

Lamb Weston Holdings, Inc.

NYSE: LW

Investment Analysis & DCF Valuation

Luca Pozzi

Gabelli '26 | luca_christopher@icloud.com

November 2024 • Equity Research

SWOT Analysis

STRENGTHS

- **Customer base:** diversified customers of varied sizes/structures in global and local markets with strong relationships and high-status clients
- **Operational capabilities:** highly efficient, with crops in multiple locations and high synergies in their network
- **Financial performance:** consistent revenue, profit growth driven by high demand for frozen potatoes as a staple product, allowing for expansion and efficient cost management
- **Market leader and strong brand:** one of the largest and most renown in frozen potato products market globally, allowing a competitive advantage

WEAKNESSES

- **Dependence on McDonald's:** approx. 14% of firm revenue, ongoing changes in the food industry pose a threat as their financial condition is highly correlated, as seen in a recent slow quarter for fast food
- **Dependence on US market:** approx. 67.5% of firm revenue, depriving LW from economies of scale and global customer reach compared to competitors, also making it vulnerable to economic issues in the region
- **Limited product range:** dominates the market but highly specialized and dependent on the specific product category – limits potential diversification and is a risk if French fry/frozen potato demand ever decreases

OPPORTUNITIES

- **Global savory snacks market:** expected 6% compound growth due to increase in population, p/capita consumption, urbanization, etc.
- **Business expansion:** new processing facilities in China and Idaho, capacity expansion in Netherlands and Argentina, buyout of its European division – can also buy small regional competitors and partner with big ones
- **Global foodservice industry expansion:** expected value of \$3,354 billion in 2025, untapped emerging markets with growing fast-food consumption
- **Innovating healthier products:** health-conscious potential new customer segments drive opportunity for products made more sustainably with health benefits

THREATS

- **US labor costs:** increasing minimum wage could hit margins hard, local minimum rate is also higher than the federal rate in 29 states
- **Unfavorable potato crop conditions:** primary input of potatoes is influenced by climates which already fluctuate unexpectedly year on year. Furthermore, extreme weather and pests or diseases cause supply shocks and shortages unpredictable by experts.
- **Third party dependence:** firm cannot audit and control firms in its end-to-end supply chain and any number of operational risks to them could harm LW, limited number of competent co-packers cause dependence and operational risk should they fail

Recent Developments

Oct 18, 2024	Activist investor to push Lamb Weston to explore a sale	<i>The Wall Street Journal</i>
Oct 11, 2024	SABIC, LW, and OPACK Group create sustainable packaging from used cooking oil	<i>Market Screener</i>
Oct 9, 2024	Lamb Weston takes full control of Argentina joint venture (acquired remaining 10%)	<i>Just Food</i>
Oct 1, 2024	Lamb Weston cuts jobs, shuts plant and trims forecast	<i>Seeking Alpha</i>
Jul 24, 2024	Misses top-line and bottom-line estimates; initiates FY25 outlook	<i>Seeking Alpha</i>
Jul 10, 2024	French fry giant sued over 'artificially inflated' share prices (stock drops 30%)	<i>Tri City Herald</i>
May 22, 2024	Counters cost challenges with pricing strategy to address inflation	<i>Yahoo Finance</i>
Apr 5, 2024	ERP transition eats into sales and profit forecasts	<i>Just Food</i>
Jan 12, 2024	Potato surplus as restaurant demand falters — \$71M write-off charge	<i>Industry Dive</i>

Research Price Targets & Key Themes

Broker	Date	Target	Rating	Commentary
Barclays	Sep 30	\$70	OW	"Aside from an update on this year's potato crop and recent annual QSR contract negotiations, we think most important will be any data points that provide more clarity on dynamics that can narrow the current supply/demand imbalance – whether that be commentary on restaurant traffic trends or capacity rationalization moves."
Jefferies	Sep 27	\$79	UW	"We expect to hear about encouraging sequential traffic improvements through the quarter, although still declining y/y. Capacity reductions increasingly coming up with investors – we'd view such a move positively for numerous reasons. Discounted valuation combined with improving traffic and what we view as a well-cushioned guide this year all keep risk/reward attractive."
TD Cowen	Sep 23	\$65	OW	"We raise Lamb Weston estimates closer to the middle of guidance to reflect better visibility in the QSR channel and the growing likelihood that LW will rationalize frozen potato processing capacity"
JP Morgan	Jul 25	\$63	OW	"We still see some upside to our (newly lower) target price" "We are hardly pounding the table, and we aren't confident that FY25 sales guidance is conservative"
Wells Fargo	Jul 25	\$70	OW	"We see debate on how much reset is baked into the guide and visibility to H2 volume recovery. Remain OW on valuation, though it could take time to re-engage investors."
BNP Paribas	Jul 25	\$75	OP	"That is, the company posted results that came in well below guidance and Consensus, established disappointing FY25 guidance, and had little in the way of positive remarks to offer on the conference call."
Citi	Jul 25	\$72	OP	"LW's volume trends disappointed – largely due to company specific issues (industry weakness was known). And LW indicated that it plans to use price concessions to regain lost market share. This could suggest at least a temporary structural change in an industry that has historically avoided price competition."

Current Market Price Case

Sales Growth

+2.2%

\$6,610M (2025E)

Gross Margin

26.2%

–144 bps YoY

SG&A / Sales

11.2%

+55 bps YoY

CapEx

\$750M

Trending down

Key Drivers

Sales Growth: We expect sales to increase 2.2% going from \$6,467.6 million in 2024 to \$6,609.9 million in 2025. This is driven by LW's volume increase in the second half of 2024, having worked past an ERP transition and issues with product withdrawals. The anticipated increase is also attributed to new contracts and the firm's ability to regain lost market share, as well as the return of fast-food demand.

Gross Margin: We expect gross profit margin to decrease by 143.61 basis points in 2025 going from 27.6% to 26.2% resulting from recently inflated input costs, and exiting lower priced, low-margin businesses. We then expect gross profit margin to increase by 49.99 basis points in 2026 and 19.60 basis points in 2027 as LW expects to recover high-margin customers and expands efforts to maximize capacity and add production facilities.

SG&A/Sales: We expect SG&A/Sales to increase by 55.29 basis points in 2025 going from 10.6% to 11.2% attributed to LW returning performance-based compensation to its target, and an incremental \$24 million noncash amortization for its ERP system. Above average advertising expenses to support retail brands and new products in North America and EMEA will also be a major driver of the increase. We expect SG&A/Sales to decrease by 99.99 basis points in 2026 as incremental amortization costs taper off and advertising budgets are returned to normal levels.

CapEx: We expect CapEx to be \$750 million in 2025 and then trend downwards thereafter as reported on the most recent LW earnings call. This is in line with the expected completion of capacity expansion efforts and LW's stated intent to reevaluate capital investment structuring given soft sales traffic.

Current Market Price Case

Sales Growth

+2.2%

\$6,610M (2025E)

Gross Margin

26.2%

–144 bps YoY

SG&A / Sales

11.2%

+55 bps YoY

CapEx

\$750M

Trending down

	2023A	2024A	2025E	2026E	2027E	DCF Value - Perpetuity Growth		Current Market Price	
Sales	\$5,350.6	\$6,467.6	\$6,609.9	\$6,920.6	\$7,114.3	NPV of FCF 2025 - 2029	\$2,704.8	19.5%	
Sales growth	30.5%	20.9%	2.2%	4.7%	2.8%	PV of Terminal Value	11,191.2	80.5%	
Gross profit margin	27.3%	27.6%	26.2%	26.7%	26.9%	Enterprise Value	\$13,896.0	100.0%	
bps change	697.17	36.64	(143.61)	49.99	19.60	Less: Debt*	(3,842.4)		
SG&A / Sales	10.3%	10.6%	11.2%	10.2%	10.1%	Add: Cash	71.4		
bps change	82.30	36.77	55.29	(99.99)	(9.90)	Equity Value	\$10,125.0		
EBIT Margin	17.0%	17.0%	15.0%	16.5%	16.8%	Diluted shares	142.598		
bps change	614.87	(0.13)	(198.91)	149.98	29.50	Per Share Value	\$71.00	**	
Capital Expenditures	\$654.0	\$929.5	\$750.0	\$632.5	\$639.5				
CapEx / sales	12.2%	14.4%	11.3%	9.1%	9.0%				
Cash Conversion Cycle	77.1	65.7	66.0	66.0	66.0				

** 4.0% premium to share price of \$68.29 as of Oct-3-2024.

Upside Case



Sales Growth

+3.5%

\$6,694M (2025E)

Gross Margin

26.6%

-104 bps YoY

SG&A / Sales

11.0%

+35 bps YoY

Key Drivers

Sales Growth: In an upside case we expect sales to increase 3.5% going from \$6,467.6 million in 2024 to \$6,694.0 million in 2025. This would result if opportunities for business expansion in North America and China are seized by LW, and long term if it moves to reach untapped emerging markets where fast food consumption is growing, as the global foodservice industry continues to expand. If LW is successful in being competitive with prices to counter a lost market share we see an upside, as a temporary restructuring could keep the company efficient and competitive through a difficult period for the industry.

Gross Margin: In an upside case we expect gross profit margin to decrease by 103.62 basis points in 2025 going from 27.6% to 26.6%. LW continues to discuss decreasing capacity with investors as restaurant traffic seems poised for a comeback, which makes for a high potential upside. The potential operating efficiency of new production facilities opening this year is crucial, coupled with high sales growth. If volume recovery outpaces expected demand conditions, especially for QSRs, the firm would experience a larger increase in gross profits than anticipated. Its significant reliance on McDonalds is also a factor as the multinational recovers from its E. Coli outbreak and its \$5 meal deal ends in December.

SG&A/Sales: In an upside case we expect SG&A/Sales to increase by 35.31 basis points in 2025 going from 10.6% to 11.0%. This is expected depending on the expense of its performance-based compensation plan, as well its strength as a market leader with a strong brand for advertising, which it banks on to minimize the amount spent advertising new products.

Upside Case



Sales Growth

+3.5%

\$6,694M (2025E)

Gross Margin

26.6%

−104 bps YoY

SG&A / Sales

11.0%

+35 bps YoY

Key Drivers

	2023A	2024A	2025E	2026E	2027E	DCF Value - Perpetuity Growth		Upside / Target Price	
Sales	\$5,350.6	\$6,467.6	\$6,694.0	\$7,028.7	\$7,267.7	Enterprise Value	\$2,924.2	19.3%	
Sales growth	30.5%	20.9%	3.5%	5.0%	3.4%	Less: Debt*	12,255.2	80.7%	
Gross profit margin	27.3%	27.6%	26.6%	27.2%	27.4%	Enterprise Value	\$15,179.4	100.0%	
<i>bps change</i>	697.17	36.64	(103.62)	59.50	24.97	Less: Debt*	(3,842.4)		
SG&A / Sales	10.3%	10.6%	11.0%	10.1%	9.9%	Add: Cash	71.4		
<i>bps change</i>	82.30	36.77	35.31	(90.00)	(20.50)	Equity Value	\$11,408.4		
EBIT Margin	17.0%	17.0%	15.6%	17.1%	17.5%	Diluted shares	142.598		
<i>bps change</i>	614.87	(0.13)	(138.93)	149.50	45.47	Per Share Value	\$80.00	**	
Capital Expenditures	\$654.0	\$929.5	\$750.0	\$632.5	\$639.5	** 17.2% premium to share price of \$68.29 as of Oct-3-2024.			
CapEx / sales	12.2%	14.4%	11.2%	9.0%	8.8%				
Cash Conversion Cycle	77.1	65.7	66.0	66.0	66.0				

Downside Case



Sales Growth

+2.0%

\$6,597M (2025E)

Gross Margin

25.1%

−254 bps YoY

SG&A / Sales

12.0%

+135 bps YoY

Key Drivers

Sales Growth: In a downside case we expect sales to increase 2.0% going from \$6,467.6 million in 2024 to \$6,597.0 million in 2025. This could be caused by the risk of unfavorable potato crop conditions due to increasingly volatile climate conditions, as well as a continued decrease in restaurant food traffic, and risk to QSRs and packaged food in general with the release of new GLP pharmaceuticals. LW's sales estimates may be overly optimistic with investors thus far.

Gross Margin: In a downside case we expect gross profit margin to decrease by 253.62 basis points in 2025 going from 27.6% to 25.1%. This would be attributed to operational risk from the third parties LW relies on to co-pack its products. Inflationary threats continue to affect supply chains and proposed tariffs and fiscal policy by the President-elect also risk damaging margins given the international operations LW relies on. Any information about the current balance of supply/demand from LW will be very consequential on this result, given the current changes both in its capacity and the foot traffic of its clients.

SG&A/Sales: : In a downside case we expect SG&A/Sales to increase by 135.31 basis points in 2025 going from 10.6% to 12.0%. This could be driven by a steep increase in labor costs in North America and the need to advertise the qualities of new products given LW's very narrow product range, which could make it more costly to put health-conscious merchandise to market and convince sellers to invest in anything other than LW's standard line of potato products.

Downside Case



Sales Growth

+2.0%

\$6,597M (2025E)

Gross Margin

25.1%

-254 bps YoY

SG&A / Sales

12.0%

+135 bps YoY

Key Drivers

	2023A	2024A	2025E	2026E	2027E	DCF Value - Perpetuity Growth	Downside
Sales	\$5,350.6	\$6,467.6	\$6,597.0	\$6,794.9	\$6,937.6	Enterprise Value	\$2,205.6 19.2%
Sales growth	30.5%	20.9%	2.0%	3.0%	2.1%	Less: Debt*	9,266.4 80.8%
Gross profit margin	27.3%	27.6%	25.1%	26.0%	26.1%	Enterprise Value	\$11,472.0 100.0%
bps change	697.17	36.64	(253.62)	88.50	10.00	Less: Debt*	(3,842.4)
SG&A / Sales	10.3%	10.6%	12.0%	11.5%	11.5%	Add: Cash	71.4
bps change	82.30	36.77	135.31	(50.00)	(5.00)	Equity Value	\$7,701.0
EBIT Margin	17.0%	17.0%	13.1%	14.5%	14.6%	Diluted shares	142.598 **
bps change	614.87	(0.13)	(388.93)	138.50	15.00	Per Share Value	\$54.00
Capital Expenditures	\$654.0	\$929.5	\$750.0	\$632.5	\$639.5	** (20.9%) premium to share price of \$68.29 as of Oct-3-2024.	
CapEx / sales	12.2%	14.4%	11.4%	9.3%	9.2%		
Cash Conversion Cycle	77.1	65.7	66.0	66.0	66.0		

Appendix

Lamb Weston Holdings, Inc. (NYSE:LW)

Unlevered Free Cash Flow Models & Valuation Details

Unlevered Free Cash Flows — Current Market Price Case

Base case DCF valuation

2025E Sales

\$6,610M

Sales Growth

2.2%

Enterprise Value

\$9,179.4M

Equity Value

\$4,610.6M

Per Share Value

\$63.84

Perpetuity Growth

1.76%

Note: To share price of \$63.24 as of Q1 FY2025

Note: Full financial model tables and detailed UFCF calculations available in supporting Excel workbook.

Unlevered Free Cash Flows — Current Market Price Case

Base case DCF valuation

Fiscal Year Ending May-26	Historicals			Projections				
	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Sales	\$4,098.9	\$5,350.6	\$6,467.6	\$6,609.9	\$6,920.6	\$7,114.3	\$7,298.8	\$7,473.2
Cost of goods sold	3,266.9	3,891.5	4,680.2	4,878.1	5,072.8	5,200.8	5,321.4	5,433.9
Gross profit	832.0	1,459.1	1,787.4	1,731.8	1,847.8	1,913.5	1,977.4	2,039.3
Selling, general & admin.	387.6	550.0	688.6	740.3	705.9	718.6	730.0	740.1
EBIT	444.4	909.1	1,098.8	991.5	1,141.9	1,194.8	1,247.4	1,299.2
Taxes @ 24.0%	(106.7)	(218.2)	(263.7)	(238.0)	(274.1)	(286.8)	(299.4)	(311.8)
Unlevered Net Income	337.7	690.9	835.1	753.5	867.8	908.1	948.0	987.4
+ Depreciation	181.5	202.2	266.1	375.0	389.2	469.5	549.2	627.7
+ Amortization	5.8	7.0	19.6	7.2	7.3	7.2	7.2	7.0
± Changes in working capital	(55.7)	(208.3)	(101.2)	(26.5)	(35.5)	(22.6)	(21.4)	(20.1)
– Capital expenditures	(290.1)	(654.0)	(929.5)	(750.0)	(622.8)	(626.0)	(627.6)	(627.7)
– Additions to intangibles	0.0	0.0	0.0	(5.0)	(5.5)	(6.0)	(6.5)	(7.0)
Unlevered Free Cash Flows	\$179.2	\$37.8	\$90.1	\$354.2	\$600.6	\$730.2	\$848.8	\$967.3

DCF Value - Perpetuity Growth

NPV of FCF 2025 - 2029	\$2,704.8	19.5%
PV of Terminal Value	11,191.2	80.5%
Enterprise Value	\$13,896.0	100.0%
Less: Debt*	(3,842.4)	
Add: Cash	71.4	
Equity Value	\$10,125.0	
Diluted shares	142,598	
Per Share Value	\$71.00	4.0% premium**

WACC

Per Share Value

	Perpetuity Growth Rate				
	1.50%	1.75%	2.00%	2.25%	2.50%
7.00%	\$82.37	\$86.85	\$91.77	\$97.22	\$103.27
7.50%	\$72.74	\$76.42	\$80.44	\$84.84	\$89.67
8.00%	\$64.61	\$67.68	\$71.00	\$74.62	\$78.56
8.50%	\$57.65	\$60.24	\$63.03	\$66.04	\$69.30
9.00%	\$51.62	\$53.83	\$56.20	\$58.74	\$61.48

* includes debt, non-controlling interest and preferred stock

** To share price of \$68.29 as of Oct-3-2024.

Unlevered Free Cash Flows — Upside / Target Price Case

Bull case DCF valuation

2025E Sales

\$6,694M

Sales Growth

3.5%

Enterprise Value

\$10,178.4M

Equity Value

\$5,468.4M

Per Share Value

\$68.08

Perpetuity Growth

1.76%

Note: 7.7% premium to base case

Note: Full financial model tables and detailed UFCF calculations available in supporting Excel workbook.

Unlevered Free Cash Flows — Upside / Target Price Case

Bull case DCF valuation

	Historicals			Projections				
	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Fiscal Year Ending May-26								
Sales	\$4,098.9	\$5,350.6	\$6,467.6	\$6,694.0	\$7,028.7	\$7,267.7	\$7,507.5	\$7,747.7
Cost of goods sold	3,266.9	3,891.5	4,680.2	4,913.4	5,117.2	5,273.1	5,428.3	5,582.7
Gross profit	832.0	1,459.1	1,787.4	1,780.6	1,911.5	1,994.6	2,079.2	2,165.0
Selling, general & admin.	387.6	550.0	688.6	736.3	709.9	719.1	727.5	734.9
EBIT	444.4	909.1	1,098.8	1,044.3	1,201.6	1,275.5	1,351.7	1,430.2
Taxes @ 24.0%	(106.7)	(218.2)	(263.7)	(250.6)	(288.4)	(306.1)	(324.4)	(343.2)
Unlevered Net Income	337.7	690.9	835.1	793.6	913.2	969.3	1,027.3	1,086.9
+ Depreciation	181.5	202.2	266.1	375.0	395.3	479.6	564.9	650.8
+ Amortization	5.8	7.0	19.6	7.2	7.3	7.2	7.2	7.0
± Changes in working capital	(55.7)	(208.3)	(101.2)	(35.0)	(37.9)	(27.7)	(27.7)	(27.7)
– Capital expenditures	(290.1)	(654.0)	(929.5)	(750.0)	(632.5)	(639.5)	(645.6)	(650.8)
– Additions to intangibles	0.0	0.0	0.0	(5.0)	(5.5)	(6.0)	(6.5)	(7.0)
Unlevered Free Cash Flows	\$179.2	\$37.8	\$90.1	\$385.8	\$639.9	\$783.0	\$919.6	\$1,059.2

DCF Value - Perpetuity Growth

NPV of FCF 2025 - 2029	\$2,924.2	19.3%
PV of Terminal Value	12,255.2	80.7%

Enterprise Value	\$15,179.4	100.0%
Less: Debt [†]	(3,842.4)	
Add: Cash	71.4	
Equity Value	\$11,408.4	
Diluted shares	142,598	
Per Share Value	\$80.00	17.2% premium**

* includes debt, non-controlling interest and preferred stock

** To share price of \$68.29 as of Oct-3-2024.

	Per Share Value				
	Perpetuity Growth Rate				
80.00	1.50%	1.75%	2.00%	2.25%	2.50%
7.00%	\$92.44	\$97.35	\$102.74	\$108.71	\$115.34
7.50%	\$81.91	\$85.94	\$90.33	\$95.15	\$100.45
8.00%	\$73.00	\$76.36	\$80.00	\$83.96	\$88.28
8.50%	\$65.38	\$68.22	\$71.27	\$74.57	\$78.14
9.00%	\$58.79	\$61.21	\$63.80	\$66.58	\$69.58

WACC

Unlevered Free Cash Flows — Downside Case

Bear case DCF valuation

2025E Sales

\$6,597M

Sales Growth

2.0%

Enterprise Value

\$7,472.6M

Equity Value

\$3,358.1M

Per Share Value

\$54.04

Perpetuity Growth

1.76%

Note: ~15% discount to base case

Note: Full financial model tables and detailed UFCF calculations available in supporting Excel workbook.

Unlevered Free Cash Flows — Downside Case

Bear case DCF valuation

Fiscal Year Ending May-26	Historicals			Projections				
	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Sales	\$4,098.9	\$5,350.6	\$6,467.6	\$6,597.0	\$6,794.9	\$6,937.6	\$7,059.0	\$7,157.8
Cost of goods sold	3,266.9	3,891.5	4,680.2	4,941.1	5,029.2	5,127.9	5,210.6	5,276.4
Gross profit	832.0	1,459.1	1,787.4	1,655.8	1,765.6	1,809.7	1,848.4	1,881.4
Selling, general & admin.	387.6	550.0	688.6	791.6	781.4	794.3	804.7	812.4
EBIT	444.4	909.1	1,098.8	864.2	984.2	1,015.3	1,043.7	1,069.0
Taxes @ 24.0%	(106.7)	(218.2)	(263.7)	(207.4)	(236.2)	(243.7)	(250.5)	(256.6)
Unlevered Net Income	337.7	690.9	835.1	656.8	748.0	771.6	793.2	812.5
+ Depreciation	181.5	202.2	266.1	375.0	382.2	457.8	531.1	601.2
+ Amortization	5.8	7.0	19.6	7.2	7.3	7.2	7.2	7.0
± Changes in working capital	(55.7)	(208.3)	(101.2)	(29.7)	(20.3)	(16.9)	(14.3)	(11.5)
– Capital expenditures	(290.1)	(654.0)	(929.5)	(750.0)	(611.5)	(610.5)	(607.0)	(601.2)
– Additions to intangibles	0.0	0.0	0.0	(5.0)	(5.5)	(6.0)	(6.5)	(7.0)
Unlevered Free Cash Flows	\$179.2	\$37.8	\$90.1	\$254.3	\$500.3	\$603.3	\$703.7	\$800.9

DCF Value - Perpetuity Growth

NPV of FCF 2025 - 2029	\$2,205.6	19.2%
PV of Terminal Value	9,266.4	80.8%
Enterprise Value	\$11,472.0	100.0%
Less: Debt*	(3,842.4)	
Add: Cash	71.4	
Equity Value	\$7,701.0	
Diluted shares	142.598	
Per Share Value	\$54.00	(20.9%) discount**

WACC	Per Share Value					
	Perpetuity Growth Rate					
	1.50%	1.75%	2.00%	2.25%	2.50%	
54.00						
7.00%	\$63.41	\$67.12	\$71.20	\$75.71	\$80.72	
7.50%	\$55.44	\$58.49	\$61.82	\$65.46	\$69.46	
8.00%	\$48.71	\$51.25	\$54.00	\$57.00	\$60.26	
8.50%	\$42.95	\$45.09	\$47.40	\$49.90	\$52.60	
9.00%	\$37.96	\$39.79	\$41.75	\$43.85	\$46.12	

* includes debt, non-controlling interest and preferred stock

** To share price of \$68.29 as of Oct-3-2024.