

Lamb Weston Holdings Inc

Answering LW FAQs: ERP, Argentina, Red Sea

Maintain Rating: BUY | PO: 138.00 USD | Price: 105.04 USD

(-) stock reaction since Tuesday – shedding some light

LW shares are down ~6% since Tuesday (including ~1.5% intraday today). We've fielded significant inbound regarding an update on 1) LW's Enterprise Resource Planning (ERP) start-up following slower [Nielsen Scanner data](#) through mid-January (captures only North America [NA] retail sales), 2) LW's Argentina exposure in the wake of comments from PG & KMB and 3) Implications for LW's export business given Red Sea disruption. We reiterate our Buy rating & \$138 PO.

ERP transition update; underlying Dec fundamentals (+)

Beginning fiscal 3Q (late Nov 2023), LW began to transition some of its central systems (order/inventory/invoice & shipment management) in NA to a new ERP system. LW is working with 3rd party warehouses to streamline this transition, but different warehouses are affected to varying degrees. The transition is impacting both Retail and Restaurant channels, though we note that LW is prioritizing within channels and protecting its largest customers, with impact more felt on smaller retailers, restaurant chains and distributors. In our view, data flowing through Nielsen retail channels (BofA estimates ~20% of LW's NA volume) is not indicative of the rest of NA portfolio volume trends. LW has seen weekly improvement in shipment trends since reporting earnings in early January, but noted it is not back to full-service levels across all channels. Currently, no change to our 3Q NA volume estimate of -4%, while we note that underlying fundamentals in LW's restaurant channels exhibited solid traffic trends in Dec. per Blackbox including positive traffic in Quick-Service & Fast-Casual channels. January data is not available yet but appears to have had some noise related to cold weather across the US Midwest.

Argentina – ~1.5% of capacity, mostly exports to Brazil

LW currently has ~125mm lbs of production capacity in Argentina vs its global network of ~7.7bn lbs (~1.5%). Of this, \$/lb is lower in Argentina, with a significant percentage of that business exported from Argentina to Brazil and USD denominated. We see minimal risk from Argentinian Peso devaluation. Regarding LW's new ~250mm lb plant slated to opened later in 2024, this production will also largely go towards servicing Brazil.

Red Sea impact more of a derivative: Seattle to SE Asia

In terms of potential impact from Red Sea disruption to LW's business, the company has a small portion of export business directly tied to the Middle East/Israel. Majority of LW's export business ships from the Pacific Northwest US (Seattle) to Southeast Asia. If ocean freight is more globally disrupted/rates increase it could have some impact, but at this point appears largely contained for LW.

26 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 | 105.04 USD |
| Price Objective | 138.00 USD |
| Date Established | 5-Jan-2024 |
| Investment Opinion | B-1-7 |
| 52-Week Range | 81.26 USD - 117.38 USD |
| Mrkt Val (mn) / Shares Out (mn) | 15,283 USD / 145.5 |
| Free Float | 99.3% |
| Average Daily Value (mn) | 160.44 USD |
| BofA Ticker / Exchange | LW / NYS |
| Bloomberg / Reuters | LW US / LW.N |
| ROE (2024E) | 52.2% |
| Net Dbt to Eqty (May-2023A) | 223.7% |
| ESGMeter™ | High |

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Timestamp: 26 January 2024 12:09PM EST

Price objective basis & risk

Lamb Weston Holdings Inc (LW)

Our \$138 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.

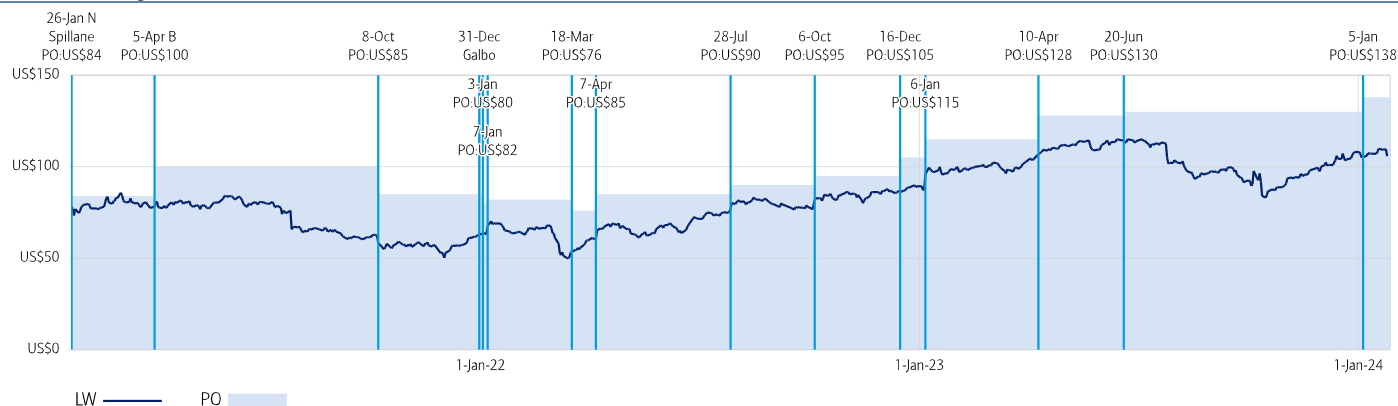
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Lamb Weston Holdings (LW) Price Chart



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

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

| 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% |

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

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

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|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

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