



# THE J.M. SMUCKER Co

## **First Quarter Fiscal Year 2022 Earnings Prepared Management Remarks**

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## THE J.M. SMUCKER Co

### CORPORATE PARTICIPANTS

Aaron Broholm, Vice President, Investor Relations

Mark Smucker, President and Chief Executive Officer

Tucker Marshall, Chief Financial Officer

### AARON BROHOLM, VICE PRESIDENT, INVESTOR RELATIONS

Good morning, this is Aaron Broholm, Vice President, Investor Relations for The J. M. Smucker Company. Thank you for listening to our prepared remarks on our fiscal 2022 first quarter earnings. After this brief introduction, Mark Smucker, President and Chief Executive Officer, will give an overview of the quarter's results and an update on strategic initiatives. Tucker Marshall, Chief Financial Officer, will then provide a detailed analysis of the financial results and our updated fiscal 2022 outlook. Later this morning, we will hold a separate, live question-and-answer webcast.

During today's discussion, we will make forward-looking statements that reflect our current expectations about future plans and performance. These statements rely on assumptions and estimates, and actual results may differ materially due to risks and uncertainties. Additionally, please note we will refer to non-GAAP financial measures management uses to evaluate performance internally. I encourage you to read the full disclosure concerning forward-looking statements and details on our non-GAAP measures in this morning's press release.

Today's press release, a supplementary slide deck summarizing the quarterly results, management's prepared remarks, and the Q&A webcast can all be accessed on our Investor Relations website at [jmsmucker.com](http://jmsmucker.com).

Please contact me if you have additional questions after today's question-and-answer session. I will now turn the discussion over to Mark.

### MARK SMUCKER, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thank you, Aaron, and good morning everyone.

Our business continued to perform in the new fiscal year as our operational excellence drove continued strong demand for our products, resulting in overall market share gains for our portfolio of brands. Our first quarter financial results were in-line with our expectations, as we continued to benefit from strong at-home consumption and recovering sales for our Away From Home business. It is clear consumer behavior has shifted even as the economy has continued to re-open and consumer mobility increased through the spring and early summer. We will continue to benefit from strong at-home consumption trends, as consumers remain loyal to our iconic brands. While the environment is evolving, we are confident we will maintain momentum for our brands as people return to schools and workplaces.

In the first quarter, net sales declined 6 percent versus the prior year. Excluding noncomparable net sales from divestitures and foreign exchange, net sales increased 1 percent, building upon double-digit growth last year. Net sales adjusted for divestitures grew 6 percent on a 2-year CAGR basis, demonstrating growth across all three of our U.S. Retail segments.

Adjusted earnings per share was \$1.90, reflecting the anticipated cost increases and the timing of offsetting pricing actions, which mostly became effective at the end of the quarter.

In the quarter, we successfully implemented net pricing actions to fully recover the cost increases heading into the fiscal year on a go-forward basis. However, macroeconomic factors have continued to evolve, creating incremental supply chain uncertainty around the availability of labor and transportation, and multiple extreme weather events have impacted key commodities important to our business. As a result, we now anticipate ongoing cost inflation and supply disruption to persist beyond our previous expectations and through the remainder of the fiscal year.

In response, our teams are implementing additional net pricing actions and cost savings initiatives. However, due to the timing of the cost increases and recovery through higher net pricing, as well as some supply chain disruption, we have revised our expectations and are lowering our full-year adjusted earnings per share outlook by approximately 5 percent.

We remain optimistic about our ability to overcome these transitory challenges and are confident in our strategy and the continued strength of our brands and the ability to invest and sustain market share improvements. Our talented people and their ability to operate with excellence, while actively managing our supply chain and customer engagements over the last 18 months, has been instrumental to our success, and will continue to support the delivery of our business through these dynamic times.

Turning to our segment results, in Pet Foods, net sales excluding the *Natural Balance*<sup>®</sup> divestiture increased 2 percent versus the prior year. Growth was driven by our cat food and dog snacks businesses, which grew net sales by 4 percent and 3 percent, respectively. Comparable net sales grew at a 3 percent CAGR on a two-year basis.

Within dog food, our efforts to evolve the *Nutrish*<sup>®</sup> brand and accelerate growth are lagging our expectations. As a result, the return to growth for this brand will be delayed beyond the current fiscal year. We are currently evaluating additional actions to ensure that we position the business appropriately for sustained long-term growth.

Turning to our Coffee business, net sales were slightly behind expectations, decreasing 5 percent versus the prior year, primarily due to lapping retailer inventory restocking. Our portfolio of brands outperformed the category, gaining 1.1 points of dollar share in the quarter.

On a 2-year CAGR basis, net sales grew 8 percent, as consumers have sustained at-home coffee habits formed during the pandemic. At-home coffee currently represents around 75 percent of all coffee drinking occasions, compared to two-thirds pre-pandemic.

*Café Bustelo*<sup>®</sup> and *Dunkin'*<sup>™</sup> were the two fastest growing brands in the category, with retail sales growing 12 percent and 9 percent respectively in the quarter versus the prior year.

Our branded K-Cup® portfolio continues to outperform the one-cup coffee segment. In the quarter, retail sales of our brands grew 10 percent and we gained over 1 point of share. Versus 2 years ago, our K-Cup® portfolio grew at a CAGR of 15 percent – which is approximately 2 times the category average.

The *Folgers*® brand gained share in both the canister and one-cup formats. Across all formats, the *Folgers*® brand gained 24,000 incremental points of distribution in retailer shelf resets that began in May. We will continue to fuel this momentum with a bold new *Folgers*® marketing campaign launching in early calendar year 2022, with additional plans to reinvigorate and transform the brand toward the end of the fiscal year.

In our Consumer Foods business, we continue to deliver exceptional results across all categories. Excluding noncomparable net sales for the divested *Crisco*® business, net sales increased 4 percent versus the prior year, and grew at an 11 percent CAGR on a two-year basis. We grew share across all our key brands *Jif*®, *Smucker's*®, and *Smucker's*® *Uncrustables*®.

*Smucker's*® *Uncrustables*® frozen sandwiches continued to deliver powerful growth, with net sales increasing 28 percent in the quarter, the 9th consecutive quarter of double-digit growth. Total Company sales of *Uncrustables*®, including the Away From Home business, exceeded \$120 million this quarter, the 29th consecutive quarter of growth for the brand. The expansion of our facility in Longmont, Colorado is advancing and will provide capacity to exceed our \$500 million annual sales target in fiscal 2023.

In peanut butter, we continue to maximize production to meet elevated demand. The *Jif*® brand net sales grew 9 percent and gained over 5 share points in the quarter. Points of distribution for *Jif*® have increased 6 percent compared to a year ago, reflecting the lapping of out-of-stocks in the prior year and incremental distribution in recent shelf resets. In addition to core offerings, *Jif Squeeze*® and *Jif No Added Sugar*® innovation that has been in market for the past year are both contributing to growth and were the #1 and #2 innovation items launched in the category.

We delivered this strong top-line performance across our retail businesses, along with a robust recovery for our Away From Home business, which grew 27 percent excluding divestitures and foreign exchange. Growth for *Smucker's*® *Uncrustables*® and market share gains have been significant contributors to the recovery, as we have achieved all-time high shares in the liquid coffee, portion control fruit spreads, and breakfast syrup categories.

Across all our businesses, our first quarter results underscore our increased focus and significant progress we've made against our executional priorities, which include driving commercial excellence, streamlining our cost infrastructure, reshaping our portfolio, and unleashing our organization to win.

Advancing our priority to drive commercial excellence, we continued our trend of improving market share across our portfolio, as we grew dollar share in core consumer and coffee segments, and our dry cat food business. In aggregate, we grew share for brands representing 66 percent of our sales, up from 55 percent in the prior quarter, and 26 percent just under two years ago. This marks seven consecutive quarters of improvement in this key metric, serving as a testament to the success of our improved commercial model and operational excellence.

Progress on reshaping our portfolio continues as we are actively evaluating opportunities to further optimize our on-shelf assortment and increase our focus and resources towards sustainable growth opportunities. We will continue sharing news about our efforts as we proceed through this fiscal year.

We continue to make progress on our priority of streamlining our cost infrastructure, which has been a component of our efforts to manage the current cost inflationary environment. We continue work to optimize our supply chain, maximize network production efficiencies, and minimize discretionary expenses across the organization. Full implementation of these initiatives will deliver \$50 million of incremental cost savings this year and in each of the next two fiscal years.

Our strategic priority to unleash and empower our employees and organization to win includes prioritization of activities focused on delivering with excellence and winning in the marketplace. We are also continuing progress on our journey to advance inclusion, diversity, and equity at every level of the organization. We updated our executive compensation awards for fiscal year 2022 to include a metric tied to achievement of inclusion, diversity, and equity objectives.

We are looking to the future with strong conviction in our strategy, with this quarter demonstrating our continued momentum and execution on our priorities in a dynamic operating and demand environment. Many consumers were introduced to, or rediscovered, our brands throughout the pandemic. The investments in our brands and successful product innovations, along with our operational excellence, are supporting continued strength in our top-line performance, giving us confidence in our ability to sustain our momentum. While the current supply chain and cost environment is volatile, we remain confident in successfully managing these near-term challenges, while taking actions to strengthen our Company and support long-term sales and profit growth, leading to increased shareholder value.

I'll now turn the discussion over to Tucker.

### **TUCKER MARSHALL, CHIEF FINANCIAL OFFICER**

Thank you, Mark. Good morning, everyone.

Let me begin by giving an overview of first quarter results, which finished in-line with our expectations. Then I'll provide details on our updated financial outlook for fiscal 2022.

Net sales decreased 6 percent. Excluding the impact of divestitures and foreign exchange, net sales increased 1 percent. The increase in comparable net sales was primarily due to favorable volume/mix for Away From Home and the Pet Foods segment, partially offset by reduced volume/mix for International and the Coffee segment. Net price realization was a slight benefit, primarily reflecting higher net pricing in Consumer Foods, mostly offset by lower net pricing in the Coffee segment.

Adjusted gross profit decreased \$113 million, or 15 percent from the prior year. This was driven by higher costs for commodities and transportation, most notably in the Pet Foods segment, the noncomparable impact of the divested businesses, and unfavorable volume/mix.

Adjusted operating income decreased \$81 million, or 20 percent, reflecting the decreased gross profit, partially offset by a decrease in SD&A expense, mostly driven by reduced marketing. As a reminder, some marketing investments were pulled into the prior year fourth quarter, contributing to part of the reduction.

Below operating income, interest expense decreased \$3 million, primarily as a result of reduced debt outstanding. Net other expense increased \$10 million, primarily reflecting a \$7 million net loss related to the prepayment of debt and a \$4 million pension settlement loss. The adjusted effective income tax rate was

23.6 percent, compared to 24.4 percent in the prior year. Factoring all this in, first quarter adjusted earnings per share was \$1.90, compared to \$2.37 in the prior year, a decrease of 20 percent.

I'll now turn to first quarter segment results, beginning with Pet Foods. Net sales decreased 6 percent versus the prior year. Excluding the noncomparable divestiture impact, net sales increased 2 percent versus the prior year, primarily driven by favorable volume/mix for dog snacks, cat food, and private label offerings, partially offset by declines for dog food. Comparable net sales grew at a 3 percent CAGR on a two-year basis.

Cat food and dog snacks continued to perform well, growing 4 and 3 percent respectively, led by the *Meow Mix*<sup>®</sup>, *Pup-Peroni*<sup>®</sup>, and *Milk-Bone*<sup>®</sup> brands. Dog food net sales decreased 4 percent, reflecting decreases for *Nutrish*<sup>®</sup> dry dog food and the *Kibbles n' Bits*<sup>®</sup> brand.

Pet Foods segment profit declined 36 percent, primarily reflecting higher commodity and transportation costs.

Turning to the Coffee segment, net sales decreased 5 percent versus the prior year, and increased 8 percent on a 2-year CAGR basis. Suspended promotions in the prior year and the lapping of retailer inventory restocking contributed to the year-over-year decline. The *Folgers*<sup>®</sup> and *Dunkin'*<sup>™</sup> brands declined in the quarter, while *Café Bustelo*<sup>®</sup> was flat.

Coffee segment profit decreased 17 percent, reflecting lower pricing, higher green coffee costs, and the reduced contribution from volume/mix, partially offset by decreased marketing expense.

In Consumer Foods, net sales decreased 11 percent. Excluding the noncomparable net sales for the divested *Crisco*<sup>®</sup> business, net sales increased 4 percent versus the prior year, and grew 11 percent on a two-year CAGR basis. The first quarter comparable net sales increase relative to the prior year was driven by higher net pricing of 4 percent, primarily driven by peanut butter and *Smucker's*<sup>®</sup> *Uncrustables*<sup>®</sup>. Growth was led by *Smucker's*<sup>®</sup> *Uncrustables*<sup>®</sup> frozen sandwiches and *Jif*<sup>®</sup> peanut butter, which grew 28 percent and 9 percent respectively, partially offset by a 16 percent decline for fruit spreads.

Consumer Foods segment profit decreased 10 percent, primarily due to lapping the noncomparable profit from the divested *Crisco*<sup>®</sup> business and higher costs, partly offset by higher net pricing and decreased marketing expense.

Lastly, in International and Away From Home, net sales increased 6 percent. Excluding the prior year noncomparable net sales for the divested *Crisco*<sup>®</sup> business and foreign exchange, net sales increased 4 percent. The Away From Home business increased 27 percent on a comparable basis, driven by double-digit growth for most categories in the portfolio. The International business declined 12 percent on a comparable basis, primarily driven by lapping significant at-home consumption for the Canadian baking business.

Overall, International and Away From Home segment profit increased 6 percent, primarily reflecting favorable foreign exchange, decreased marketing expense, and a net benefit of price and costs. This was partially offset by the noncomparable profit from the divested *Crisco*<sup>®</sup> business and lower volume/mix.

First quarter free cash flow was \$70 million, compared to \$332 million in the prior year, reflecting a decrease in cash provided by operating activities, partially offset by a \$9 million decrease in capital expenditures. The decrease in cash provided by operating activities was mostly due to greater working capital requirements,

driven by increased trade receivables and inventory as compared to the prior year, and the reduced earnings. Capital expenditures for the quarter were \$68 million, representing 3.7 percent of net sales.

We paid down \$123 million of net debt in the quarter, including prepaying \$400 million of Senior Notes due in March of this fiscal year, using a combination of excess cash and commercial paper. Based on a total debt balance of \$4.6 billion and a trailing twelve-month EBITDA of approximately \$1.7 billion, our leverage ratio stands at 2.7 times. We continue to prioritize the use of cash toward dividends and debt repayments, while evaluating other strategic uses of cash to support future growth and shareholder value.

Let me now provide additional color on our revised outlook for fiscal 2022.

The pandemic and related implications -- along with cost inflation and volatility in supply chains -- continues to cause uncertainty for the fiscal year 2022 outlook. Any manufacturing or supply chain disruption, as well as changes in consumer mobility and purchasing behavior, retailer inventory levels, and macroeconomic conditions could materially impact actual results. We continue to focus on managing the elements we can control, including taking the necessary steps to minimize the impact of cost inflation and any labor or business disruption. As always, we will continue to plan for unforeseen volatility, while ensuring we have contingency plans in place. This guidance reflects performance expectations based on the Company's current understanding of the overall environment.

Our updated expectation for full-year net sales is to decline approximately 2 percent at the midpoint of our guidance range. On a comparable basis, net sales are anticipated to increase approximately 2.5 percent, demonstrating the continued underlying momentum for our business and brands. This reflects benefits from higher pricing actions across multiple categories, primarily to recover increased commodity, ingredient, packaging, and transportation costs, along with double-digit sales growth for the *Smucker's® Uncrustables®* brand and a recovery in away from home channels, partially offset by a deceleration in at-home consumption trends. Further, we are now implementing additional pricing actions to recover incremental inflationary costs versus our previous expectation, which we anticipate will be partially offset by reduced volume/mix, including price elasticity considerations and supply chain disruption primarily impacting our wet pet food business.

We now anticipate gross profit margin of approximately 36.0 percent. This reflects our expectations for higher net pricing, along with cost and productivity savings, and a mix benefit associated with the divestitures being more than offset by higher cost inflation. We have updated our assumptions to reflect this ongoing cost inflation, most notably for commodities and ingredients, transportation, and packaging. Cost inflation is now anticipated to have a high-single-digit impact on total cost of goods sold.

SD&A expenses are now projected to decrease by approximately 6 percent, reflecting benefits of cost management and organizational restructuring programs, reduced incentive compensation, and reductions in discretionary expenses. Total marketing spend is anticipated to be at the midpoint of our original guidance of 6.0 to 6.5 percent of net sales.

We anticipate net interest expense of approximately \$165 million, net other expense of \$20 million, an adjusted effective income tax rate of 24.0 percent, and full-year weighted average shares outstanding of 108.3 million.

Taking all these factors into consideration, we anticipate full-year adjusted earnings per share to be in the range of \$8.25 to \$8.65.

Given the timing of cost increases and recovery through both initial higher net pricing actions effective at the end of the first quarter, and additional net pricing actions later this fiscal year, earnings are expected to decline in the second and third quarters. The decline in the second quarter is anticipated to be approximately 15 percent. The fourth quarter is expected to grow more than 20 percent, reflecting higher net pricing catching up to higher costs and the lapping of around \$40 million of incremental marketing spend in the prior year.

Free cash flow is now anticipated to be \$800 million, which reflects the adjustment to earnings guidance, working capital considerations, and capital expenditures of \$380 million.

In closing, we remain confident in our strategy and are encouraged by the continued momentum for our business and brands. We are taking the appropriate actions to demonstrate operational excellence, while managing through this volatile environment, and we remain in a strong financial position to deliver sustainable and consistent long-term growth for our shareholders.

Thank you for your time today and I'll now turn it back to Mark for a few closing comments.

#### **MARK SMUCKER, PRESIDENT AND CHIEF EXECUTIVE OFFICER**

Thanks Tucker. Before we close, I want to highlight the progress we continue to make on our commitment to have a positive impact on our communities, our supply chain, and the planet. I am pleased to share we exceeded all our 2020 environmental impact goals. Our commitment to ensuring a positive impact in this area is at the forefront of our Thriving Together philosophy. We plan to release our 2021 Corporate Impact report in the coming weeks, which will communicate our commitment to transparency and accountability for progress on our ESG priorities, including updated environmental impact goals.

Finally, I want to recognize Nancy Lopez Russell who retired from our Board of Directors last week. I sincerely thank Nancy for her commitment and contributions to our Company. I also want to thank all our incredible employees for their outstanding work amid unprecedented circumstances, and who continue providing products consumers and their pets love.

Thank you for your time this morning. I invite you to join us at 9:00 am Eastern for our live question and answer webcast, which will be available on our corporate website at [jmsmucker.com](http://jmsmucker.com). Thank you.

#### **Additional Information**

The J.M. Smucker Co. is the owner of all trademarks referenced herein, except for the following, which are used under license: *Dunkin*<sup>™</sup> is a trademark of DD IP Holder LLC, and *Rachael Ray*<sup>®</sup> is a trademark of Ray Marks II LLC.

The *Dunkin*<sup>™</sup> brand is licensed to The J.M. Smucker Co. for packaged coffee products sold in retail channels such as grocery stores, mass merchandisers, club stores, e-commerce and drug stores. This information does not pertain to products for sale in *Dunkin*<sup>™</sup> restaurants.

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