

Veritiv Corporation

Date of report: Dec 1, 2020

P/E ratio for VRTV: 60.26

Stock: Veritiv Corporation (VRTV)

Forward P/E ratio of Industry: 22.2

Sector: Industrials

Price target: \$29.24

Subsector: Capital Goods

Current price: \$19.14

Recommendation: Hold



Company Summary

Veritiv Corporation (NYSE: VRTV), headquartered in Atlanta and a Fortune 500® company, is a leading North American business-to-business distributor of packaging, facility solutions, print and publishing products and services; and also a provider of logistics and supply chain management solutions. Serving customers in a wide range of industries, Veritiv has distribution centers throughout the U.S., Canada and Mexico, and team members helping shape the success of its customers.

Industry Outlook

With the COVID-19 pandemic possibilities being prolonged into 2021, the whole industry outlook is still very volatile until at least the first half of next year. The demand in the paper wholesaling industry is ramping up very quickly as strong holiday shipping is ahead, grocery stores doing very well, and also improving trends in e-commerce packaging continues. Veritiv expects to have a strong Q4 to end the year with some segments nearing pre-COVID level. Packaging segment was the main driver in Q3 with an 8% increase in revenue when compared to the prior sequential quarter.

VRTV Earnings Forecast

(numbers in millions)
12 months ended

	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2020 (E)	Dec. 31, 2021 (E)	Dec. 31, 2022 (E)	Dec. 31, 2023 (E)	Dec. 31, 2024 (E)
REVENUE								
Sales	\$8,364.70	\$8,696.20	\$7,659.40	\$6,273.30	\$6,461.50	\$6,655.34	\$6,855.00	\$7,060.65
Total Revenue	\$8,364.70	\$8,696.20	\$7,659.40	\$6,273.30	\$6,461.50	\$6,655.34	\$6,855.00	\$7,060.65
COSTS AND EXPENSES								
Costs of goods sold	\$6,846.60	\$7,155.70	\$6,206.20	\$4,974.38	\$5,123.61	\$5,277.32	\$5,435.64	\$5,598.71
Distribution expenses	\$516.90	\$550.50	\$509.20	\$423.16	\$435.85	\$448.93	\$462.40	\$476.27
Selling and administrative expenses	\$875.70	\$867.60	\$823.30	\$720.44	\$742.05	\$764.31	\$787.24	\$810.86
Depreciation and amortization	\$54.20	\$53.50	\$53.50	\$57.47	\$54.67	\$54.78	\$55.10	\$55.51
Integration and acquisition	\$36.50	\$31.80	\$17.50	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Restructuring charges	\$16.70	\$21.30	\$28.80	\$52.30	\$29.78	\$33.04	\$35.98	\$37.77
Interest expense	\$31.20	\$42.30	\$38.10	\$26.27	\$34.47	\$35.28	\$33.53	\$32.39
Other income expense	-\$11.20	-\$16.30	\$11.60	\$0.00	-\$3.98	-\$2.17	\$1.36	-\$1.19
Income tax benefit	\$11.40	\$5.50	\$0.70	-\$0.27	\$4.33	\$2.57	\$1.83	\$2.12
Total costs and expenses	\$8,378.00	\$8,711.90	\$7,688.90	\$6,253.74	\$6,420.78	\$6,614.07	\$6,813.09	\$7,012.42
Net Income (loss)	-\$13.30	-\$15.70	-\$29.50	\$19.56	\$40.72	\$41.27	\$41.92	\$48.23

We projected Veritiv's earnings forecast based on the latest earnings call where the CFO believes that moving forward, the company will operate similarly as they did in Q3 of 2020. Some expenses such as selling and supply expenses and bad debt expenses were efficiently cut that resulted in a net income and increased productivity even though revenue stayed at around the same level compared to prior year. We use 3% sales growth and expect Veritiv to continue profit in the next few years after an outstanding Q3 performance.

FCFE

FCFE	2017	2018	2019	2020	2021	2022	2023	2024
Net Income	-\$13.30	-\$15.70	-\$29.50	\$19.56	\$40.72	\$41.27	\$41.92	\$48.23
Depreciation	\$54.20	\$53.50	\$53.50	\$57.47	\$54.67	\$54.78	\$55.10	\$55.51
CapEx	\$32.50	\$45.40	\$34.70	\$1.70	\$27.27	\$21.22	\$16.73	\$21.74
Δ NWC	36.6	15	281	\$291.20	\$155.95	\$185.79	\$228.48	\$215.36
Debt	148.2	22	269.6	\$155.90	\$148.93	\$149.11	\$180.88	\$158.70
FCFE	\$120.00	-\$0.60	-\$22.10	-\$59.98	\$61.09	\$38.15	\$32.69	\$25.34
		PV		-\$5.53178111	52.37149822	30.28399977	24.02293667	17.24465356

We use a standard 3.5% long term growth rate for all of our valuation models and 8.0045% for the discount rate that comes from industry forward PE ratio of 22.2.

Sensitivity Analysis

Growth rate	3.5%
Discount rate	8.00%
Terminal value	\$396.23
Shares outstanding	15,890,000.00
Price	\$29.24

Sensitivity Analysis		Growth Rate				
		2.5%	3.00%	3.50%	4.00%	5%
Discount rate	6%	39.60146573	45.61731677	54.03950824	66.67279543	87.72827409
	7%	30.39901476	33.77890205	38.12447143	43.91856394	52.03029345
	8%	24.51266276	26.6401348	29.23990611	32.48889899	36.66496277
	9%	20.46739365	21.91596282	23.62790819	25.68224264	28.19309586
	10%	17.47981344	18.51729358	19.71438604	21.11099392	22.7615305
	11%	15.19103986	15.96355857	16.83907978	17.83967544	18.9942089
	12%	13.38076944	13.97351953	14.63600492	15.38130099	16.22596987