

Lamb Weston Reports Fiscal Fourth Quarter and Full Year 2019 Results; Provides Fiscal Year 2020 Outlook

July 23, 2019

Fourth Quarter 2019 Highlights

- *Net sales increased 9% to \$1,003 million*
- *Income from operations increased 11% to \$148 million*
- *Adjusted EBITDA including unconsolidated joint ventures⁽¹⁾ increased 6% to \$215 million*
- *Diluted EPS increased 10% to \$0.75 from \$0.68*
- *Adjusted Diluted EPS⁽¹⁾ increased 14% to \$0.74 from \$0.65*

Full Year 2019 Highlights

- *Net sales increased 10% to \$3,757 million*
- *Income from operations increased 15% to \$668 million*
- *Adjusted EBITDA including unconsolidated joint ventures increased 10% to \$215 million*
- *Diluted EPS increased 13% to \$3.18 from \$2.82*
- *Adjusted Diluted EPS⁽¹⁾ increased 21% to \$3.22 from \$2.65, reflecting the lower tax rate as a result of U.S. tax reform⁽³⁾*
- *Cash flow from operations increased 42% to \$681 million*
- *Returned \$145 million of cash to stockholders in the form of dividends and share repurchases*

Fiscal Year 2020 Outlook, Including the Contribution of a 53rd Week

- *Net sales expected to increase mid-single digits*
- *Adjusted EBITDA including unconsolidated joint ventures expected to increase 10% to \$215 million*

EAGLE, Idaho--(BUSINESS WIRE)-- Lamb Weston Holdings, Inc. (LWH) today reported its fiscal fourth quarter and full year 2019 results, and provided its outlook for fiscal 2020.

“In fiscal 2019, we delivered another year of record financial results, including record net sales, record adjusted EBITDA, record adjusted EPS, and record cash flow from operations, as well as double-digit increases in earnings and cash flow from operations,” said Mark A. Johnson, CEO. “Our strong performance reflects our commercial, supply chain, and operational strengths, as well as our focus on our operational and strategic objectives to support our customers and shareholders.”

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Specifically, this includes, our commitment to uphold high levels of quality and safety, and to invest in additional manufacturing capacity.”

“For fiscal 2020, we believe the overall operating environment will continue to be generally favorable. We expect continued solid demand growth in our markets and that new industry capacity in North America and Europe will allow processors to operate their factories at more normalized rates. We continue to take a prudent approach to our financial outlook and expect to deliver sales and earnings growth in line with our long-term targets. For sales, we anticipate solid volume growth as well as improvements in price/mix, which will enable us to offset input cost inflation. While we expect that increased spending to upgrade enterprise-wide information systems will temper earnings growth this year, we believe that these near-term investments to improve operating efficiencies, and our continued focus on executing on our strategies, will have us well-positioned to generate sustainable top- and bottom-line growth and create value for our shareholders over the long term.”

Summary of Fourth Quarter and FY 2019 Full Year Results

(\$ in millions, except per share)

	Year-Over-Year		Year-Over-Year	
	Q4 2019	Growth Rates	FY 2019	Growth Rates
Net sales	\$1,003.4	9%	\$3,756.5	10%
Income from operations	\$ 148.0	11%	\$ 668.4	15%
Net income attributable to Lamb Weston	\$ 110.4	10%	\$ 478.6	15%
Diluted EPS	\$ 0.75	10%	\$ 3.18	13%
Adjusted EBITDA including unconsolidated joint ventures ⁽¹⁾	\$ 215.4	6%	\$ 904.3	10%
Adjusted Diluted EPS ⁽¹⁾	\$ 0.74	14%	\$ 3.22	21%

Q4 2019 Commentary

Net sales increased \$85.2 million to \$1,003.4 million, up 9 percent, primarily driven by growth in the Company's Global sales, price realization actions and favorable mix.

Income from operations rose 11 percent to \$148.0 million versus the prior year period, primarily driven by the separation of pre-tax costs related to the Company's separation from Conagra ("Conagra") on November 9, 2016.

Excluding this comparability item, income from operations grew 6 percent. Gross profit increased \$17.8 million due to supply chain efficiency savings. This increase was partially offset by increased costs related to the start-up of a new plant in Hermiston, Oregon. In addition, gross profit included a \$7.5 million adjustment for realized settlements associated with commodity contracts compared with a \$1.2 million loss related to these items in the prior year period.

The increase in gross profit was partially offset by a \$4.1 million increase in selling, general and administrative expenses ("SG&A"), excluding comparability items. The increase was related to information technology services and infrastructure, and marketing and operating capabilities, partially offset by an appropriate reduction in promotional expenses.

Adjusted EBITDA including unconsolidated joint ventures⁽¹⁾ increased 6 percent to \$904.3 million versus the prior year period, primarily due to growth in income from operations.

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incremental benefit from acquiring the remaining 50.01% equity in BSW (the “BSW Acquisition”), Lamb Weston BSW, LLC (“Lamb Weston BSW”) will have a positive impact on earnings.

Diluted EPS increased \$0.07, or 10 percent, to \$0.75. The increase largely reflects growth in income from operations and an approximate \$0.02 benefit from the BSW Acquisition. The increase was partially offset by lower equity method investment earnings. The fourth quarter of fiscal 2019 included a \$0.02 incremental benefit related to a lower tax rate that was offset by a \$0.02 decrease in tax benefit comparability items arising from the U.S. Tax Cuts and Jobs Act (the “Tax Act”) enacted in December 2017 ⁽³⁾.

Adjusted Diluted EPS⁽¹⁾ increased \$0.09, or 14 percent, to \$0.74. The increase primarily reflects growth in income from operations, a \$0.02 incremental benefit related to a lower tax rate, and an approximate \$0.02 benefit from the BSW Acquisition, partially offset by lower equity method investment earnings.

The Company’s effective tax rate⁽²⁾ in the fourth quarter of fiscal 2019 was 18.9 percent, and includes a \$1.4 million, or \$0.01 per share, income tax benefit related to the true-up of the transition tax on previously untaxed foreign earnings under the Tax Act. Excluding this comparability item, the Company’s effective tax rate for the fourth quarter fiscal 2019 was 19.9 percent. Tax expense in the fourth quarter of fiscal 2018 included a provisional \$4.4 million, or \$0.03 per share, net benefit attributable to the effects of the Tax Act. Excluding this comparability item⁽³⁾, the Company’s effective tax rate for the fourth quarter of fiscal 2018 was 24.8 percent.

Q4 2019 Segment Highlights

Global

Global Segment Summary

Year-Over-Year

	<u>Q4 2019</u>	<u>Growth Rates</u>	<u>Price/Mix</u>	<u>Volume</u>
	<u>(\$ in mil.)</u>			
Net sales	\$ 526.5	13%	3%	10%
Segment product contribution margin ⁽¹⁾	\$ 110.7	11%		

Net sales for the Global segment, which is comprised of the company’s foodservice, retail and institutional customers as well as the Company’s international business, increased 13 percent compared to the prior year period. Volume increased 10 percent, largely reflecting growth in sales to foodservice customers in the U.S. and key international markets, as well as a 10 percent increase in retail sales. Price/mix increased 3 percent, largely reflecting pricing adjustments and favorable mix.

Global segment product contribution margin⁽¹⁾ increased \$11.0 million, or 11 percent, compared to the prior year period. Favorable price/mix, volume growth and cost reduction, more than offsetting input, manufacturing and transportation costs.

Foodservice

Foodservice Segment Summary

Year-Over-Year

	<u>Q4 2019</u>	<u>Growth Rates</u>
	<u>(\$ in mil.)</u>	
Net sales	\$ 313.1	7%

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Net sales for the Foodservice segment, which services North American foodservice distributors and restaurant chains outside the top 100 North American based restaurant chain customers, increased \$19.8 million to \$313.1 million, up 7 percent compared to the prior year period. Price/mix increased 6 percent, primarily reflecting pricing actions initiated in the fall of 2018, as well as improved mix. Volume increased 1 percent, led by growth in *Lamb Weston* branded products.

Foodservice segment product contribution margin⁽¹⁾ increased \$14.6 million to \$108.3 million, up 16 percent compared to the prior year period, as favorable price/mix and supply chain efficiency savings more than offset input, manufacturing and transportation cost inflation.

Retail

Retail Segment Summary

Year-Over-Year					
	Q4 2019	Growth Rates	Price/Mix	Volume	
	(\$ in mil.)				
Net sales	\$ 129.2	3%	(1%)	4%	
Segment product contribution margin ⁽¹⁾	\$ 21.0	(1%)			

Net sales for the Retail segment, which includes sales of branded and private label products to grocery, mass merchant and club customers in North America, increased \$4.2 million to \$129.2 million, up 3 percent compared to the prior year period. Volume increased 4 percent, primarily driven by increased sales of Grown in Idaho and other branded products, as well as private label products. Price/mix decreased 1 percent, largely due to increased trade support behind the Company's branded portfolio.

Retail segment product contribution margin⁽¹⁾ declined \$0.3 million to \$21.0 million, down 1 percent compared to the prior year period, as lower price/mix more than offset favorable expense.

Equity Method Investment Earnings

Equity method investment earnings from unconsolidated joint ventures increased \$1.1 million to \$25.1 million for the fourth quarter of fiscal 2019 and 2018. The increase was driven by \$1.0 million unrealized loss related to mark-to-market adjustments associated with the Company's potato contracts in the current quarter and a \$3.3 million loss related to the Company's potato contracts. Excluding these adjustments, earnings from equity method investments increased \$4.2 million for the quarter, largely reflecting higher raw potato prices and lower sales volume.

Fiscal Year 2019 Commentary

Net sales were \$3,756.5 million, up 10 percent compared to fiscal 2018. The increase was driven by growth in the Company's Global segment. Price/mix increased 6 percent, primarily reflecting favorable product and customer mix.

Income from operations rose 15 percent to \$668.4 million from \$580.0 million in the prior year period, primarily related to the spinoff from Conagra.

Excluding these comparability items, income from operations increased \$124.0 million, up 22 percent. The increase was driven by gross profit. Gross profit increased \$124.0 million, due to favorable cost savings. The increase was partially offset by transportation, wa-

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as well as higher depreciation expense primarily associated with Richland, Washington. In addition, gross profit included a \$10 million adjustment and realized settlements associated with commodity hedging contracts in the current year, compared with a nominal gain related to these items in the prior year.

The rise in gross profit was partially offset by a \$44.4 million increase in SG&A, excluding comparability items. The increase in SG&A was largely driven by higher expenses related to information technology services and infrastructure, as well as investments in the Company's sales, marketing and operating capabilities. The increase was also driven by approximately \$8 million of unfavorable foreign exchange (reflecting an approximate \$3 million expense in fiscal 2019 compared to an approximate \$5 million benefit in fiscal 2018), an approximate \$2 million increase in incentive compensation expense that primarily reflected an increase in stock price and total shares outstanding, and an approximate \$1 million increase in advertising and promotional support, partially offset by an approximate \$4 million benefit from an insurance settlement.

Adjusted EBITDA including unconsolidated joint ventures⁽¹⁾ was \$904.3 million, up 10 percent versus the prior year, reflecting growth in income from operations, and an approximate \$8 million incremental benefit from the BSW Acquisition, partially offset by lower equity method investment earnings.

Diluted EPS increased \$0.36, or 13 percent, to \$3.18. The increase largely reflects growth in income from operations, partially offset by lower equity method investment earnings and an approximate \$0.02 net decrease related to the BSW Acquisition. Fiscal 2019 included a \$0.17 incremental benefit related to a lower tax rate that was offset by a \$0.17 decrease in tax benefit comparability items related to the Tax Act⁽³⁾.

Adjusted Diluted EPS⁽¹⁾ increased \$0.56, or 21 percent, to \$3.22. The increase was driven by growth in income from operations, a \$0.17 incremental benefit related to a lower tax rate, and an approximate \$0.05 benefit from the BSW Acquisition, partially offset by lower equity method investment earnings.

The Company's effective tax rate⁽²⁾ was 21.5 percent for fiscal 2019, and includes a \$2.4 million decrease in income tax expense related to the true-up of the transition tax on previously untaxed foreign earnings under the Tax Act. Excluding this comparability item, the Company's effective tax rate for fiscal 2019 was 21.9 percent. Tax expense in fiscal 2018 included a provisional \$28.4 million net benefit attributable to the effects of the Tax Act. The Company's effective tax rate in fiscal 2018, excluding this comparability item, was 27.0 percent. The difference between the tax rates, excluding comparability items, primarily related to the phase in of the lower U.S. statutory rate under the Tax Act in fiscal 2018.

Fiscal Year 2019 Segment Highlights

Global

Global Segment Summary

	Year-Over-Year	
	FY 2019	Growth Rate (\$ in mil.)
Net sales	\$ 1,961.5	12%
Segment product contribution margin ⁽¹⁾	\$ 446.3	19%

Net sales for the Global segment increased \$217.3 million to \$1,961.5 million in fiscal 2019, up 12 percent from \$1,744.2 million in fiscal 2018. Volume increased 7 percent, driven by growth in sales to international markets, as well as the benefit of limited time price reflecting pricing actions and favorable customer mix.

Global segment product contribution margin⁽¹⁾ increased \$70.6 million to \$446.3 million in fiscal 2019, up 19 percent from \$375.7 million in fiscal 2018. Favorable price/mix, volume growth and supply

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than offsetting input, manufacturing and transportation cost in primarily associated with the addition of the new production line.

Foodservice

Foodservice Segment Summary

Year-Over-Year

	FY 2019 (\$ in mil.)	Growth Rates	Price/Mix	Volume
Net sales	\$ 1,156.1	5%	5%	0%
Segment product contribution margin ⁽¹⁾	\$ 402.4	10%		

Net sales for the Foodservice segment increased \$57.0 million to \$1,156.1 million, up 5 percent compared to fiscal 2018. Price/mix increased 5 percent, primarily reflecting pricing actions initiated in the fall of 2018, as well as improved mix. Volume declined nominally, as the loss of some distributor and operator-label product volumes essentially offset growth in branded products.

Foodservice segment product contribution margin⁽¹⁾ increased \$36.5 million to \$402.4 million, up 10 percent compared to fiscal 2018, as favorable price/mix and supply chain efficiency savings more than offset input, manufacturing and transportation cost inflation, as well as higher depreciation expense primarily associated with the Richland production line.

Retail

Retail Segment Summary

Year-Over-Year

	FY 2019 (\$ in mil.)	Growth Rates	Price/Mix	Volume
Net sales	\$ 498.3	11%		
Segment product contribution margin ⁽¹⁾	\$ 98.8	13%		

Net sales for the Retail segment increased \$49.1 million to \$498.3 million, up 11 percent. Volume increased 7 percent, primarily driven by distribution gains. Price/mix increased 4 percent, largely due to improved mix and

Retail segment product contribution margin⁽¹⁾ increased \$11.5 million to \$98.8 million, up 13 percent. The increase in contribution margin was primarily driven by volume growth and favorable price/mix more than offset cost inflation. Advertising and promotional expense also increased, primarily due to increased support of *Grown in Idaho* and other branded products.

Equity Method Investment Earnings

Equity method investment earnings from unconsolidated joint ventures were \$10.1 million and \$83.6 million for fiscal 2019 and 2018, respectively. These amounts include earnings related to mark-to-market adjustments associated with current market values of these investments and a nominal unrealized loss related to these items in fiscal 2019. The decrease in equity method investments declined \$21.6 million compared to fiscal 2018, primarily due to lower potato prices and lower sales volumes associated with a poor

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Cash Flow

Net cash from operating activities increased \$199.7 million to \$680.9 million, primarily driven by earnings growth. Capital expenditures were \$334.2 million in fiscal 2019 as the Company completed the construction of a new production line in Hermiston, Oregon, in the fourth quarter. This represents a \$27.4 million increase from fiscal 2018 which included the completion of a new production line in Richland, Washington.

Capital Returned to Shareholders

In fiscal 2019, the Company returned a total of \$145.1 million to shareholders, including \$113.3 million in dividends and \$31.8 million in share repurchases. The average price per share repurchased was \$69.40. The Company has \$218.2 million remaining under its current \$250 million share repurchase authorization.

Other Information

The Company expects to report a material weakness in internal control in its upcoming fiscal 2019 Form 10-K. The weakness relates to a deficiency in an information technology general control. The Company believes that this matter will not result in any changes to the financial results presented in this release or otherwise affect its consolidated financial statements. Remediation efforts are underway and the Company expects to complete the remediation of this material weakness prior to the end of fiscal year 2020.

Outlook

The Company provides guidance on its financial outlook on a non-GAAP basis and does not reconcile guidance to GAAP as the Company cannot predict items impacting comparability that are included in reported GAAP results. These items are discussed in more detail in the notes to this press release.

The Company's fiscal 2020 outlook includes the contribution of a 53rd week in the fiscal period, with the additional week falling in the fourth quarter.

FY 2020 Outlook Summary

Net sales growth rate	Mid-Single Digit Range
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Adjusted EBITDA including unconsolidated joint ventures ⁽¹⁾ \$95	Ap
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Interest expense	Ap
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Effective tax rate ⁽²⁾ excluding comparability items	Ap
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Cash used for capital expenditures, excluding acquisitions	Ap
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Depreciation and amortization	Ap
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As summarized in the table above, for fiscal 2020, the Company expects:

- Net sales to grow mid-single digits, largely driven by volume as well as modestly higher price/mix.
- Adjusted EBITDA including unconsolidated joint ventures⁽¹⁾ in the range of \$950 million to \$970 million. The Company expects:
 - Volume-driven gross profit growth, with higher price/mix offsetting input cost inflation;
 - SG&A, excluding advertising and promotional expenses and investments to upgrade the Company's enterprise resource planning and other information systems infrastructure, to be 8.0 percent to 8.5 percent of net sales.
- Equity method investment earnings to improve versus fiscal 2019, reflecting the effect of a normalized raw potato cost environment in Europe.

End Notes

- (1) Adjusted EBITDA including unconsolidated joint ventures, Adjusted Income from Operations, Adjusted Diluted EPS and segment product contribution margin are non-GAAP financial measures. Please see the discussion of non-GAAP financial measures, including a discussion of earnings guidance provided on a non-GAAP basis, and the reconciliations at the end of this press release for more information.
- (2) The effective tax rate is calculated as the ratio of income tax expense to pre-tax income, inclusive of equity method investment earnings.
- (3) The Tax Act had the following effect during the fourth quarter and full year of fiscal 2019 and 2018, respectively, as follows (dollars in millions, except per share amounts):

	Q4 2019		Q4 2018		Inc/(Dec)	
	Income		Income		Income	
	Tax	Diluted	Benefit	EPS	B	
Incremental benefit from lower tax rate (a)	\$ 2.8	\$ 0.02	\$			
Comparability items, net (b)		1.4		0.01		
Impact of Tax Act	\$ 4.2	\$ 0.03	\$			

	FY 2019		FY 2018		Inc/(Dec)	
	Income		Income		Income	
	Tax	Diluted	Benefit	EPS	B	
Incremental benefit from lower tax rate (a)	\$ 24.8	\$ 0.17	\$			
Comparability items, net (b)		2.4		0.02		
Impact of Tax Act	\$ 27.2	\$ 0.19	\$			

(a) Since our fiscal year-end is the last Sunday in May, the impact of the Tax Act was phased in during fiscal 2018, resulting in a

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(b) The fourth quarter and fiscal 2019, included a \$1.4 million, or \$0.01 per diluted share, and \$2.4 million, or \$0.02 per diluted share, respectively, decrease in income tax expense related to the true-up of the transition tax on previously untaxed foreign earnings under the Tax Act.

The fourth quarter of fiscal 2018 included a provisional \$4.4 million, or \$0.03 per diluted share, net benefit, comprised of a \$3.2 million decrease in the Company's estimate of the transition tax owed on previously untaxed foreign earnings and a \$1.2 million benefit from the estimated impact of remeasuring the Company's net U.S. deferred tax liabilities on its balance sheet at a lower tax rate.

Fiscal 2018 included a provisional \$28.4 million, or \$0.19 per diluted share, net benefit, comprised of a \$39.9 million benefit from the estimated impact of remeasuring the Company's net U.S. deferred tax liabilities on its balance sheet at a lower tax rate, partially offset by an \$11.5 million transition tax on its previously untaxed foreign earnings.

Webcast and Conference Call Information

Lamb Weston will host a conference call to review its fourth quarter 2019 results at 10:00 a.m. ET today. Investors and analysts may access the call toll-free by dialing (800) 239-9838, and using the event confirmation code of 3218216. A listen-only webcast will be provided at www.lambweston.com.

About Lamb Weston

Lamb Weston, along with its joint venture partners, is a leading supplier of frozen potato, sweet potato, appetizer and vegetable products to restaurants and retailers around the world. For more than 60 years, Lamb Weston has led the industry in innovation, introducing inventive products that simplify back-of-house management for its customers and make things more delicious for their customers. From the fields where Lamb Weston potatoes are grown to proactive customer partnerships, Lamb Weston always strives for more and never settles. Because, when we look at a potato, we see possibilities. Learn more about us at lambweston.com.

Forward-Looking Statements

This press release contains forward-looking statements within such as “continue,” “expect,” “drive,” “support,” “grow,” “will,” “improve,” “create,” “generate,” and variations of such words forward-looking statements. Examples of forward-looking statements regarding the Company’s plans, execution, business outlook and weakness, the filing of the Form 10-K and the expectation that result in any changes to the financial results presented in this press release based on management’s current expectations and are subject to change. Readers of this press release should understand that these statements are forward-looking and not based on historical facts. Many factors could affect the Company’s actual financial results and therefore the Company disclaims any obligation to update the expectations contained in the forward-looking statements, which may not be accurate. These factors and uncertainties include, among other things: the Company’s ability to implement its value creation strategies; its ability to execute on large capital investment projects; the competitive environment and related conditions in the countries in which it operates; the political and economic conditions of the countries in which it operates; factors related to its international operations; disruption of its operations; possible acquisitions, including its ability to complete acquisitions; the availability and prices of raw materials; changes in its related taxes; the success of its joint ventures; actions of governments and regulatory bodies; the ultimate outcome of litigation or any product recall; its operating expenses; its ability to pay regular quarterly cash dividends and its ability to repurchase its common stock; the Company’s ability to remediate the material weakness in its internal control over financial reporting identified during its fiscal year audit procedures and the audit of the Company’s internal control over financial reporting prior to filing its Form 10-K; other unexpected difficulties and/or other risks described in the Company’s reports filed from time to time.

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Commission. The Company cautions readers not to place undue reliance on forward-looking statements included in this press release, which speak only as of the date of this press release. The Company disclaims any responsibility for updating these statements, except as required by law.

Non-GAAP Financial Measures

To supplement the financial information included in this press release, the Company has presented Adjusted Income from Operations, Adjusted EBITDA including unconsolidated joint ventures, Adjusted Diluted EPS, segment product contribution margin and adjusted income tax expense, net income, net income attributable to Lamb Weston and net income available to Lamb Weston stockholders, each of which is considered a non-GAAP financial measure. The non-GAAP financial measures provided should be viewed in addition to, and not as an alternative for, financial measures prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") that are presented in this press release. The non-GAAP financial measures presented may differ from similarly titled non-GAAP financial measures presented by other companies, and other companies may not define these non-GAAP financial measures the same way. These measures are not substitutes for their comparable GAAP financial measures, such as net income, diluted earnings per share, cash flow from operations, or other measures prescribed by GAAP, and there are limitations to using non-GAAP financial measures.

Management uses these non-GAAP financial measures to assist in comparing the Company's performance on a consistent basis for purposes of business decision making by removing the impact of certain items that management believes do not directly reflect the Company's underlying operations. Management believes that presenting these non-GAAP financial measures provides investors with useful information because they (i) provide meaningful supplemental information regarding financial performance by excluding certain items, (ii) permit investors to view performance using the same tools that management uses to budget, make operating and strategic decisions, and evaluate historical performance, and (iii) otherwise provide supplemental information that may be useful to investors in evaluating the Company's results. The Company believes that the presentation of these non-GAAP financial measures, when considered together with the corresponding GAAP financial measures and the reconciliations to those measures, provides investors with additional understanding of the factors and trends affecting the Company's business than could be obtained absent these disclosures.

The Company also provides guidance on its financial outlook on a non-GAAP basis. The Company cannot predict certain elements that are included in reported GAAP results, including items such as strategic developments, acquisition and integration costs, and other items impacting comparability. This list is not inclusive of all potential items, and the Company will update as necessary as these items are evaluated on an ongoing basis. The Company believes that the presentation of these non-GAAP financial measures, when considered together with the corresponding GAAP financial measures and the reconciliations to those measures, provides investors with additional understanding of the factors and trends affecting the Company's business than could be obtained absent these disclosures.

not feasible and a full reconciliation of non-GAAP Adjusted EB

GAAP net income has not been provided.

Lamb Weston Hold

Consolidated Statement

(dollars in millions, except p

Net sales	\$
Cost of sales	
Gross profit	
Selling, general and administrative expenses (2)	
Income from operations	
Interest expense, net	
Income before income taxes and equity method earnings	

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Income tax expense

Equity method investment earnings	15.2	25.1	59.5	85.0
Net income	110.4	102.8	487.2	433.7
Less: Income attributable to noncontrolling interests (3)	—	2.8	8.6	16.9
Net income attributable to Lamb Weston Holdings, Inc.	\$ 110.4	\$ 100.0	\$ 478.6	\$ 416.8
Earnings per share				
Basic	\$ 0.76	\$ 0.68	\$ 3.19	\$ 2.83
Diluted	\$ 0.75	\$ 0.68	\$ 3.18	\$ 2.82
Dividends declared per common share	\$ 0.20000	\$ 0.19125	\$ 0.78250	\$ 0.75750

Computation of diluted earnings per share:

Net income attributable to Lamb Weston Holdings, Inc.	\$ 110.4	\$ 100.0	\$ 478.6	\$ 416.8
Less: Increase in redemption value of noncontrolling interests in excess of earnings allocated, net of tax benefits (4)	(0.6)	0.5	10.8	2.7
Net income available to Lamb Weston common stockholders	\$ 111.0	\$ 99.5	\$ 467.8	\$ 414.1
Diluted weighted average common shares outstanding	147.2	147.1	147.3	147.0
Diluted earnings per share (4)	\$ 0.75	\$ 0.68	\$ 3.18	\$ 2.82

(1) On May 28, 2018, the Company adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* ("new revenue standard"), using the modified retrospective method. The Company recognized a \$13.7 million cumulative effect of initially applying the new revenue standard as an adjustment to opening retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

Sales of customized products are generally recurring, therefore the new revenue standard. During the thirteen weeks ended May 26, 2019, sales \$7.9 million, net income \$1.6 million, and diluted earnings per share \$0.11. See Note 2, Revenue from Contracts with Customers, Notes to Consolidated Financial Statements in "Part I, Item 1. Business" of the Company's 2019 Form 10-K, for more information.

(2) The thirteen and fifty-two weeks ended May 27, 2018, included expenses related to the Company's separation from Conagra, professional fees and other employee-related costs.

(3) The thirteen and fifty-two weeks ended May 26, 2019, included, respectively, of incremental earnings from the acquisition of Conagra.

(4) The fifty-two weeks ended May 26, 2019, included accretion of the noncontrolling interest in the Company's 50.01% interest share, which the Company recorded to increase the redemption value of the noncontrolling interest. The Company paid to acquire the remaining 50.01% interest in the Company, reduced net income available to Lamb Weston common stockholders, but did not impact net income in the Consolidated Statements of Income.

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Lamb Weston BSW's earnings beginning November 2, 2019, in accordance with the terms of the Agreement and Plan of Merger, dated November 2, 2019, by and between Lamb Weston Holdings, Inc. and BSW, Inc. The following condensed notes to the financial statements are not intended to be a substitute for the detailed financial statements and notes to the financial statements included in the Company's fiscal 2019 Form 10-K. For a more detailed description of the Company's financial position, results of operations and cash flows, refer to the Company's fiscal 2019 Form 10-K, for more information.

Lamb Weston Holdings, Inc.

Consolidated Balance Sheets

(dollars in millions, except share amounts)

ASSETS

Current assets:

Cash and cash equivalents	\$
Receivables, less allowance for doubtful accounts of \$1.3 and \$0.6	
Inventories	
Prepaid expenses and other current assets	
Total current assets	\$
Property, plant and equipment, net	
Goodwill	
Intangible assets, net	
Equity method investments	
Other assets	
Total assets	\$

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Short-term borrowings
Current portion of long-term debt and financing obligations
Accounts payable
Accrued liabilities
Total current liabilities

Long-term liabilities:

Long-term debt, excluding current portion
Deferred income taxes
Other noncurrent liabilities
Total long-term liabilities
Commitments and contingencies
Redeemable noncontrolling interest
Stockholders' equity:
Common stock of \$1.00 par value, 600,000,000 shares authorized
Additional distributed capital
Retained earnings
Accumulated other comprehensive loss

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Treasury stock, at cost, 585,794 and 63,534 common shares

Total stockholders' deficit

Total liabilities and stockholders' equity

\$

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See footnote (1) to the Consolidated Statements of Earnings above for a discussion of the impact of adopting (1) the new revenue standard.

Lamb Weston Holdings, Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

	Fifty-Two Weeks Ended	
	May 26,	May 27,
	2019	2018
Cash flows from operating activities		
Net income	\$ 487.2	\$ 433.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles and debt issuance costs	162.4	143.3
Stock-settled, stock-based compensation expense	18.8	13.5
Earnings of joint ventures in excess of distributions	(13.8)	(35.1)
Deferred income taxes	37.5	(3.6)
Pension expense, net of contributions	5.5	(5.9)
Other	7.7	(2.1)
Changes in operating assets and liabilities, net of acquisition:		
Receivables		
Inventories		
Income taxes payable/receivable, net		
Prepaid expenses and other current assets		
Accounts payable		
Accrued liabilities		
Net cash provided by operating activities		
Cash flows from investing activities		
Additions to property, plant and equipment		
Acquisition of business, net of cash acquired		
Other		
Net cash used for investing activities		
Cash flows from financing activities		
Repayments of short-term borrowings, net		
Debt repayments		
Dividends paid		
Acquisition of noncontrolling interest		

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Repurchase of common stock and common stock withheld to

Cash distributions paid to noncontrolling interest	(0.1)	(14.0)
Other	2.1	2.2
Net cash used for financing activities	\$ (299.6)	\$ (178.9)
Effect of exchange rate changes on cash and cash equivalents	(1.7)	3.0
Net decrease in cash and cash equivalents	(43.4)	(1.5)
Cash and cash equivalents, beginning of the period	55.6	57.1
Cash and cash equivalents, end of period	\$ 12.2	\$ 55.6

Lamb Weston Holdings, Inc.

Segment Information

(unaudited, dollars in millions)

Thirteen Weeks Ended

Year-Over-

May 26, May 27, Year Growth

	2019	2018	Rates	Price/Mix	Volume
Segment sales (1)					
Global	\$ 526.5	\$ 464.7	13%	3%	10%
Foodservice	313.1	293.3	7%	6%	1%
Retail	129.2	125.0	3%	(1%)	4%
Other	34.6	35.2	(2%)	(5%)	3%
	\$1,003.4	\$ 918.2			
	<u>\$1,003.4</u>	<u>\$ 918.2</u>			

Segment product contribution margin (1) (2)

Global	\$ 110.0	
Foodservice	108.0	
Retail	2.0	
Other	(0.0)	
	239.0	
Other selling, general, and administrative expenses (3)	9.0	
Income from operations	\$ 140.0	

Items impacting comparability (3)

Expenses related to the Separation	\$
Adjusted income from operations (4)	\$ 140.0

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(1) See footnote (1) to the Consolidated Statements of Earnings for the new revenue standard.

(2) Product contribution margin is defined as net sales, less cost of sales and advertising and promotion expenses. Segment product contribution margin excludes general corporate expenses and interest expense because management believes these amounts are not directly associated with segment performance for the period.

(3) The thirteen weeks ended May 27, 2018 included \$0.8 million of expenses related to the Company's separation from Conagra. These expenses related primarily to professional fees and other employee-related costs.

(4) Adjusted income from operations is a non-GAAP financial measure. Management excludes items impacting comparability between periods as it believes these items are not necessarily reflective of the ongoing operations of the Company. This non-GAAP measure provides a means to evaluate the performance of Lamb Weston's segments and the Company on an ongoing basis using the same measures that are frequently used by the Company's management and assists in providing a meaningful comparison between periods. Any analysis of non-GAAP financial measures should be done only in conjunction with results presented in accordance with GAAP. The non-GAAP measures are not intended to be substitutes for GAAP financial measures and should not be used as such.

Lamb Weston Holdings, Inc.

Segment Information

(unaudited, dollars in millions)

Fifty-Two Weeks Ended

Year-Over-

May 26, May 27, Year Growth

2019 2018 Rates Price/Mix Volume

Segment sales (1)

Global	\$ 1,961	101	101	100%	100%	100%
Foodservice	1,150	101	101	100%	100%	100%
Retail	498	101	101	100%	100%	100%
Other	140	101	101	100%	100%	100%
	\$3,750					

Segment product contribution margin (1) (2)

Global	\$ 440	101	101	100%	100%	100%
Foodservice	402	101	101	100%	100%	100%
Retail	98	101	101	100%	100%	100%
Other	23	101	101	100%	100%	100%
	97					
Other selling, general, and administrative expenses (3)	302	101	101	100%	100%	100%
Income from operations	\$ 666					

Items impacting comparability (3)

Expenses related to the Separation	\$					
	\$					

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(1) See footnote (1) to the Consolidated Statements of Earnings above for a discussion of the impact of adopting the new revenue standard.

(2) Product contribution margin is defined as net sales, less cost of sales and advertising and promotion expenses. Segment product contribution margin excludes general corporate expenses and interest expense because management believes these amounts are not directly associated with segment performance for the period.

(3) The fifty-two weeks ended May 27, 2018 included \$8.7 million of expenses related to the Company's separation from Conagra. These expenses related primarily to professional fees and other employee-related costs.

(4) Adjusted income from operations is a non-GAAP financial measure. Management excludes items impacting comparability between periods as it believes these items are not necessarily reflective of the ongoing operations of the Company. This non-GAAP measure provides a means to evaluate the performance of Lamb Weston's segments and the Company on an ongoing basis using the same measures that are frequently used by the Company's management and assists in providing a meaningful comparison between periods. Any analysis of non-GAAP financial measures should be done only in conjunction with results presented in accordance with GAAP. The non-GAAP measures are not intended to be substitutes for GAAP financial measures and should not be used as such.

Lamb Weston Holdings, Inc.**Reconciliation of Non-GAAP Financial Measures**

(unaudited, dollars in millions, except per share amounts)

As reported

Items impacting comparability (1) (2):

Tax benefits related to increase in redemption value of noncon

Tax reform (3)

Total items impacting comparability

Adjusted (5)

As reported

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Items impacting comparability (1) (2):

Expenses related to the Separation	0.0	—	0.2
Tax reform (4)	—	—	4.4
Total items impacting comparability	0.8	—	4.6
Adjusted (5)	<u>\$ 134.3</u>	<u>\$ 27.7</u>	<u>\$ 32.7</u>

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	Income From Operations	Income Interest Expense	Income Tax Expense	Income Investment Expense
As reported	\$ 668.4	\$ 107.1	\$ 133.6	\$
Items impacting comparability (1) (2):				
Increase in redemption value of noncontrolling interests, net of tax benefits	—	—	—	
Tax reform (3)	—	—	2.4	
Total items impacting comparability	—	—	2.4	
Adjusted (5)	<u>\$ 668.4</u>	<u>\$ 107.1</u>	<u>\$ 136.0</u>	<u>\$</u>

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	Income From Operations	Income Interest Expense	Income Tax Expense	Income Investment Expense
As reported	\$ 580.1	\$ 108.8	\$ 121.2	\$
Items impacting comparability (1) (2):				
Expenses related to the Separation	—	—	—	

Tax reform (4)
Total items impacting comparability
Adjusted (5)

(1) See footnotes (1), (2), and (3) to the Consolidated Statements of Income for further information on items impacting comparability.

(2) Items impacting comparability are tax-effected at the margin rate.

(3) The thirteen and fifty-two weeks ended May 26, 2019, include a decrease in income tax expense related to the true-up of the earnings under the U.S. Tax Cuts and Jobs Act (the "Tax Act").

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(4) During the fifty-two weeks ended May 27, 2018, the Tax Act

which consisted of a \$39.9 million non-cash benefit from the re-measurement of the Company's net U.S. deferred tax liabilities using the new U.S. statutory tax rate, partially offset by an \$11.5 million transition tax on the Company's previously untaxed foreign earnings.

The thirteen weeks ended May 27, 2018, included a \$4.4 million benefit from an adjustment to the estimated transition tax liability and from the estimated impact of remeasuring the Company's net U.S. deferred tax liabilities on its balance sheet at a lower tax rate.

(5) Adjusted income from operations, income tax expense, net income, net income attributable to Lamb Weston, net income available to Lamb Weston stockholders, and diluted earnings per share are non-GAAP financial measures. Management excludes items impacting comparability between periods as it believes these items are not necessarily reflective of the ongoing operations of Lamb Weston. These non-GAAP measures provide a means to evaluate the performance of Lamb Weston on an ongoing basis using the same measures that are frequently used by the Company's management and assist in providing a meaningful comparison between periods. Any analysis of non-GAAP financial measures should be done only in conjunction with results presented in accordance with GAAP. The non-GAAP measures are not intended to be substitutes for GAAP financial measures and should not be used as such.

Lamb Weston Holdings, Inc.

Reconciliation of Non-GAAP Financial Measures

(unaudited, dollars in millions)

To supplement the financial information included in this press release, the Company has presented Adjusted EBITD is considered a non-GAAP financial measure. The following table reconciles net income attributable to Lamb Weston joint ventures.

Net income attributable to Lamb Weston Holdings, Inc.

Income attributable to noncontrolling interests

Equity method investment earnings

Interest expense, net

Income tax expense

Income from operations

Depreciation and amortization

Items impacting comparability (1)

Expenses related to the Separation

Adjusted EBITDA (2) (3)

Unconsolidated Joint Ventures (4)

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Interest expense, income tax expense, and depreciation and amortization included in equity method investment earnings
Add: EBITDA from unconsolidated joint ventures

Consolidated Joint Ventures (4)

Income attributable to noncontrolling interests

Interest expense, income tax expense, and depreciation and amortization included in income attributable to noncontrolling interests
Subtract: EBITDA from consolidated joint ventures

Adjusted EBITDA including unconsolidated joint ventures (2)

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(1) See footnotes (1) and (2) to the Consolidated Statements of Earnings above for a discussion of the items impacting comparability.

(2) Adjusted EBITDA including unconsolidated joint ventures is a non-GAAP financial measure. Management excludes items impacting comparability between periods as it believes these items are not necessarily reflective of the ongoing operations of the Company. Lamb Weston presents this measure because the Company believes it provides a means to evaluate the performance of the Company on an ongoing basis using the same measure frequently used by the Company's management and assists in providing a meaningful comparison between periods. Any analysis of non-GAAP financial measures should be done only in conjunction with results presented in accordance with GAAP. This non-GAAP measure is not intended to be a substitute for GAAP financial measures and should not be used as such.

(3) Adjusted EBITDA includes EBITDA from consolidated joint ventures.

(4) Lamb Weston holds equity interests in two potato processing companies, Lamb Weston/RDO Frozen and Lamb-Weston/Meijer v.o.f., which are accounted for using the equity method of accounting. Prior to purchasing the remaining 50% interest in the joint venture, Lamb Weston consolidated the financial statements of the joint venture. Following the purchase, Lamb Weston began recognizing 100% of Lamb Weston's share of the results of the joint venture in the Consolidated Statements of Earnings on November 2, 2018. See Note 8 to the Consolidated Financial Statements and Note 1 to the Notes to Consolidated Financial Statements in "Part I, Item 1. Business" of the Company's Annual Report on Form 10-K for the year ended December 31, 2019 for more information.

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