

January 18, 2018

Bill Whiteside, CFA
btnresearch.com

Lancaster Colony (LANC)

Lancaster Colony (LANC) has a lot going for it. The sleepy little salad dressing company has increased its dividend for more than 60 years, pays regular, one-time dividends, shies away from reckless share buybacks and boasts a balance sheet with a positive net cash position. Nevertheless, we are concerned by the company's accounts receivable days of sales outstanding (DSOs) increasing by more than three days from the year-ago period:

	9/30/2017	6/30/2017	3/31/2017	12/31/2016	9/30/2016	6/30/2016	3/31/2016
Sales	\$299	\$290	\$294	\$327	\$291	\$284	\$288
Accounts Receivable	\$83	\$70	\$75	\$71	\$71	\$66	\$70
Sales YOY growth	2.6%	1.9%	2.1%	0.6%	-0.9%	2.4%	9.3%
Accounts Rec. YOY growth	17.3%	5.9%	6.9%	17.6%	-4.7%	5.7%	1.2%
Sales Seq growth	3.1%	-1.3%	-10.1%	12.2%	2.4%	-1.1%	-11.4%
Accounts Receivable Seq growth	18.6%	-6.8%	5.1%	1.1%	7.1%	-6.0%	15.6%
Accounts Receivable DSOs	25.3	22.0	23.3	19.9	22.1	21.2	22.3

Sales growth has been difficult for the company to come by in recent periods, with 2.6%, 1.9% and 2.1% growth posted in the last three quarters. While some of that growth has come from the company's November 2016 acquisition of Angelic Bakeries, the acquisition did not drive the DSO increase in the 9/17 quarter, as witnessed by the flat year-over-year DSO growth seen in the 3/17 and 6/17 quarters. It is this low-growth environment that prompts us to highlight the increase in DSOs. Management stated in its conference call that:

“In general, accounts receivable remain in line with expectations and largely reflect increased sales volumes for the quarter. Consistent with past quarters, our collection and agings remain solid.”

However, the liquidity section of the company's 10-Q seemed to have a slightly different take on the matter:

“The decrease (in operating cash flow) was due to lower net income and higher working capital requirements, primarily in receivables, *which resulted from the timing of shipments and related payment terms to suppliers.*”

We have not spoken with management for an explanation to that statement, but one could certainly read into it that there were one-time factors that resulted in revenues being recognized in the September quarter at the expense of the upcoming December quarter. We estimate that the disproportionate increase in receivables could have added as much as \$10 million to September quarter sales, which would have essentially eliminated the reported increase in revenues. This is important, as LANC’s September revenue already fell shy of analysts’ estimates in each of the last two quarters as it was. In addition, the receivables increase could be \$10 million that will no longer benefit the December quarter. Analysts are expecting a 3.4% increase in revenue in the December quarter (to be reported on 1/25), which will be even more difficult to achieve without those revenues.

.

Disclosure

BTN Research is a research publication structured to provide analytical research to the financial community. Behind the Numbers, LLC is not rendering investment advice based on investment portfolios and is not registered as an investment adviser in any jurisdiction. Information included in this report is derived from many sources believed to be reliable (including SEC filings and other public records), but no representation is made that it is accurate or complete, or that errors, if discovered, will be corrected.

The authors of this report have not audited the financial statements of the companies discussed and do not represent that they are serving as independent public accountants with respect to them. They have not audited the statements and therefore do not express an opinion on them. Other CPAs, unaffiliated with Mr. Middleswart, may or may not have audited the financial statements. The authors also have not conducted a thorough "review" of the financial statements as defined by standards established by the AICPA.

This report is not intended, and shall not constitute, and nothing contained herein shall be construed as, an offer to sell or a solicitation of an offer to buy any securities referred to in this report, or a "BUY" or "SELL" recommendation. Rather, this research is intended to identify issues that investors should be aware of for them to assess their own opinion of positive or negative potential.

Behind the Numbers, LLC, its employees, its affiliated entities, and the accounts managed by them may have a position in, and from time-to-time purchase or sell any of the securities mentioned in this report. Initial positions will not be taken by any of the aforementioned parties until after the report is distributed to clients, unless otherwise disclosed. It is possible that a position could be held by Behind the Numbers, LLC, its employees, its affiliated entities, and the accounts managed by them for stocks that are mentioned in an update, or a BTN Thursday Thoughts.