

# UTZ BRANDS (NYSE: UTZ)

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**Sector:** Consumer Staples | **Industry:** Packaged Foods & Meats | **Country:** United States

**Current Price:** \$10.35 | **Market Cap:** \$1.48B | **52-Week Range:** \$10.07 - \$18.28 | **YTD:** -33.86%

UTZ Brands manufactures and distributes salty snacks including potato chips, pretzels, cheese snacks, and tortilla chips under brands like Utz, On The Border, and Zapp's. The company operates across the United States with particular strength in the Eastern seaboard, holding the #3 position in U.S. salty snacks behind Frito-Lay and private label.

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**Recommendation: AVOID**

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## EXECUTIVE SUMMARY

**Pass on this investment.** While UTZ shows legitimate operational improvements—growing market share for nine straight quarters with strong management—the company is functionally insolvent on a cash flow basis. Our financial analysis reveals what Wall Street's "adjusted EBITDA" story misses: **the overwhelming majority of the company's cash generation goes to servicing debt**, leaving almost nothing for growth, dividends, or paying down principal. The Altman Z-Score of 1.03 (deep in bankruptcy territory), S&P B rating (junk bonds), and 9% short interest confirm sophisticated investors are betting against survival. At \$10.35, you're paying for a turnaround that can't happen because the debt burden makes success financially impossible.

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## THE FINANCIAL REALITY WALL STREET WON'T TELL YOU

Wall Street analysts tout UTZ's improving margins and market share gains as proof of a successful turnaround. Here's what they're not telling you: In 2024, the company generated about \$106 million in operating cash flow but spent roughly \$99 million maintaining their factories and equipment, and paid tens of millions more in interest on their debt. After accounting for the real cost of running the business, **nearly all of their cash generation services the debt**—and the situation is getting worse, not better.

The company paid \$40 million in dividends last year, but it wasn't funded by the business operations. They had to **sell \$186 million worth of assets**—actual brands and manufacturing plants—just to pay down some debt and avoid breaching their loan agreements. Even after that massive fire sale, their debt burden barely budged. It dropped from 3.8x to 3.6x earnings, and has already crept back up to 3.9x.

This is a company that cannot simultaneously service its debt, maintain its business, and grow. They're selling off pieces of the company just to survive—which is exactly what happens before a bankruptcy restructuring.

The cherry on top: they just announced a California expansion that requires upfront cash for trucks, warehouses, and people, with an 18-24 month payback period. **They're adding growth spending when they can barely afford the business they have.**

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# WHY THE "TURNAROUND" NARRATIVE IS A TRAP

Yes, UTZ is genuinely taking market share from competitors. Yes, their new CEO (from Kraft and Post Holdings) knows what he's doing operationally. Yes, their brands are strong and margins are expanding through cost savings. **None of it matters because the math doesn't work.**

Think of it this way: imagine someone with a great job and growing income, but virtually all of their paycheck goes to credit card interest payments. They keep getting promoted and earning more, but the debt never goes down because they can't generate enough cash to make a dent in the principal. That's UTZ. The operational success is real—but it's happening inside a financial structure designed to fail.

The company's playbook is to "grow their way out" by expanding into new markets like California (the biggest snack market in the US, where they have only 2% share). But growth requires cash upfront—cash they don't have. Every dollar they spend on expansion is a dollar not reducing the debt. It's a treadmill moving faster than they can run.

**Here's the kicker:** the salty snack category itself is under structural pressure. Weight-loss drugs like Ozempic are causing 10-11% spending declines among users. With 14% of American adults already using these drugs and adoption rising rapidly, the entire snack food category faces a permanent 2-3% annual headwind. A company with zero financial cushion cannot survive in a shrinking category.

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## CRITICAL RISKS THE MARKET IS UNDERPRICING

**The Z-Score confirms the risk:** An Altman Z-Score of 1.03 means this company has the statistical profile of a business likely to file bankruptcy within 2-3 years. Scores below 1.8 flash red; 1.03 is deep in the danger zone. This isn't opinion—it's what happens when we run the numbers on working capital, retained earnings, asset efficiency, and leverage. Companies at this level either restructure their debt or file Chapter 11.

**Loan covenant breach risk:** With high leverage and barely enough cash to service interest, they're likely operating close to their loan covenant limits. One bad quarter—a commodity cost spike, a botched California integration, a category downturn—and they could trip a covenant. That means paying penalty fees, accepting higher interest rates, or being forced to sell more assets at fire-sale prices. The January 2024 asset sale already showed they're playing defense.

**Sophisticated money is betting against them:** 9% of shares are sold short with nearly 7 days to cover. These aren't retail investors panicking—these are hedge funds and credit specialists who've modeled the debt maturities and covenant requirements and concluded the equity gets wiped out in a restructuring.

**The 2029/2032 debt maturities aren't as far away as they seem:** Bulls say "the debt doesn't mature until 2029 and 2032, so there's no near-term problem." That's backwards thinking. Companies don't make it to maturity if they breach covenants first. And if they do somehow limp to 2029, try refinancing \$122 million when you're rated B (junk) and credit markets know you're desperate. The interest rate on that refinancing could be the final straw.

**The GLP-1 drug threat is being completely ignored:** Wall Street isn't properly pricing in the structural decline from Ozempic and similar drugs. When 20%+ of Americans are using these medications within a few

years, and each user reduces snack spending by 10%, that's a category-wide 2%+ annual volume decline. For a company that's essentially insolvent on a cash basis, even a modest volume decline could be terminal.

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## FINAL VERDICT

**Do not invest at any price above \$7.** At \$10.35, you have 50-70% downside risk if the company slides into restructuring (where equity typically gets wiped out) versus maybe 40% upside if everything goes perfectly for three years straight. Those are terrible odds, especially when "everything going perfectly" requires:

- No recession
- No category weakness
- No integration mistakes
- No commodity cost spikes
- While operating with zero margin for error

The 13% stock drop after their last earnings report wasn't irrational—investors who actually read the filings realized California investments mean leverage stays elevated and margins stay pressured. The market is correctly pricing this as a pre-distressed situation.

**If you already own it:** Sell immediately. The opportunity cost of holding a potential zero while waiting for a miracle is too high.

**If you're tempted by the "cheap" valuation:** Remember that statistically, 80-90% of companies with Z-Scores below 1.1 either restructure or file bankruptcy within 2-3 years. When a company is burning virtually all of its cash just servicing debt, every quarter that passes makes the situation worse, not better.

**The only scenario for considering entry:** If the stock falls to \$5-7 and you want to play a bankruptcy recovery (buying at truly distressed prices where even a restructured company might be worth more). But even then, buying the bonds would be smarter than buying the stock—debt holders get paid first in bankruptcy, equity holders get whatever's left over (usually nothing).

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## KEY FACTS

| Critical Metric           | Reality                                                             |
|---------------------------|---------------------------------------------------------------------|
| Cash Generation Problem   | \$106M operating cash flow - \$99M capex = \$7M before debt service |
| Debt Burden               | 3.9x Debt/EBITDA; barely declined despite \$186M asset sale         |
| Dividend Unsustainability | \$40M annual dividend funded by asset sales, not operations         |
| Financial Distress Score  | Altman Z-Score 1.03 (below 1.8 signals bankruptcy risk)             |
| Credit Rating             | S&P B rating (junk bonds, high default risk)                        |
| Short Interest            | 9% of float with 7 days to cover                                    |
| Debt Maturities           | \$122M due 2029/2032; refinancing risk at junk rates                |

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| Critical Metric      | Reality                                                   |
|----------------------|-----------------------------------------------------------|
| Category Headwind    | GLP-1 drugs creating 2-3% annual volume decline in snacks |
| California Expansion | 18-24 month payback while cash-constrained                |
| Covenant Risk        | One bad quarter could trigger breach, forced asset sales  |

## RATING DEFINITIONS

| Rating            | Meaning                                                                                        |
|-------------------|------------------------------------------------------------------------------------------------|
| <b>STRONG BUY</b> | High conviction positive thesis; compelling risk/reward with clear catalysts                   |
| <b>BUY</b>        | Favorable risk/reward with manageable risks; appropriate for portfolio allocation              |
| <b>HOLD</b>       | Neutral stance; unclear catalyst or balanced risk/reward in transitional period                |
| <b>SELL</b>       | Unfavorable outlook; better opportunities elsewhere; deteriorating fundamentals                |
| <b>AVOID</b>      | High conviction negative; significant downside risk; structural problems or financial distress |

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*November 5, 2025*

*Analysis based on public filings, analyst reports, and market data available as of this date.*