# The J. M. Smucker Company

## Third Quarter Fiscal 2019 Earnings

**SUPPLEMENTARY INFORMATION**
February 26, 2019



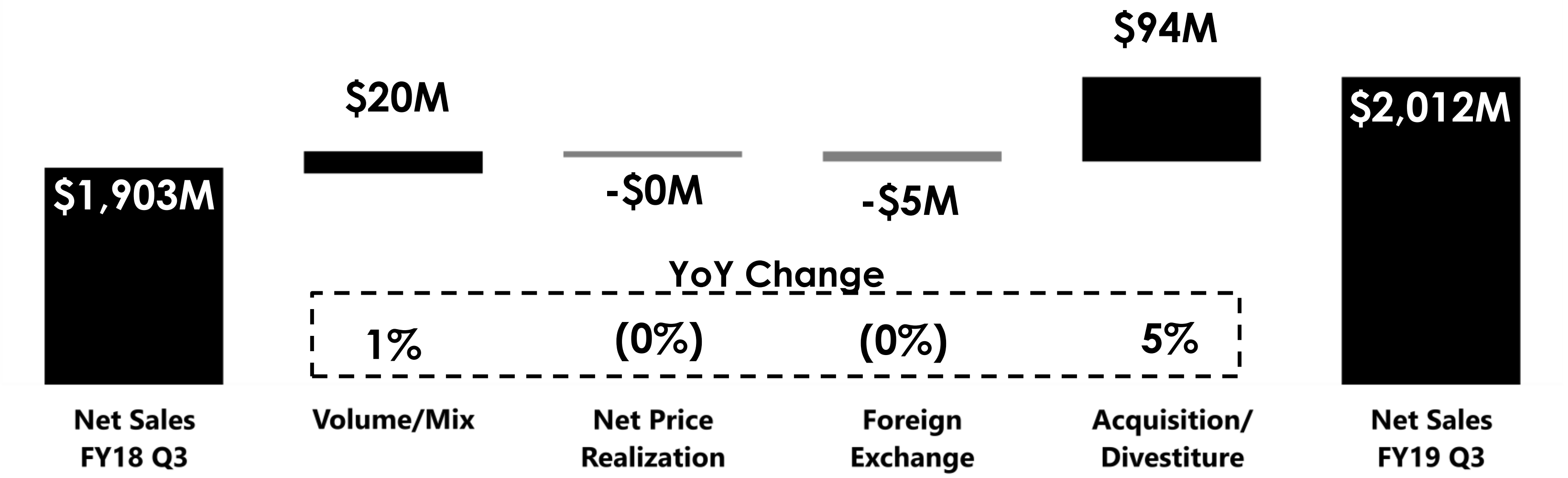



# Consolidated Results

| ($ in millions, except per share data) | FY19 Q3 | FY18 Q3 | YoY Change |
|---|---|---|---|
| Net Sales | $2,012 | $1,903 | 6% |
| Adjusted Gross Profit | $777 | $732 | 6% |
| Adjusted Gross Profit Margin | 38.6% | 38.4% | +20bps |
| Adjusted Operating Income | $406 | $401 | 1% |
| Adjusted Operating Income Margin | 20.2% | 21.1% | -90bps |
| Adjusted EPS – assuming dilution | $2.26 | $2.50 | -10% |

# Consolidated Results

***Net Sales Analysis***




*Note: Amounts may not add due to rounding*

# Consolidated Results

***Balance Sheet/Cash Flow Highlights***

| **($ in millions)** | **FY19 Q3** | **FY18 Q3** |
|---|---|---|
| Cash from Operations | $421 | $469 |
| Capital Expenditures | (88) | (80) |
| Free Cash Flow | $333 | $389 |
| | **January 31, 2019** | **April 30, 2018** |
| Total Debt (Gross) | $6,089 | $4,832 |
| EBITDA (as adjusted, TTM) | $1,613 | $1,625 |
| Gross Debt/EBITDA (TTM) | 3.8x | 3.0x |

*Note: Amounts may not add due to rounding*

# Segment Results – FY19 Q3

| ($ in millions) | COFFEE | CONSUMER FOODS | PET FOODS | INT'L & AWAY FROM HOME |
|---|---|---|---|---|
| Net Sales | $562 | $423 | $759 | $269 |
| *YoY Change* | 2% | (17%) | 35% | (6%) |
| *YoY Net Sales Change Summary:* | | | | |
| Volume/Mix | 5% | 3% | (3%) | (2%) |
| Net Price Realization | (2%) | 1% | 2% | (1%) |
| Acquisition/Divestiture | - | (20%) | 36% | (1%) |
| Foreign Currency Exchange | - | - | - | (2%) |
| Segment Profit | $184 | $96 | $148 | $53 |
| *YoY Change* | 1% | (21%) | 26% | (2%) |
| Segment Profit Margin | 32.7% | 22.7% | 19.5% | 19.5% |
| *YoY Change* | -40bps | -120bps | -150bps | +70bps |

*Note: Amounts may not add due to rounding*

# Full-Year Fiscal 2019 Outlook

| | Current | Previous |
|---|---|---|
| Net Sales | $7.9B | $7.9B |
| Adjusted EPS – assuming dilution | $8.00 - $8.20 | $8.00 - $8.20 |
| Free Cash Flow | $700M - $750M | $700M - $750M |
| Capital Expenditures | $350M - $370M | $350M - $370M |
| Effective Tax Rate | 26.0% | 25.5% - 26.0% |

# Forward-Looking Statements

This presentation contains forward-looking statements, such as projected net sales, operating results, earnings, and cash flows that are subject to risks and uncertainties that could cause actual results to differ materially from future results expressed or implied by those forward-looking statements. The risks, uncertainties, important factors, and assumptions listed and discussed in this presentation, which could cause actual results to differ materially from those expressed, include: the ability to successfully integrate the acquired Ainsworth business in a timely and cost-effective manner; the ability to achieve synergies and cost savings related to the Ainsworth acquisition in the amounts and within the time frames currently anticipated; the ability to achieve cost savings related to the organization optimization and cost management programs in the amounts and within the time frames currently anticipated; the ability to generate sufficient cash flow to meet the Company's cash deleveraging objectives; volatility of commodity, energy, and other input costs; risks associated with derivative and purchasing strategies employed to manage commodity pricing risks; the availability of reliable transportation on acceptable terms; the ability to implement and realize the full benefit of price changes, and the impact of the timing of the price changes to profits and cash flow in a particular period; the success and cost of marketing and sales programs and strategies intended to promote growth in the businesses, including product innovation; general competitive activity in the market, including competitors' pricing practices and promotional spending levels; the impact of food security concerns involving either the Company's or its competitors' products; the impact of accidents, extreme weather, and natural disasters; the concentration of certain of the Company's businesses with key customers and suppliers, including single-source suppliers of certain key raw materials and finished goods, and the ability to manage and maintain key relationships; the timing and amount of capital expenditures and share repurchases; impairments in the carrying value of goodwill, other intangible assets, or other long-lived assets or changes in useful lives of other intangible assets; the impact of new or changes to existing governmental laws and regulations and their application, including tariffs; the outcome of tax examinations, changes in tax laws, and other tax matters; foreign currency and interest rate fluctuations; and risks related to other factors described under "Risk Factors" in other reports and statements filed with the Securities and Exchange Commission, including the Company's most recent Annual Report on Form 10-K. The Company undertakes no obligation to update or revise these forward-looking statements, which speak only as of the date made, to reflect new events or circumstances.

# Non-GAAP Financial Measures

The Company uses non-GAAP financial measures, including: net sales excluding acquisition, divestiture, and foreign currency exchange; adjusted gross profit; adjusted operating income; adjusted income; adjusted earnings per share; earnings before interest, taxes, depreciation, amortization, and impairment charges related to intangible assets ("EBITDA (as adjusted)"); and free cash flow, as key measures for purposes of evaluating performance internally. The Company believes that investors' understanding of its performance is enhanced by disclosing these performance measures. Furthermore, these non-GAAP financial measures are used by management in preparation of the annual budget and for the monthly analyses of its operating results. The Board of Directors also utilizes the adjusted operating income, adjusted earnings per share, and free cash flow measures as components for measuring performance for incentive compensation purposes.

Non-GAAP measures exclude certain items affecting comparability, that can significantly affect the year-over-year assessment of operating results, which include amortization expense and impairment charges related to intangible assets, integration and restructuring costs ("special project costs"), and unallocated gains and losses on commodity and foreign currency exchange derivatives ("unallocated derivative gains and losses"). The special project costs relate to specific integration and restructuring projects, and the unallocated derivative gains and losses reflect the changes in fair value of the Company's commodity and foreign currency exchange contracts. During the third quarter of 2018, we expanded our non-GAAP measures to also exclude certain one-time discrete tax adjustments. These adjustments, which were finalized during the third quarter of 2019, include the effect of the one-time items associated with U.S. income tax reform, comprised of the remeasurement of our U.S. deferred tax assets and liabilities and the recognition of the transition tax. Also included in the one-time discrete tax adjustments is the permanent tax difference related to the goodwill impairment charge that was recorded during 2018. We believe that excluding these one-time discrete tax adjustments in our non-GAAP measures provides comparability across the periods presented and better reflects the benefit of a lower blended U.S. statutory tax rate on our current and prior year earnings as a result of U.S. income tax reform.

These non-GAAP financial measures are not intended to replace the presentation of financial results in accordance with U.S. generally accepted accounting principles ("GAAP"). Rather, the presentation of these non-GAAP financial measures supplements other metrics used by management to internally evaluate its businesses and facilitates the comparison of past and present operations and liquidity. These non-GAAP financial measures may not be comparable to similar measures used by other companies and may exclude certain nondiscretionary expenses and cash payments. A reconciliation of certain non-GAAP financial measures to the comparable GAAP financial measure for the current and prior year periods is included in the "Non-GAAP Reconciliation" tables. The Company has also provided a reconciliation of non-GAAP financial measures for its fiscal 2019 outlook. As the amount of unallocated derivative gains and losses varies depending on market conditions and levels of derivative transactions with respect to a particular fiscal year, it is not determinable on a forward-looking basis and no guidance has been provided.

# Non-GAAP Reconciliation

($ in millions)

| | Three Months Ended January 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Gross profit reconciliation:** | | |
| Gross profit | $ 773.8 | $ 728.5 |
| Unallocated derivative losses (gains) | 2.9 | 0.7 |
| Cost of products sold – special project costs | - | 2.3 |
| Adjusted gross profit | $ 776.7 | $ 731.5 |
| | | |
| **Operating income reconciliation:** | | |
| Operating income | $ 217.6 | $ 164.0 |
| Amortization | 59.7 | 51.6 |
| Goodwill impairment charge | - | 145.0 |
| Other intangible assets impairment charges | 107.2 | 31.9 |
| Unallocated derivative losses (gains) | 2.9 | 0.7 |
| Cost of products sold – special project costs | - | 2.3 |
| Other special project costs | 18.8 | 5.6 |
| Adjusted operating income | $ 406.2 | $ 401.1 |

# Non-GAAP Reconciliation

($ and shares in millions, except per share data)

| | Three Months Ended January 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Net income reconciliation:** | | |
| Net income | $ 121.4 | $ 831.3 |
| Income tax expense (benefit) | 35.8 | (715.3) |
| Amortization | 59.7 | 51.6 |
| Goodwill impairment charge | - | 145.0 |
| Other intangible assets impairment charges | 107.2 | 31.9 |
| Unallocated derivative losses (gains) | 2.9 | 0.7 |
| Cost of products sold – special project costs | - | 2.3 |
| Other special project costs | 18.8 | 5.6 |
| Adjusted income before income taxes | $ 345.8 | $ 353.1 |
| Income taxes, as adjusted | 89.1 | 69.4 |
| Adjusted income | $ 256.7 | $ 283.7 |
| | | |
| Weighted-average common shares outstanding | 113.2 | 113.0 |
| Weighted-average participating shares outstanding | 0.6 | 0.6 |
| Total weighted-average shares outstanding | 113.8 | 113.6 |
| Dilutive effect of stock options | - | - |
| Total weighted-average shares outstanding – assuming dilution | 113.8 | 113.6 |
| | | |
| Adjusted earnings per share – assuming dilution | $ 2.26 | $ 2.50 |

# Non-GAAP Reconciliation

($ in millions)

| | Three Months Ended | | | | TTM Ended | Year Ended |
|---|---|---|---|---|---|---|
| | April 30, 2018 | July 31, 2018 | October 31, 2018 | January 31, 2019 | January 31, 2019 | April 30, 2018 |
| **EBITDA (as adjusted) reconciliation:** | | | | | | |
| Net income | $ 185.9 | $ 133.0 | $ 188.5 | $ 121.4 | $628.8 | $ 1,338.6 |
| Income tax expense (benefit) | 78.3 | 40.1 | 80.9 | 35.8 | 235.1 | (477.6) |
| Interest expense - net | 47.4 | 53.6 | 53.6 | 51.6 | 206.2 | 174.1 |
| Depreciation | 49.1 | 51.4 | 51.5 | 51.2 | 203.2 | 206.3 |
| Amortization | 52.1 | 60.5 | 59.7 | 59.7 | 232.0 | 206.8 |
| Goodwill impairment charge | - | - | - | - | - | 145.0 |
| Other intangible assets impairment charges | - | - | - | 107.2 | 107.2 | 31.9 |
| EBITDA (as adjusted) | $ 412.8 | $ 338.6 | $ 434.2 | $ 426.9 | $1,612.5 | $ 1,625.1 |

*Note: Amounts may not add due to rounding*

# Non-GAAP Reconciliation

## Company Guidance

| ($ in millions, except per share data) | Year Ending April 30, 2019 | | | |
|---|---|---|---|---|
| | Low | | High | |
| **Net income per common share – assuming dilution reconciliation:** | | | | |
| Net income per common share – assuming dilution | $ | 5.34 | $ | 5.54 |
| Special project costs | | 0.40 | | 0.40 |
| Amortization | | 1.56 | | 1.56 |
| Impairment charges | | 0.70 | | 0.70 |
| Adjusted earnings per share – assuming dilution | $ | 8.00 | $ | 8.20 |
| **Free cash flow reconciliation:** | | | | |
| Net cash provided by operating activities | $ | 1,070 | $ | 1,100 |
| Additions to property, plant, and equipment | | (370) | | (350) |
| Free cash flow | $ | 700 | $ | 750 |

# The J. M. Smucker Company

**Additional Information:**

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