,732mm were \$39mm above our forecast of \$1,693.5mm on better pricing while volumes came in slightly better. In North America, sales beat as price/mix came in better while volumes were softer by 50bps. In International, net sales were better driven by better volumes, pricing in-line. Below the line, interest expense, JV income and tax rate came in lower.

FY24 outlook updated; adj EPS of \$5.70-\$6.15

LW updated its FY24 financial outlook and now expects: adj EBITDA of \$1.54-1.62bn (unchanged but includes the \$71mm charge) and adj EPS of \$5.70-\$6.15 (prior \$5.50-\$5.95). Key drivers behind LW's EBITDA and EPS outlook: 1) net sales of \$6.8-\$7bn (unchanged) with \$1.1-1.2bn of sales attributable to EMEA/Meijer sales during the first three quarters (unchanged). 2) Lower SG&A of \$745-755mm (prior \$765-775mm) reflecting incremental expenses attributable to LW EMEA and ERP investments. 3) Net income of \$830-900mm (prior \$805-875mm). LW expects to achieve diluted EPS of \$5.70-\$6.15 (prior \$5.50-\$5.95). which assumes 1) interest expense of \$140mm (prior \$155mm), 2) D&A of \$305mm (prior \$325mm), 3) effective tax rate of 23-24% (unchanged) and 4) capex of \$900-950mm (prior \$800-900mm) which reflects announced capacity expansion efforts.

Reiterate Buy & \$130 PO

We maintain our Buy rating & PO of \$130 PO is based on a 19.5x P/E multiple on our CY25 EPS estimate. This is a premium to the packaged food index at 17x. We believe a premium is warranted as LW is poised to approach pre-COVID levels with upside potential to improving demand trends and margin potential in FY24.

04 January 2024

Equity

Peter T. Galbo, CFA
Research Analyst
BofAS
+1 646 743 0175
peter.galbo@bofa.com

Bryan D. Spillane
Research Analyst
BofAS
+1 646 855 1979
bryan.spillane@bofa.com

Yasmine Deswandhy
Research Analyst
BofAS
+1 646 855 3745
yasmine.deswandhy@bofa.com

Stock Data

Price	104.93 USD
Price Objective	130.00 USD
Date Established	20-Jun-2023
Investment Opinion	B-1-7
52-Week Range	81.26 USD - 117.38 USD
Mrkt Val (mn) / Shares Out (mn)	15,383 USD / 146.6
Free Float	99.3%
Average Daily Value (mn)	151.01 USD
BofA Ticker / Exchange	LW / NYS
Bloomberg / Reuters	LW US / LW.N
ROE (2024E)	51.0%
Net Dbt to Eqty (May-2023A)	223.7%
ESGMeter™	High

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Timestamp: 04 January 2024 09:42AM EST

Variance table

Exhibit 1: LW 2Q24 variance table

Adj EBITDA of \$377mm below BofAe \$394mm given one-time charge

Income Statement	2Q24A	2Q24E	A vs E	Per Share	2Q23A	% chg
Sales	\$1,732.1	\$1,693.5	\$38.6	\$0.20	\$1,276.5	35.7%
COGS	\$1,253.7	\$1,204.1	\$49.6	(\$0.26)	\$895.3	40.0%
Gross profit	\$478.4	\$489.4	(\$11.0)	(\$0.06)	\$381.2	25.5%
Gross margin	27.6%	28.9%	-128 bp		29.9%	-224 bp
Selling General & Administrative	\$177.4	\$190.5	(\$13.1)	\$0.07	\$134.9	31.5%
SG&A % sales	10.2%	11.3%	-101 bp		10.6%	-33 bp
Operating income	\$301.0	\$298.9	\$2.1	\$0.01	\$246.3	22.2%
Operating margin	17.4%	17.7%	-27 bp		19.3%	-9.9%
Interest expense	\$29.1	\$41.4	(\$12.3)	\$0.06	\$24.6	18.3%
Earnings before income taxes	\$271.9	\$257.5	\$14.4	\$0.07	\$221.7	22.6%
Equity method investment earnings	\$4.7	\$8.0	(\$3.3)	(\$0.02)	\$22.8	-79.4%
Income tax expense	\$64.9	\$63.1	\$1.8	(\$0.01)	\$63.2	2.7%
Tax rate	23.5%	23.8%	-29 bp		25.8%	-239 bp
NCI	\$0.0	\$0.0	\$0.0	\$0.00	\$0.0	#DIV/0!
Net income	\$211.7	\$202.4	\$9.3	\$0.06	\$181.3	16.8%
Diluted EPS	\$1.45	\$1.38	\$0.07	\$0.07	\$1.25	16.0%
Diluted shares out	145.5	146.6	-1.1	\$0.01	146.1	-0.4%
Adj EBITDA incl. JVs	\$377	\$394	(\$16.5)	(\$0.09)	\$329	14.7%
Segments	2Q24A	2Q24E	A vs E	Per Share	2Q23A	% chg
North America	\$1,167.1	\$1,131.6	\$35.5		\$1,062.5	9.8%
International	\$565.0	\$561.9	\$3.1		\$214.0	164.0%
Total Sales	\$1,732.1	\$1,693.5	\$38.6		\$1,276.5	35.7%
North America	\$278.0	\$275.8	\$2.2		\$256.9	8.2%
International	\$73.4	\$86.1	(\$12.7)		\$43.5	68.7%
Unallocated corporate (costs) income	(\$45.7)	(\$55.0)	\$9.3		(\$31.3)	46.0%
Segment Income (Op income + JV income)	\$305.7	\$306.9	(\$1.2)		\$269.1	13.6%
North America	\$321.3	\$334.0	(\$12.7)		\$299.6	7.2%
International	\$100.2	\$115.0	(\$14.8)		\$60.2	66.4%
Unallocated corporate (costs) income	(\$44.6)	(\$55.0)	\$10.4		(\$30.9)	44.3%
EBITDA incl JV	\$376.9	\$393.9	(\$17.0)		\$328.9	14.6%

Source: LW, BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Lamb Weston Holdings Inc (LW)

Our \$130 PO is based on a 19.5x P/E multiple on our CY25 EPS estimate. This is a premium to the packaged food index at 17x. We believe a premium is warranted as LW is poised to approach pre-COVID levels with upside potential to improving demand trends and margin potential in FY24.

Potential upside risks: demand rebounds faster than expected, overall category growth remains above 2-3% allowing for tight industry supply to continue in the medium to long term. Tight industry supply allows for further price increase across both global and foodservice customers. Potato costs and cooking oils moderate.



Downside risks: 1) higher-than-expected potato costs for CY23, 2) inability to push through additional pricing to cover inflation and restore margins, 3) influx of new industry capacity, 4) slowdown in on-premise activity if the consumer has less spending power.

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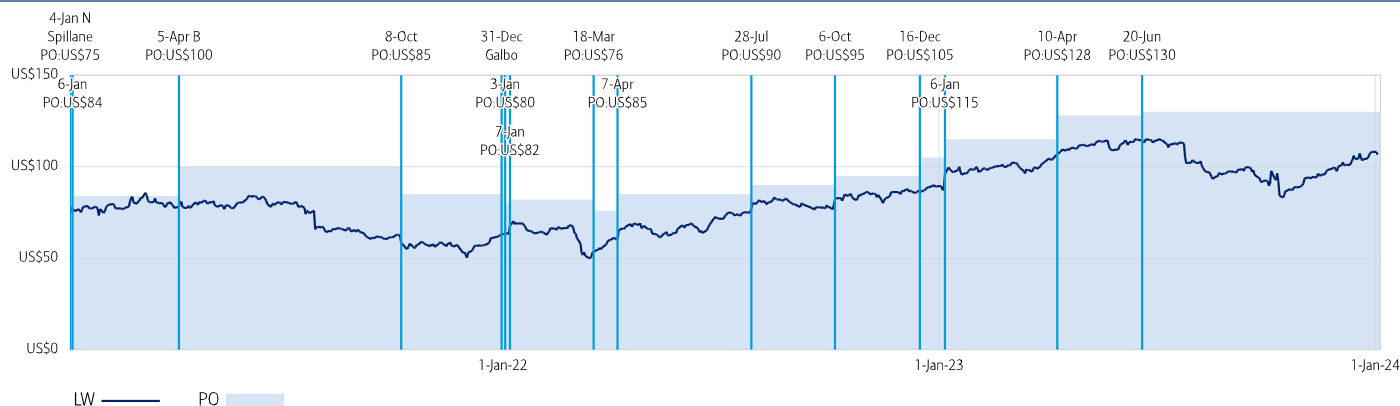
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Lamb Weston Holdings (LW) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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