UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: July 31, 2021

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number: 1-5111

The J. M. Smucker Company
(Exact name of registrant as specified in its charter)

Ohio	**34-0538550**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Strawberry Lane Orrville, Ohio	**44667-0280**
(Address of principal executive offices)	**(Zip code)**

Registrant's telephone number, including area code: **(330) 682-3000**

N/A
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common shares, no par value	SJM	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The Company had 108,358,521 common shares outstanding on August 19, 2021.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

THE J. M. SMUCKER COMPANY
CONDENSED STATEMENTS OF CONSOLIDATED INCOME
(Unaudited)

	Three Months Ended July 31,	
Dollars in millions, except per share data	2021	2020
Net sales	$ 1,858.0	$ 1,971.8
Cost of products sold [(A)]	1,218.6	1,196.4
Gross Profit	639.4	775.4
Selling, distribution, and administrative expenses	324.0	357.5
Amortization	55.4	59.6
Other special project costs [(A)]	1.8	—
Other operating expense (income) – net	(1.2)	(2.8)
Operating Income	259.4	361.1
Interest expense – net	(43.1)	(46.1)
Other income (expense) – net	(11.1)	(1.4)
Income Before Income Taxes	205.2	313.6
Income tax expense	51.3	76.6
Net Income	$ 153.9	$ 237.0
Earnings per common share:		
Net Income	$ 1.42	$ 2.08
Net Income – Assuming Dilution	$ 1.42	$ 2.08

(A) Special project costs include divestiture, acquisition, integration, and restructuring costs, which are recognized in cost of products sold and other special project costs. For more information, see Note 3: Integration and Restructuring Costs and Note 5: Reportable Segments.

See notes to unaudited condensed consolidated financial statements.

THE J. M. SMUCKER COMPANY
CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended July 31,	
Dollars in millions	2021	2020
Net income	$ 153.9	$ 237.0
Other comprehensive income (loss):		
Foreign currency translation adjustments	(4.0)	12.9
Cash flow hedging derivative activity, net of tax	2.3	2.6
Pension and other postretirement benefit plans activity, net of tax	(2.6)	1.7
Available-for-sale securities activity, net of tax	0.1	0.9
Total Other Comprehensive Income (Loss)	(4.2)	18.1
Comprehensive Income	$ 149.7	$ 255.1

See notes to unaudited condensed consolidated financial statements.

THE J. M. SMUCKER COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

Dollars in millions	July 31, 2021	April 30, 2021
ASSETS		
Current Assets		
Cash and cash equivalents	$ 168.8	$ 334.3
Trade receivables – net	566.0	533.7
Inventories:		
Finished products	700.8	607.6
Raw materials	404.7	352.3
Total Inventory	1,105.5	959.9
Other current assets	112.6	113.8
Total Current Assets	1,952.9	1,941.7
Property, Plant, and Equipment		
Land and land improvements	124.5	124.3
Buildings and fixtures	970.8	967.0
Machinery and equipment	2,486.4	2,469.7
Construction in progress	305.2	282.3
Gross Property, Plant, and Equipment	3,886.9	3,843.3
Accumulated depreciation	(1,898.5)	(1,841.8)
Total Property, Plant, and Equipment	1,988.4	2,001.5
Other Noncurrent Assets		
Operating lease right-of-use assets	133.5	142.0
Goodwill	6,021.0	6,023.6
Other intangible assets – net	5,985.2	6,041.2
Other noncurrent assets	130.7	134.2
Total Other Noncurrent Assets	12,270.4	12,341.0
Total Assets	$ 16,211.7	$ 16,284.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 1,041.2	$ 1,034.1
Accrued trade marketing and merchandising	194.9	200.6
Current portion of long-term debt	751.6	1,152.9
Short-term borrowings	366.0	82.0
Current operating lease liabilities	41.2	41.1
Other current liabilities	368.3	356.8
Total Current Liabilities	2,763.2	2,867.5
Noncurrent Liabilities		
Long-term debt, less current portion	3,517.5	3,516.8
Deferred income taxes	1,348.8	1,349.3
Noncurrent operating lease liabilities	103.9	112.8
Other noncurrent liabilities	308.0	313.0
Total Noncurrent Liabilities	5,278.2	5,291.9
Total Liabilities	8,041.4	8,159.4
Shareholders' Equity		
Common shares	27.1	27.1
Additional capital	5,531.0	5,527.6
Retained income	2,893.8	2,847.5
Accumulated other comprehensive income (loss)	(281.6)	(277.4)
Total Shareholders' Equity	8,170.3	8,124.8
Total Liabilities and Shareholders' Equity	$ 16,211.7	$ 16,284.2

See notes to unaudited condensed consolidated financial statements.

THE J. M. SMUCKER COMPANY
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)

Dollars in millions	Three Months Ended July 31, 2021	2020
Operating Activities		
Net income	$ 153.9	$ 237.0
Adjustments to reconcile net income to net cash provided by (used for) operations:		
Depreciation	58.5	54.1
Amortization	55.4	59.6
Pension settlement loss (gain)	3.7	—
Share-based compensation expense	5.3	5.9
Other noncash adjustments – net	3.1	3.8
Make-whole payments included in financing activities	7.0	—
Changes in assets and liabilities:		
Trade receivables	(32.9)	55.1
Inventories	(146.3)	(98.5)
Other current assets	8.0	0.3
Accounts payable	28.5	41.1
Accrued liabilities	(43.9)	7.1
Income and other taxes	47.4	43.4
Other – net	(9.9)	0.1
Net Cash Provided by (Used for) Operating Activities	137.8	409.0
Investing Activities		
Additions to property, plant, and equipment	(68.0)	(76.6)
Other – net	(12.0)	27.4
Net Cash Provided by (Used for) Investing Activities	(80.0)	(49.2)
Financing Activities		
Short-term borrowings (repayments) – net	284.0	47.8
Repayments of long-term debt	(407.0)	(300.0)
Quarterly dividends paid	(97.2)	(100.1)
Purchase of treasury shares	(6.8)	(4.6)
Proceeds from stock option exercises	4.0	—
Other – net	(0.3)	(0.4)
Net Cash Provided by (Used for) Financing Activities	(223.3)	(357.3)
Effect of exchange rate changes on cash	—	3.0
Net increase (decrease) in cash and cash equivalents	(165.5)	5.5
Cash and cash equivalents at beginning of period	334.3	391.1
Cash and Cash Equivalents at End of Period	$ 168.8	$ 396.6

( ) Denotes use of cash

See notes to unaudited condensed consolidated financial statements.

THE J. M. SMUCKER COMPANY
CONDENSED STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY
(Unaudited)

	Three Months Ended July 31, 2021					
Dollars in millions	Common Shares Outstanding	Common Shares	Additional Capital	Retained Income	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at May 1, 2021	108,339,057	$ 27.1	$ 5,527.6	$ 2,847.5	$ (277.4)	$ 8,124.8
Net income				153.9		153.9
Other comprehensive income (loss)					(4.2)	(4.2)
Comprehensive income						149.7
Purchase of treasury shares	(50,203)	—	(6.1)	(0.7)		(6.8)
Stock plans	71,140	—	9.5			9.5
Cash dividends declared, $0.99 per common share				(106.9)		(106.9)
Balance at July 31, 2021	108,359,994	$ 27.1	$ 5,531.0	$ 2,893.8	$ (281.6)	$ 8,170.3

	Three Months Ended July 31, 2020					
Dollars in millions	Common Shares Outstanding	Common Shares	Additional Capital	Retained Income	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at May 1, 2020	114,072,726	$ 29.0	$ 5,794.1	$ 2,746.8	$ (379.0)	$ 8,190.9
Net income				237.0		237.0
Other comprehensive income (loss)					18.1	18.1
Comprehensive income						255.1
Purchase of treasury shares	(42,194)	—	(5.5)	0.9		(4.6)
Stock plans	56,910	—	6.2			6.2
Cash dividends declared, $0.90 per common share				(102.4)		(102.4)
Other		(0.5)	0.5	—		—
Balance at July 31, 2020	114,087,442	$ 28.5	$ 5,795.3	$ 2,882.3	$ (360.9)	$ 8,345.2

See notes to unaudited condensed consolidated financial statements.

THE J. M. SMUCKER COMPANY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars and shares in millions, unless otherwise noted, except per share data)

Note 1: Basis of Presentation

The unaudited interim condensed consolidated financial statements of The J. M. Smucker Company ("Company," "we," "us," or "our") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included.

Operating results for the three months ended July 31, 2021, are not necessarily indicative of the results that may be expected for the year ending April 30, 2022. For further information, reference is made to the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended April 30, 2021.

Note 2: Recently Issued Accounting Standards

In November 2020, the U.S. Securities and Exchange Commission (the "SEC") adopted the final rule under SEC Release No. 33-10890, *Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information*, to modernize and simplify Management's Discussion and Analysis and certain financial disclosure requirements. These updates are part of the SEC's broader disclosure effectiveness initiative and reflect a principles-based, registrant-specific approach to disclosures, intended to improve the content and simplify compliance for registrants. During 2021, we early adopted certain updates to section 301, *Selected Financial Data*, and 302, *Supplementary Financial Information*. As required, we will complete the adoption of the remaining amendments during 2022 and do not anticipate that the adoption of these amendments will have a material impact on our financial statements and disclosures.

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, *Income Taxes (Topic 740) Simplifying the Accounting for Income Taxes*, which removes certain exceptions for investments, intraperiod allocations and interim calculations, and adds guidance to reduce complexity in accounting for income taxes. ASU 2019-12 was effective for us on May 1, 2021. The accounting guidance for franchise taxes and foreign investments was adopted on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of 2022. All other applicable provisions were adopted on a prospective basis, as required by ASU 2019-12. The adoption of this ASU did not have a material impact on our financial statements and disclosures.

Note 3: Integration and Restructuring Costs

Integration and restructuring costs primarily consist of employee-related costs and other transition and termination costs related to certain divestiture, acquisition, integration, or restructuring activities. Employee-related costs include severance, retention bonuses, and relocation costs. Severance costs and retention bonuses are recognized over the estimated future service period of the impacted employees, and relocation costs are expensed as incurred. Other transition and termination costs include fixed asset-related charges, contract and lease termination costs, professional fees, and other miscellaneous expenditures associated with the integration or restructuring activities, which are expensed as incurred. These integration and restructuring costs are reported in costs of products sold and other special project costs in the Condensed Statements of Consolidated Income and are not allocated to segment profit. The obligation related to employee separation costs is included in other current liabilities in the Condensed Consolidated Balance Sheets.

Restructuring Costs: A restructuring program was approved by the Board of Directors (the "Board") during 2021, associated with opportunities identified to reduce our overall cost structure and optimize our organizational design, inclusive of stranded overhead associated with recent divestitures of the *Crisco*® and *Natural Balance*® businesses. For additional information related to these divestitures, see Note 4: Divestitures. During 2021, we substantially completed an organizational redesign related to our corporate headquarters and announced plans to close our Suffolk, Virginia, production facility by the end of 2022, as a result of a new strategic partnership for the production of our Away From Home liquid coffee products. We expect to incur costs of approximately $85.0 associated with the restructuring activities approved to date. Approximately half of these costs are expected to be other transition and termination costs associated with our cost reduction and margin management initiatives, inclusive of accelerated depreciation, while the remainder represents employee-related costs. We anticipate the activities associated with this restructuring program will be completed by the end of 2023, with the majority of the costs expected to be incurred by the end of 2022.

The following table summarizes our restructuring costs incurred related to the restructuring program.

	Three Months Ended July 31, 2021	Total Costs Incurred to Date at July 31, 2021
Employee-related costs	$ 1.3	$ 18.6
Other transition and termination costs	5.1	11.9
Total restructuring costs	$ 6.4	$ 30.5

The obligation related to severance costs and retention bonuses was $3.8 and $14.6 at July 31, 2021 and April 30, 2021, respectively. As of July 31, 2021, cumulative noncash charges incurred to date were $7.7, including $3.3 incurred during the first quarter of 2022, and primarily consisted of accelerated depreciation. We did not incur any costs related to restructuring during the three months ended July 31, 2020.

Note 4: Divestitures

On December 1, 2020, we sold the *Crisco* oils and shortening business to B&G Foods, Inc. ("B&G Foods"). The transaction included oils and shortening products sold under the *Crisco* brand, primarily in the U.S. and Canada, certain trademarks and licensing agreements, dedicated manufacturing and warehouse facilities located in Cincinnati, Ohio, and approximately 160 employees who supported the *Crisco* business. Under our ownership, the business generated net sales of $198.9 in 2021, primarily included in the U.S. Retail Consumer Foods segment. We received net proceeds from the divestiture of $530.2, which were net of cash transaction costs and a working capital adjustment.

On January 29, 2021, we sold the *Natural Balance* premium pet food business to Nexus Capital Management LP ("Nexus"). The transaction included pet food products sold under the *Natural Balance* brand, certain trademarks and licensing agreements, and select employees who supported the *Natural Balance* business. Under our ownership, the business generated net sales of $156.7 in 2021, included in the U.S. Retail Pet Foods segment. We received net proceeds from the divestiture of $33.8, which were net of cash transaction costs and a working capital adjustment.

Upon completion of these transactions during the second half of 2021, we recognized a pre-tax gain of $114.8 related to the *Crisco* business and a pre-tax loss of $89.5 related to the *Natural Balance* business.

Note 5: Reportable Segments

We operate in one industry: the manufacturing and marketing of food and beverage products. We have three reportable segments: U.S. Retail Pet Foods, U.S. Retail Coffee, and U.S. Retail Consumer Foods. The presentation of International and Away From Home represents a combination of all other operating segments that are not individually reportable.

The U.S. Retail Pet Foods segment primarily includes the domestic sales of *Rachael Ray*® *Nutrish*®, *Meow Mix*®, *Milk-Bone*®, *9Lives*®, *Kibbles 'n Bits*®, *Pup-Peroni*®, and *Nature's Recipe*® branded products; the U.S. Retail Coffee segment primarily includes the domestic sales of *Folgers*®, *Dunkin'*™, and *Café Bustelo*® branded coffee; and the U.S. Retail Consumer Foods segment primarily includes the domestic sales of *Smucker's*® and *Jif*® branded products. International and Away From Home includes the sale of products distributed domestically and in foreign countries through retail channels and foodservice distributors and operators (e.g., health care operators, restaurants, lodging, hospitality, offices, K-12, colleges and universities, and convenience stores).

Segment profit represents net sales, less direct and allocable operating expenses, and is consistent with the way in which we manage our segments. However, we do not represent that the segments, if operated independently, would report operating profit equal to the segment profit set forth below, as segment profit excludes certain expenses such as amortization expense and impairment charges related to intangible assets, gains and losses related to the sale of a business, the net change in cumulative unallocated gains and losses on commodity and foreign currency exchange derivative activities ("change in net cumulative unallocated derivative gains and losses"), divestiture, acquisition, integration, and restructuring costs ("special project costs"), as well as corporate administrative expenses.

Commodity and foreign currency exchange derivative gains and losses are reported in unallocated derivative gains and losses outside of segment operating results until the related inventory is sold. At that time, we reclassify the hedge gains and losses from unallocated derivative gains and losses to segment profit, allowing our segments to realize the economic effect of the hedge without experiencing any mark-to-market volatility. We would expect that any gain or loss in the estimated fair value of the derivatives would generally be offset by a change in the estimated fair value of the underlying exposures.

The following table reconciles segment profit to income before income taxes.

	Three Months Ended July 31,	
	2021	2020
Net sales:		
U.S. Retail Pet Foods	$ 648.0	$ 692.6
U.S. Retail Coffee	543.2	570.9
U.S. Retail Consumer Foods	435.6	489.2
International and Away From Home	231.2	219.1
Total net sales	$ 1,858.0	$ 1,971.8
Segment profit:		
U.S. Retail Pet Foods	$ 79.9	$ 125.3
U.S. Retail Coffee	151.3	182.6
U.S. Retail Consumer Foods	118.7	131.5
International and Away From Home	32.9	30.9
Total segment profit	$ 382.8	$ 470.3
Amortization	(55.4)	(59.6)
Interest expense – net	(43.1)	(46.1)
Change in net cumulative unallocated derivative gains and losses	(2.2)	16.2
Cost of products sold – special project costs [(A)]	(4.6)	—
Other special project costs [(A)]	(1.8)	—
Corporate administrative expenses	(59.4)	(65.8)
Other income (expense) – net	(11.1)	(1.4)
Income before income taxes	$ 205.2	$ 313.6

(A) Special project costs include divestiture, acquisition, integration, and restructuring costs, which are recognized in cost of products sold and other special project costs in the Condensed Statement of Consolidated Income. For more information, see Note 3: Integration and Restructuring Costs.

The following table presents certain geographical information.

	Three Months Ended July 31,	
	2021	2020
Net sales:		
United States	$ 1,733.2	$ 1,829.7
International:		
Canada	$ 102.1	$ 108.2
All other international	22.7	33.9
Total international	$ 124.8	$ 142.1
Total net sales	$ 1,858.0	$ 1,971.8

The following table presents product category information.

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Primary Reportable Segment [A]
Coffee	$ 613.1	$ 635.7	U.S. Retail Coffee
Dog food	228.3	277.7	U.S. Retail Pet Foods
Cat food	221.0	220.0	U.S. Retail Pet Foods
Pet snacks	215.8	212.8	U.S. Retail Pet Foods
Peanut butter	211.3	199.9	U.S. Retail Consumer Foods
Frozen handheld	121.6	95.5	U.S. Retail Consumer Foods
Fruit spreads	90.8	104.3	U.S. Retail Consumer Foods
Portion control	34.4	24.0	Other [B]
Juices and beverages	33.2	33.6	U.S. Retail Consumer Foods
Baking mixes and ingredients	12.4	23.2	Other [B]
Shortening and oils	—	77.3	U.S. Retail Consumer Foods [C]
Other	76.1	67.8	Other [B]
Total net sales	$ 1,858.0	$ 1,971.8	

(A) The primary reportable segment generally represents at least 75 percent of total net sales for each respective product category.

(B) Represents the combined International and Away From Home operating segments.

(C) During 2021, the net sales within this category were related to the divested *Crisco* business. For more information, see Note 4: Divestitures.

Note 6: Earnings per Share

The following table sets forth the computation of net income per common share and net income per common share – assuming dilution under the two-class method.

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020
Net income	$ 153.9	$ 237.0
Less: Net income allocated to participating securities	0.5	1.1
Net income allocated to common stockholders	$ 153.4	$ 235.9
Weighted-average common shares outstanding	108.0	113.5
Add: Dilutive effect of stock options	0.1	—
Weighted-average common shares outstanding – assuming dilution	108.1	113.5
Net income per common share	$ 1.42	$ 2.08
Net income per common share – assuming dilution	$ 1.42	$ 2.08

Note 7: Debt and Financing Arrangements

The following table summarizes the components of our long-term debt.

	July 31, 2021		April 30, 2021	
	Principal Outstanding	Carrying Amount (A)	Principal Outstanding	Carrying Amount (A)
3.50% Senior Notes due October 15, 2021	$ 750.0	$ 751.6	$ 750.0	$ 753.5
3.00% Senior Notes due March 15, 2022	—	—	400.0	399.4
3.50% Senior Notes due March 15, 2025	1,000.0	997.0	1,000.0	996.8
3.38% Senior Notes due December 15, 2027	500.0	497.2	500.0	497.1
2.38% Senior Notes due March 15, 2030	500.0	495.8	500.0	495.7
4.25% Senior Notes due March 15, 2035	650.0	644.4	650.0	644.3
4.38% Senior Notes due March 15, 2045	600.0	587.2	600.0	587.1
3.55% Senior Notes due March 15, 2050	300.0	295.9	300.0	295.8
Total long-term debt	$ 4,300.0	$ 4,269.1	$ 4,700.0	$ 4,669.7
Current portion of long-term debt	750.0	751.6	1,150.0	1,152.9
Total long-term debt, less current portion	$ 3,550.0	$ 3,517.5	$ 3,550.0	$ 3,516.8

(A) Represents the carrying amount included in the Condensed Consolidated Balance Sheets, which includes the impact of capitalized debt issuance costs, offering discounts, and terminated interest rate contracts.

During the first quarter of 2022, we prepaid $400.0 in principal of the Senior Notes due March 15, 2022, and as a result, we recognized a net loss on extinguishment of $6.9, which primarily consisted of a make-whole payment and was included in other income (expense) – net in the Condensed Statement of Consolidated Income.

As of July 31, 2021, we had available a $1.8 billion unsecured revolving credit facility with a group of 11 banks that was scheduled to mature in September 2022. Borrowings under the revolving credit facility bear interest on the prevailing U.S. Prime Rate, London Interbank Offered Rate ("LIBOR"), or Canadian Dealer Offered Rate, based on our election. Interest is payable either on a quarterly basis or at the end of the borrowing term. We did not have a balance outstanding under the revolving credit facility at July 31, 2021, or April 30, 2021.

Subsequent to the first quarter of 2022, we entered into an unsecured revolving credit facility with a group of 11 banks, which provides for a revolving credit line of $2.0 billion and matures in August 2026. As a result of entering into the new facility in August 2021, we terminated the $1.8 billion revolving credit facility. The new revolving credit facility includes approximately $4.0 of capitalized debt issuance costs, which will be amortized to interest expense over the time for which the revolving credit facility is effective. Borrowings under the new revolving credit facility bear interest on the prevailing U.S. Prime Rate, LIBOR, Euro Interbank Offered Rate, or Canadian Dealer Offered Rate, based on our election. Interest is payable either on a quarterly basis or at the end of the borrowing term. We have not drawn upon the $2.0 billion revolving credit facility.

We participate in a commercial paper program under which we can issue short-term, unsecured commercial paper not to exceed $1.8 billion as of July 31, 2021. The commercial paper program is backed by our revolving credit facility and reduces what we can borrow under the revolving credit facility by the amount of commercial paper outstanding. Commercial paper is used as a continuing source of short-term financing for general corporate purposes. As of July 31, 2021, and April 30, 2021, we had $366.0 and $82.0 of short-term borrowings outstanding, respectively, which were both issued under our commercial paper program at a weighted-average interest rate of 0.17 percent. In conjunction with entering into the $2.0 billion unsecured revolving credit facility in August 2021, we also increased the commercial paper limit from $1.8 billion to $2.0 billion.

Interest paid totaled $12.8 and $10.2 for the three months ended July 31, 2021 and 2020, respectively. This differs from interest expense due to the timing of interest payments, capitalized interest, effect of interest rate contracts, amortization of debt issuance costs and discounts, and the payment of other debt fees.

Our debt instruments contain certain financial covenant restrictions, including a leverage ratio and an interest coverage ratio. As of July 31, 2021, we are in compliance with all covenants. Furthermore, in conjunction with entering into the $2.0 billion unsecured revolving credit facility in August 2021, we amended the financial covenant restrictions to remove the leverage ratio.

Note 8: Pensions and Other Postretirement Benefits

The components of our net periodic benefit cost for defined benefit pension and other postretirement benefit plans are shown below.

	Three Months Ended July 31,			
	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2021	2020	2021	2020
Service cost	$ 0.4	$ 0.5	$ 0.3	$ 0.5
Interest cost	3.2	4.6	0.4	0.4
Expected return on plan assets	(4.1)	(6.1)	—	—
Amortization of net actuarial loss (gain)	1.7	3.3	(0.1)	—
Amortization of prior service cost (credit)	0.2	0.2	(0.2)	(0.3)
Settlement loss (gain)	3.7	—	—	—
Net periodic benefit cost	$ 5.1	$ 2.5	$ 0.4	$ 0.6

Note 9: Derivative Financial Instruments

We are exposed to market risks, such as changes in commodity prices, foreign currency exchange rates, and interest rates. To manage the volatility related to these exposures, we enter into various derivative transactions. We have policies in place that define acceptable instrument types we may enter into and establish controls to limit our market risk exposure.

Commodity Derivatives: We enter into commodity derivatives to manage price volatility and reduce the variability of future cash flows related to anticipated inventory purchases of key raw materials, notably green coffee, corn, soybean meal, wheat, and edible oils. We also enter into commodity derivatives to manage price risk for energy input costs, including diesel fuel and natural gas. Our derivative instruments generally have maturities of less than one year.

We do not qualify commodity derivatives for hedge accounting treatment, and as a result, the derivative gains and losses are immediately recognized in earnings. Although we do not perform the assessments required to achieve hedge accounting for derivative positions, we believe all of our commodity derivatives are economic hedges of our risk exposure.

The commodities hedged have a high inverse correlation to price changes of the derivative instrument. Thus, we would expect that over time any gain or loss in the estimated fair value of the derivatives would generally be offset by an increase or decrease in the estimated fair value of the underlying exposures.

Foreign Currency Exchange Derivatives: We utilize foreign currency derivatives to manage the effect of foreign currency exchange fluctuations on future cash payments primarily related to purchases of certain raw materials and finished goods. The contracts generally have maturities of less than one year. We do not qualify instruments used to manage foreign currency exchange exposures for hedge accounting treatment.

Interest Rate Derivatives: We utilize derivative instruments to manage interest rate risk associated with anticipated debt transactions, as well as to manage changes in the fair value of our long-term debt. At the inception of an interest rate contract, the instrument is evaluated and documented for qualifying hedge accounting treatment. If the contract is designated as a cash flow hedge, the mark-to-market gains or losses on the contract are deferred and included as a component of accumulated other comprehensive income (loss) and reclassified to interest expense in the period during which the hedged transaction affects earnings. If the contract is designated as a fair value hedge, the contract is recognized at fair value on the balance sheet and changes in the fair value are recognized in interest expense. Generally, changes in the fair value of the contract are equal to changes in the fair value of the underlying debt and have no net impact on earnings.

The following table presents the gross notional value of outstanding derivative contracts.

	July 31, 2021	April 30, 2021
Commodity contracts	$ 484.8	$ 861.0
Foreign currency exchange contracts	98.5	88.4

The following tables set forth the gross fair value amounts of derivative instruments recognized in the Condensed Consolidated Balance Sheets.

	July 31, 2021			
	Other Current Assets	Other Current Liabilities	Other Noncurrent Assets	Other Noncurrent Liabilities
Derivatives not designated as hedging instruments:				
Commodity contracts	$ 41.9	$ 9.1	$ —	$ —
Foreign currency exchange contracts	1.1	1.1	—	—
Total derivative instruments	$ 43.0	$ 10.2	$ —	$ —

	April 30, 2021			
	Other Current Assets	Other Current Liabilities	Other Noncurrent Assets	Other Noncurrent Liabilities
Derivatives not designated as hedging instruments:				
Commodity contracts	$ 52.6	$ 13.2	$ —	$ —
Foreign currency exchange contracts	0.1	3.7	—	—
Total derivative instruments	$ 52.7	$ 16.9	$ —	$ —

We have elected to not offset fair value amounts recognized for our exchange-traded derivative instruments and our cash margin accounts executed with the same counterparty that are generally subject to enforceable netting agreements. We are required to maintain cash margin accounts in connection with funding the settlement of our open positions. Our cash margin accounts represented collateral pledged of $0.6 at July 31, 2021 and collateral received of $10.8 at April 30, 2021, and are included in other current assets in the Condensed Consolidated Balance Sheets. The change in the cash margin account balances is included in other – net, investing activities in the Condensed Statements of Consolidated Cash Flows. In the event of default and immediate net settlement of all of our open positions with individual counterparties, all of our derivative liabilities would be fully offset by either our derivative asset positions or margin accounts based on the net asset or liability position with our individual counterparties. Cash flows associated with the settlement of derivative instruments are classified in the same line item as the cash flows of the related hedged item, which is within operating activities in the Condensed Statements of Consolidated Cash Flows.

Economic Hedges

The following table presents the net gains and losses recognized in cost of products sold on derivatives not designated as hedging instruments.

	Three Months Ended July 31,	
	2021	2020
Derivative gains (losses) on commodity contracts	$ 15.8	$ 11.4
Derivative gains (losses) on foreign currency exchange contracts	1.5	(2.3)
Total derivative gains (losses) recognized in cost of products sold	$ 17.3	$ 9.1

Commodity and foreign currency exchange derivative gains and losses are reported in unallocated derivative gains and losses outside of segment operating results until the related inventory is sold. At that time, we reclassify the hedge gains and losses from unallocated derivative gains and losses to segment profit, allowing our segments to realize the economic effect of the hedge without experiencing any mark-to-market volatility. The following table presents the activity in unallocated derivative gains and losses.

	Three Months Ended July 31,	
	2021	2020
Net derivative gains (losses) recognized and classified as unallocated	$ 17.3	$ 9.1
Less: Net derivative gains (losses) reclassified to segment operating profit	19.5	(7.1)
Change in net cumulative unallocated derivative gains and losses	$ (2.2)	$ 16.2

The net cumulative unallocated derivative gains were $58.5 and $60.7 at July 31, 2021, and April 30, 2021, respectively.

Cash Flow Hedges

In 2020, we terminated interest rate contracts concurrent with the pricing of the Senior Notes due March 15, 2030, and March 15, 2050. They were designated as cash flow hedges and were used to manage our exposure to interest rate volatility associated with the anticipated debt financing. The termination resulted in a pre-tax loss of $239.8, which was deferred and included as a component of accumulated other comprehensive income (loss) and is being amortized as interest expense over the life of the debt.

The following table presents information on the pre-tax gains and losses recognized on all contracts previously designated as cash flow hedges.

	Three Months Ended July 31,	
	2021	2020
Gains (losses) recognized in other comprehensive income (loss)	$ —	$ —
Less: Gains (losses) reclassified from accumulated other comprehensive income (loss) to income [(A)]	(2.9)	(3.4)
Change in accumulated other comprehensive income (loss)	$ 2.9	$ 3.4

(A) Interest expense – net, as presented in the Condensed Statements of Consolidated Income was $43.1 and $46.1 for the three months ended July 31, 2021 and 2020, respectively, which included the reclassification of losses of $3.5 and $3.4, respectively. Other income (expense) – net, as presented in the Condensed Statement of Consolidated Income was expense of $11.1 for the three months ended July 31, 2021, which included the reclassification of a gain of $0.6 related to the debt extinguishment, as discussed in Note 7: Debt and Financing Arrangements.

Included as a component of accumulated other comprehensive income (loss) at July 31, 2021, and April 30, 2021, were deferred net pre-tax losses of $224.4 and $227.3, respectively, related to the terminated interest rate contracts. The related net tax benefit recognized in accumulated other comprehensive income (loss) at July 31, 2021, and April 30, 2021, was $51.9 and $52.5, respectively. Approximately $13.6 of the net pre-tax loss will be recognized over the next 12 months related to the terminated interest rate contracts.

Fair Value Hedges

In 2015, we terminated the interest rate swap on the Senior Notes due October 15, 2021, which was designated as a fair value hedge and used to hedge against the changes in the fair value of the debt. As a result of the early termination, we received $58.1 in cash, which included $4.6 of accrued and prepaid interest. The gain on termination was recorded as an increase in the long-term debt balance and is being recognized over the life of the debt as a reduction of interest expense. To date, we have recognized $51.6 of the gain, of which $2.1 and $2.2 was recognized during the three months ended July 31, 2021 and 2020, respectively. The remaining gain of $1.9 will be recognized during the second quarter of 2022.

Note 10: Other Financial Instruments and Fair Value Measurements

Financial instruments, other than derivatives, that potentially subject us to significant concentrations of credit risk consist principally of cash investments, short-term borrowings, and trade receivables. The carrying value of these financial instruments approximates fair value. Our remaining financial instruments, with the exception of long-term debt, are recognized at estimated fair value in the Condensed Consolidated Balance Sheets.

The following table provides information on the carrying amounts and fair values of our financial instruments.

	July 31, 2021		April 30, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Marketable securities and other investments	$ 30.8	$ 30.8	$ 31.0	$ 31.0
Derivative financial instruments – net	32.8	32.8	35.8	35.8
Total long-term debt	(4,269.1)	(4,784.5)	(4,669.7)	(5,034.5)

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions.

The following tables summarize the fair values and the levels within the fair value hierarchy in which the fair value measurements fall for our financial instruments.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at July 30, 2021
Marketable securities and other investments: (A)				
Equity mutual funds	$ 6.5	$ —	$ —	$ 6.5
Municipal obligations	—	24.2	—	24.2
Money market funds	0.1	—	—	0.1
Derivative financial instruments: (B)				
Commodity contracts – net	32.8	—	—	32.8
Foreign currency exchange contracts – net	0.2	(0.2)	—	—
Total long-term debt (C)	(4,784.5)	—	—	(4,784.5)
Total financial instruments measured at fair value	$ (4,744.9)	$ 24.0	$ —	$ (4,720.9)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at April 30, 2021
Marketable securities and other investments: (A)				
Equity mutual funds	$ 6.3	$ —	$ —	$ 6.3
Municipal obligations	—	24.4	—	24.4
Money market funds	0.3	—	—	0.3
Derivative financial instruments: (B)				
Commodity contracts – net	39.4	—	—	39.4
Foreign currency exchange contracts – net	(0.4)	(3.2)	—	(3.6)
Total long-term debt (C)	(5,034.5)	—	—	(5,034.5)
Total financial instruments measured at fair value	$ (4,988.9)	$ 21.2	$ —	$ (4,967.7)

(A) Marketable securities and other investments consist of funds maintained for the payment of benefits associated with nonqualified retirement plans. The funds include equity securities listed in active markets, municipal obligations valued by a third party using valuation techniques that utilize inputs that are derived principally from or corroborated by observable market data, and money market funds with maturities of three months or less. Based on the short-term nature of these money market funds, carrying value approximates fair value. As of July 31, 2021, our municipal obligations are scheduled to mature as follows: $1.8 in 2022, $2.2 in 2024, $3.0 in 2025, $2.0 in 2026, and the remaining $15.2 in 2027 and beyond. We do not have any municipal obligations scheduled to mature in 2023.

(B) Level 1 commodity and foreign currency exchange derivatives are valued using quoted market prices for identical instruments in active markets. Level 2 foreign currency exchange derivatives are valued using quoted prices for similar assets or liabilities in active markets. For additional information, see Note 9: Derivative Financial Instruments.

(C) Long-term debt is composed of public Senior Notes, which are traded in an active secondary market and valued using quoted prices. For additional information, see Note 7: Debt and Financing Arrangements.

Note 11: Leases

We lease certain warehouses, manufacturing facilities, office space, equipment, and vehicles, primarily through operating lease agreements. We have elected to not recognize leases with a term of 12 months or less on the balance sheet. Instead, we recognize the related lease expense on a straight-line basis over the lease term.

Although the majority of our right-of-use asset and lease liability balances consist of leases with renewal options, these optional periods do not typically impact the lease term as we are not reasonably certain to exercise them. Certain leases also include termination provisions or options to purchase the leased property. Since we are not reasonably certain to exercise these types of options, minimum lease payments do not include any amounts related to these termination or purchase options. Our lease agreements generally do not contain residual value guarantees or restrictive covenants that are material.

We determine if an agreement is or contains a lease at inception by evaluating whether an identified asset exists that we control over the term of the arrangement. A lease commences when the lessor makes the identified asset available for our use. We generally account for lease and non-lease components as a single lease component. Minimum lease payments do not include variable lease payments other than those that depend on an index or rate.

Because the interest rate implicit in the lease cannot be readily determined for the majority of our leases, we utilize our incremental borrowing rate to present value lease payments using information available at the lease commencement date. We consider our credit rating and the current economic environment in determining this collateralized rate.

The following table sets forth the right-of-use assets and lease liabilities recognized in the Condensed Consolidated Balance Sheets.

	July 31, 2021	April 30, 2021
Operating lease right-of-use assets	$ 133.5	$ 142.0
Operating lease liabilities:		
Current operating lease liabilities	$ 41.2	$ 41.1
Noncurrent operating lease liabilities	103.9	112.8
Total operating lease liabilities	$ 145.1	$ 153.9
Finance lease right-of-use assets:		
Machinery and equipment	$ 9.3	$ 9.8
Accumulated depreciation	(5.6)	(5.5)
Total property, plant, and equipment	$ 3.7	$ 4.3
Finance lease liabilities:		
Other current liabilities	$ 1.5	$ 1.8
Other noncurrent liabilities	2.2	2.5
Total finance lease liabilities	$ 3.7	$ 4.3

The following table summarizes the components of lease expense.

	Three Months Ended July 31,	
	2021	2020
Operating lease cost	$ 10.8	$ 11.3
Finance lease cost:		
Amortization of right-of-use assets	0.5	0.6
Interest on lease liabilities	—	0.1
Variable lease cost	5.3	5.6
Short-term lease cost	10.8	9.0
Sublease income	(0.3)	(1.5)
Net lease cost	$ 27.1	$ 25.1

The following table sets forth cash flow and noncash information related to leases.

	Three Months Ended July 31,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 11.0	$ 10.4
Operating cash flows from finance leases	—	—
Financing cash flows from finance leases	0.7	0.9
Right-of-use assets obtained in exchange for new lease liabilities:		
Operating leases	2.0	—
Finance leases	—	0.3

The following table summarizes the maturity of our lease liabilities by fiscal year.

	July 31, 2021	
	Operating Leases	Finance Leases
2022 (remainder of the year)	$ 33.4	$ 1.3
2023	41.4	1.1
2024	29.8	0.9
2025	21.3	0.5
2026	18.6	0.1
2027 and beyond	8.0	—
Total undiscounted minimum lease payments	$ 152.5	$ 3.9
Less: Imputed interest	7.4	0.2
Lease liabilities	$ 145.1	$ 3.7

The following table sets forth the weighted average remaining lease term and discount rate.

	July 31, 2021	April 30, 2021
Weighted average remaining lease term (in years):		
Operating leases	4.2	4.4
Finance leases	3.0	3.1
Weighted average discount rate:		
Operating leases	2.5 %	2.5 %
Finance leases	2.5 %	2.6 %

Note 12: Income Taxes

The effective income tax rates for the three months ended July 31, 2021 and 2020, were 25.0 and 24.4 percent, respectively. During the three months ended July 31, 2021 and 2020, the effective income tax rates varied from the U.S. statutory income tax rate of 21.0 percent primarily due to the impact of state income taxes.

Within the next 12 months, it is reasonably possible that we could decrease our unrecognized tax benefits by an estimated $3.3, primarily as a result of the expiration of statute of limitation periods.

Note 13: Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), including the reclassification adjustments for items that are reclassified from accumulated other comprehensive income (loss) to net income, are shown below.

	Foreign Currency Translation Adjustment	Net Gains (Losses) on Cash Flow Hedging Derivatives (A)	Pension and Other Postretirement Liabilities (B)	Unrealized Gain (Loss) on Available-for-Sale Securities	Accumulated Other Comprehensive Income (Loss)
Balance at May 1, 2021	$ (9.0)	$ (174.8)	$ (97.3)	$ 3.7	$ (277.4)
Reclassification adjustments	—	2.9	(5.3)	—	(2.4)
Current period credit (charge)	(4.0)	—	1.8	0.2	(2.0)
Income tax benefit (expense)	—	(0.6)	0.9	(0.1)	0.2
Balance at July 31, 2021	$ (13.0)	$ (172.5)	$ (99.9)	$ 3.8	$ (281.6)

	Foreign Currency Translation Adjustment	Net Gains (Losses) on Cash Flow Hedging Derivatives (A)	Pension and Other Postretirement Liabilities (B)	Unrealized Gain (Loss) on Available-for-Sale Securities	Accumulated Other Comprehensive Income (Loss)
Balance at May 1, 2020	$ (50.5)	$ (185.6)	$ (146.7)	$ 3.8	$ (379.0)
Reclassification adjustments	—	3.4	2.2	—	5.6
Current period credit (charge)	12.9	—	—	1.1	14.0
Income tax benefit (expense)	—	(0.8)	(0.5)	(0.2)	(1.5)
Balance at July 31, 2020	$ (37.6)	$ (183.0)	$ (145.0)	$ 4.7	$ (360.9)

(A) The reclassification is composed of deferred gains (losses) related to terminated interest rate contracts. During both 2022 and 2021, the reclassification was primarily from accumulated other comprehensive income (loss) to interest expense. In addition, during the first quarter of 2022, a portion of the reclassification was to other income (expense) – net, which was driven by the prepayment of the Senior Notes due March 15, 2022. For additional information, see Note 9: Derivative Financial Instruments.

(B) The reclassification from accumulated other comprehensive income (loss) to other income (expense) – net is composed of settlement charges and amortization of net losses and prior service costs. For additional information, see Note 8: Pensions and Other Postretirement Benefits.

Note 14: Contingencies

We, like other food manufacturers, are from time to time subject to various administrative, regulatory, and other legal proceedings arising in the ordinary course of business. We are currently a defendant in a variety of such legal proceedings, including certain lawsuits related to the alleged price-fixing of shelf stable tuna products prior to 2011 by a business previously owned by, but divested prior to our acquisition of, Big Heart Pet Brands, the significant majority of which were settled and paid during 2019 and 2020. While we cannot predict with certainty the ultimate results of these proceedings or potential settlements associated with these or other matters, we have accrued losses for certain contingent liabilities that we have determined are probable and reasonably estimable at July 31, 2021. Based on the information known to date, with the exception of the matters discussed below, we do not believe the final outcome of these proceedings would have a material adverse effect on our financial position, results of operations, or cash flows.

In addition to the legal proceedings discussed above, we are currently a defendant in Council for Education and Research on Toxics ("CERT") v. Brad Barry LLC, et al., which alleges that we, in addition to nearly eighty other defendants (collectively the "Defendants") who manufacture, package, distribute, or sell packaged coffee, failed to provide warnings for our coffee products of exposure to the chemical acrylamide as required under California Health and Safety Code Section 25249.5, the California Safe Drinking Water and Toxic Enforcement Act of 1986 (better known as "Proposition 65"). CERT sought equitable relief, including warnings to consumers, as well as civil penalties in the amount of the statutory maximum of $2,500 per day per violation of Proposition 65. In addition, CERT asserted that every consumed cup of coffee, absent a compliant warning, was equivalent to a violation under Proposition 65. In June 2019, the state agency responsible for administering the Proposition 65 program, the California Office of Environmental Health Hazard Assessment ("OEHHA"), approved a regulation clarifying that cancer warnings are not required for coffee under Proposition 65, and in August 2020, the trial court granted the Defendants' motion for summary judgment based on the regulation. CERT appealed the ruling in November 2020 to the California Court of Appeals for the Second Appellate District, which is currently pending.

We are also defendants in nine pending putative class action lawsuits filed in federal courts in California, Florida, Illinois, Missouri, Texas, Washington, and Washington D.C. The plaintiffs in those actions assert claims arising under various state laws for false advertising, consumer protection, deceptive and unfair trade practices, and similar statutes. Their claims are premised on allegations that we have misrepresented the number of servings that can be made from various canisters of *Folgers* coffee on the packaging for those products. Five of the lawsuits have been transferred to the United States District Court for the Western District of Missouri for coordinated pre-trial proceedings. Similar claims have been asserted against certain retailers of our *Folgers* coffee products, and indemnity claims have been asserted by such retailers against us. Various other potential plaintiffs have threatened to assert similar claims against us.

The outcome and the financial impact of these cases, if any, cannot be predicted at this time. Accordingly, no loss contingency has been recorded for these matters as of July 31, 2021, and the likelihood of loss is not considered probable or estimable. However, if we are required to pay significant damages, our business and financial results could be adversely impacted, and sales of those products could suffer not only in these locations but elsewhere.

Note 15: Common Shares

The following table sets forth common share information.

	July 31, 2021	April 30, 2021
Common shares authorized	300.0	300.0
Common shares outstanding	108.4	108.3
Treasury shares	38.1	38.2

Repurchase Program: At July 31, 2021, approximately 2.8 million common shares remain available for repurchase pursuant to the Board’s authorizations. During the three months ended July 31, 2021 and 2020, we did not repurchase any common shares under a repurchase plan authorized by the Board. The shares repurchased during the three months ended July 31, 2021 and 2020, consisted of shares repurchased from stock plan recipients in lieu of cash payments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(Dollars and shares in millions, unless otherwise noted, except per share data)

This discussion and analysis deals with comparisons of material changes in the unaudited condensed consolidated financial statements for the three months ended July 31, 2021 and 2020. All comparisons presented are to the corresponding period of the prior year, unless otherwise noted.

On December 1, 2020, we sold the *Crisco* oils and shortening business to B&G Foods. The transaction included oils and shortening products sold under the *Crisco* brand, primarily in the U.S. and Canada, certain trademarks and licensing agreements, dedicated manufacturing and warehouse facilities located in Cincinnati, Ohio, and approximately 160 employees who supported the *Crisco* business. Under our ownership, the business generated net sales of $198.9 in 2021, primarily included in the U.S. Retail Consumer Foods segment. We received net proceeds from the divestiture of $530.2, which were net of cash transaction costs and a working capital adjustment. Upon completion of this transaction, we recognized a pre-tax gain of $114.8 during the second half of 2021.

On January 29, 2021, we sold the *Natural Balance* premium pet food business to Nexus. The transaction included pet food products sold under the *Natural Balance* brand, certain trademarks and licensing agreements, and select employees who supported the *Natural Balance* business. Under our ownership, the business generated net sales of $156.7 in 2021, included in the U.S. Retail Pet Foods segment. We received net proceeds from the divestiture of $33.8, which were net of cash transaction costs and a working capital adjustment. Upon completion of this transaction, we recognized a pre-tax loss of $89.5 during the second half of 2021.

We are the owner of all trademarks referenced herein, except for the following, which are used under license: *Dunkin'* is a trademark of DD IP Holder LLC, and *Rachael Ray* is a trademark of Ray Marks II LLC. The *Dunkin'* brand is licensed to us for packaged coffee products, including K-Cup® pods, sold in retail channels such as grocery stores, mass merchandisers, club stores, e-commerce, and drug stores. Information in this document does not pertain to products for sale in *Dunkin'* restaurants. K-Cup® is a trademark of Keurig Green Mountain, Inc., used with permission.

COVID-19

The spread of novel coronavirus ("COVID-19") throughout the United States and the international community has had, and will continue to have, an impact on financial markets, economic conditions, and portions of our business and industry.

During calendar year 2021, state governments reopened their economies, while adhering to new guidelines and enhanced safety measures, such as social distancing, face mask protocols, and vaccination recommendations. However, in recent months, there has been a general uptick in U.S. cases, and as a result, consumers continue to stay at home more frequently as a precaution, leading to the demand of at-home food consumption remaining elevated, though the impact is of a lesser extent as compared to the prior year. As a result of elevated consumption, the supply chain network continues to be challenged due to rising COVID-19 cases and increasing labor shortages, negatively impacting our business and the overall industry. We anticipate this consumer behavior and at-home food consumption will continue through 2022, with the extent to which it remains elevated dependent on vaccination rates and effectiveness, as well as the impact of additional COVID-19 variants.

We are continuing the phased approach to reopen our corporate headquarters in Orrville, Ohio, with increased safety protocols. However, occupancy levels remain low as the majority of our office-based employees continue to work remotely where possible, and we continue to monitor the latest public health and government guidance related to COVID-19. We have crisis management teams at all of our facilities, which are monitoring the evolving situation and implementing risk mitigation actions as necessary. All of our production operations remain open, and none have experienced significant disruptions or labor reductions related to COVID-19.

During the first quarter of 2022, we have experienced increased disruption in our supply chain network, including the supply of certain ingredients, packaging, and other sourced materials, which has resulted in higher than expected inflation, including escalating transportation and other supply chain costs, as well as unfavorable volume/mix, as we transition from the unprecedented demand for our products in the prior year period. It is possible that more significant disruptions could occur if the COVID-19 pandemic continues to impact markets around the world, including the impact of e-commerce pressures on freight charges and potential shipping delays due to supply and demand imbalances, as well as labor shortages. We also continue to work closely with our customers and external business partners, taking additional actions to ensure safety and business continuity and maximize product availability. We have maintained production at all of our facilities and availability of appointments at distribution centers. Furthermore, we have implemented measures to manage order volumes to ensure a consistent supply across our retail partners during this period of high demand.

During the first three months of 2022, order levels continued to be elevated, primarily across our U.S. Retail Consumer Foods and U.S. Retail Coffee segments, in response to the increased consumer demand for our products related to the elevated at-home consumption. It is anticipated that the increase in consumer demand will continue, to a lesser extent compared to the prior year, through the remainder of 2022. A decline in products sold in away from home channels has also been experienced as a result of COVID-19, which has negatively impacted our net sales in our Away From Home operating segment, and we expect COVID-19 will continue to adversely affect our net sales while government mandated safety measures are in place and consumers continue to stay at home as a precaution. However, as states have reopened their economies during calendar year 2021, our net sales for the away from home channels have continued to improve compared to the initial months of the pandemic, as experienced during the first quarter of 2022. This trend could moderate during 2022 if cases continue to rise and governments impose additional safety measures that further impact away from home consumption, which is partially dependent upon vaccination rates and effectiveness, as well as the impact of additional COVID-19 variants. Overall, the impact of COVID-19 remains uncertain and ultimately depends on the length and severity of the pandemic, inclusive of the introduction of new strains of the virus; the federal, state, and local government actions taken in response; vaccination rates and effectiveness; and the macroeconomic environment. We will continue to evaluate the nature and extent to which COVID-19 will impact our business, supply chain, including labor availability, consolidated results of operations, financial condition, and liquidity.

Results of Operations

	Three Months Ended July 31,		
	2021	2020	% Increase (Decrease)
Net sales	$ 1,858.0	$ 1,971.8	(6)%
Gross profit	$ 639.4	$ 775.4	(18)
% of net sales	*34.4 %*	*39.3 %*	
Operating income	$ 259.4	$ 361.1	(28)
% of net sales	*14.0 %*	*18.3 %*	
Net income:			
Net income	$ 153.9	$ 237.0	(35)
Net income per common share – assuming dilution	$ 1.42	$ 2.08	(32)
Adjusted gross profit (A)	$ 646.2	$ 759.2	(15)
% of net sales	*34.8 %*	*38.5 %*	
Adjusted operating income (A)	$ 323.4	$ 404.5	(20)
% of net sales	*17.4 %*	*20.5 %*	
Adjusted income: (A)			
Income	$ 205.8	$ 270.0	(24)
Earnings per share – assuming dilution	$ 1.90	$ 2.37	(20)

(A) We use non-GAAP financial measures to evaluate our performance. Refer to “Non-GAAP Financial Measures” in this discussion and analysis for a reconciliation to the comparable GAAP financial measure.

Net Sales

	Three months ended July 31,			
	2021	2020	Increase (Decrease)	%
Net sales	$ 1,858.0	$ 1,971.8	$ (113.8)	(6)%
Crisco divestiture	—	(79.5)	79.5	4
Natural Balance divestiture	—	(56.0)	56.0	3
Foreign currency exchange	(10.4)	—	(10.4)	(1)
Net sales excluding divestitures and foreign currency exchange (A)	$ 1,847.6	$ 1,836.3	$ 11.3	1 %

Amounts may not add due to rounding.

(A) Net sales excluding divestitures and foreign currency exchange is a non-GAAP financial measure used to evaluate performance internally. This measure provides useful information to investors because it enables comparison of results on a year-over-year basis.

Net sales in the first three months of 2022 decreased $113.8, or 6 percent, which includes $135.5 of noncomparable net sales in the prior year related to the *Crisco* and *Natural Balance* divestitures. Net sales excluding divestitures and foreign currency exchange increased $11.3, or 1 percent. Favorable volume/mix for the Away From Home operating segment and U.S. Retail Pet Foods segment was partially offset by unfavorable volume/mix for the International operating segment and U.S. Retail Coffee segment. A slight benefit from net price realization primarily reflected higher net pricing in the U.S. Retail Consumer Foods segment, mostly offset by lower net pricing in the U.S. Retail Coffee segment.

Operating Income

The following table presents the components of operating income as a percentage of net sales.

	Three Months Ended July 31,	
	2021	2020
Gross profit	34.4 %	39.3 %
Selling, distribution, and administrative expenses:		
Marketing	5.3 %	6.2 %
Selling	3.3	3.3
Distribution	3.7	3.5
General and administrative	5.1	5.1
Total selling, distribution, and administrative expenses	17.4 %	18.1 %
Amortization	3.0	3.0
Other special project costs	0.1	—
Other operating expense (income) – net	(0.1)	(0.1)
Operating income	14.0 %	18.3 %

Amounts may not add due to rounding.

Gross profit decreased $136.0, or 18 percent, in the first quarter of 2022, reflecting higher costs, primarily driven by increased commodity and transportation costs, the noncomparable impact related to the *Crisco* and *Natural Balance* divestitures, and unfavorable volume/mix.

Operating income decreased $101.7, or 28 percent, primarily reflecting the decrease in gross profit, partially offset by a $33.5 decrease in selling, distribution, and administrative ("SD&A") expenses, primarily attributable to decreased marketing expense.

Our non-GAAP adjustments include amortization expense and impairment charges related to intangible assets; special project costs; gains and losses related to the sale of a business; the change in net cumulative unallocated derivative gains and losses; and other one-time items that do not directly reflect ongoing operating results. Refer to "Non-GAAP Financial Measures" in this discussion and analysis for additional information. Gross profit excluding non-GAAP adjustments ("adjusted gross profit") decreased $113.0, or 15 percent, in the first quarter of 2022, primarily reflecting the exclusion of the change in net cumulative unallocated derivative gains and losses, as compared to GAAP gross profit. Operating income excluding non-GAAP adjustments ("adjusted operating income") decreased $81.1, or 20 percent, as compared to the prior year.

Interest Expense

Net interest expense decreased $3.0, or 7 percent, in the first quarter of 2022, primarily as a result of reduced debt outstanding as compared to the prior year. For additional information, see "Capital Resources" in this discussion and analysis.

Income Taxes

Income taxes decreased $25.3, or 33 percent, in the first quarter of 2022, primarily due to the decrease in income before income taxes, partially offset by a higher effective income tax rate of 25.0 percent, as compared to 24.4 percent for the first quarter of 2021. During both the current and prior years, the effective income tax rates varied from the U.S. statutory tax rate of 21.0 percent, primarily due to the impact of state income taxes. We anticipate a full-year effective income tax rate for 2022 of approximately 24.5 percent. For further information, refer to Note 12: Income Taxes.

Restructuring Activities

A restructuring program was approved by the Board during 2021, associated with opportunities identified to reduce our overall cost structure and optimize our organizational design, inclusive of stranded overhead associated with recent divestitures of the *Crisco* and *Natural Balance* businesses. For additional information related to these divestitures, see Note 4: Divestitures. During 2021, we substantially completed an organizational redesign related to our corporate headquarters and announced plans to close our Suffolk, Virginia, production facility by the end of 2022, as a result of a new strategic partnership for the production of our Away From Home liquid coffee products. We expect to incur costs of approximately $85.0 associated with the restructuring activities approved to date. Approximately half of these costs are expected to be other transition and termination costs associated with our cost reduction and margin management initiatives, inclusive of accelerated depreciation, while the remainder represents employee-related costs. We anticipate the activities associated with this restructuring program will be completed by the end of 2023, with the majority of the costs expected to be incurred by the end of 2022. We have incurred total cumulative restructuring costs of $30.5, of which $6.4 were incurred during the first quarter of 2022. For further information, refer to Note 3: Integration and Restructuring Costs.

Segment Results

We have three reportable segments: U.S. Retail Pet Foods, U.S. Retail Coffee, and U.S. Retail Consumer Foods. The presentation of International and Away From Home represents a combination of all other operating segments that are not individually reportable.

The U.S. Retail Pet Foods segment primarily includes the domestic sales of *Rachael Ray Nutrish*, *Meow Mix*, *Milk-Bone*, *9Lives*, *Kibbles 'n Bits*, *Pup-Peroni*, and *Nature's Recipe* branded products; the U.S. Retail Coffee segment primarily includes the domestic sales of *Folgers*, *Dunkin'*, and *Café Bustelo* branded coffee; and the U.S. Retail Consumer Foods segment primarily includes the domestic sales of *Smucker's* and *Jif* branded products. International and Away From Home includes the sale of products distributed domestically and in foreign countries through retail channels and foodservice distributors and operators (e.g., health care operators, restaurants, lodging, hospitality, offices, K-12, colleges and universities, and convenience stores).

	Three Months Ended July 31,		
	2021	2020	% Increase (Decrease)
Net sales:			
U.S. Retail Pet Foods	$ 648.0	$ 692.6	(6)%
U.S. Retail Coffee	543.2	570.9	(5)
U.S. Retail Consumer Foods	435.6	489.2	(11)
International and Away From Home	231.2	219.1	6
Segment profit:			
U.S. Retail Pet Foods	$ 79.9	$ 125.3	(36)%
U.S. Retail Coffee	151.3	182.6	(17)
U.S. Retail Consumer Foods	118.7	131.5	(10)
International and Away From Home	32.9	30.9	6
Segment profit margin:			
U.S. Retail Pet Foods	12.3 %	18.1 %	
U.S. Retail Coffee	27.9	32.0	
U.S. Retail Consumer Foods	27.2	26.9	
International and Away From Home	14.2	14.1	

U.S. Retail Pet Foods

The U.S. Retail Pet Foods segment net sales decreased $44.6 in the first quarter of 2022, inclusive of the impact of $56.0 of noncomparable net sales in the prior year related to the divested *Natural Balance* business. Excluding the noncomparable impact of the divested business, net sales increased $11.4, or 2 percent, primarily due to favorable volume/mix, which contributed 2 percentage points to net sales, primarily driven by growth for the *Meow Mix*, *Milk-Bone*, and *Pup-Peroni* brands, as well as private label pet food, partially offset by declines for the *Rachael Ray Nutrish* and *Kibbles 'n Bits* brands. Net price realization was neutral. Segment profit decreased $45.4, primarily reflecting higher commodity and transportation costs.

U.S. Retail Coffee

The U.S. Retail Coffee segment net sales decreased $27.7 in the first quarter of 2022, driven by lower net price realization and unfavorable volume/mix. Net price realization reduced net sales by 3 percentage points, reflecting increased trade spend related to the lapping of suspended promotions in the prior year. Volume/mix reduced net sales by 2 percentage points, reflecting the lapping of retailer inventory re-stocking in the prior year, driven by declines for the *Folgers* brand, partially offset by growth for the *Dunkin'* and *Café Bustelo* brands. Segment profit decreased $31.3, reflecting lower net pricing, higher commodity costs, and unfavorable volume/mix, partially offset by lower marketing expense.

U.S. Retail Consumer Foods

The U.S. Retail Consumer Foods segment net sales decreased $53.6 in the first quarter of 2022, inclusive of the impact of $71.7 of noncomparable net sales in the prior year related to the divested *Crisco* business. Excluding the noncomparable impact of the divested business, net sales increased $18.1, or 4 percent. Higher net price realization contributed 4 percentage points to net sales, primarily driven by peanut butter and *Smucker's Uncrustables®* frozen sandwiches. Volume/mix was neutral, as growth for *Smucker's Uncrustables* frozen sandwiches and *Jif* peanut butter was mostly offset by a decline for *Smucker's* fruit spreads. Segment profit decreased $12.8, reflecting the noncomparable segment profit in the prior year related to the divested *Crisco* business and higher transportation, commodity, and packaging costs, partially offset by the higher net pricing and lower marketing expense.

International and Away From Home

International and Away From Home net sales increased $12.1 in the first quarter of 2022, including the noncomparable impact of $7.8 of net sales in the prior year related to the divested *Crisco* business and $10.4 of favorable foreign currency exchange. Excluding the noncomparable impact of the divested business and foreign currency exchange, net sales increased $9.5, or 4 percent, primarily reflecting a 27 percent increase for the Away From Home operating segment, partially offset by a net sales decline of 12 percent for the International operating segment. Favorable volume/mix for the combined businesses contributed 3 percentage points to net sales, primarily driven by growth for portion control, coffee, and frozen handheld products in the away from home channels, partially offset by declines for baking mixes and ingredients in the International operating segment. Net price realization contributed a 1 percentage point increase to net sales. Segment profit increased $2.0, primarily reflecting the favorable foreign currency exchange impact, lower marketing expense, and a favorable impact of net pricing and costs, partially offset by the noncomparable segment profit in the prior year related to the divested *Crisco* business and unfavorable volume/mix.

Financial Condition – Liquidity and Capital Resources

Liquidity

Our principal source of funds is cash generated from operations, supplemented by borrowings against our commercial paper program and revolving credit facility. At July 31, 2021, total cash and cash equivalents was $168.8, compared to $334.3 at April 30, 2021.

The following table presents selected cash flow information.

	Three Months Ended July 31,	
	2021	2020
Net cash provided by (used for) operating activities	$ 137.8	$ 409.0
Net cash provided by (used for) investing activities	(80.0)	(49.2)
Net cash provided by (used for) financing activities	(223.3)	(357.3)
Net cash provided by (used for) operating activities	$ 137.8	$ 409.0
Additions to property, plant, and equipment	(68.0)	(76.6)
Free cash flow [(A)]	$ 69.8	$ 332.4

(A) Free cash flow is a non-GAAP financial measure used by management to evaluate the amount of cash available for debt repayment, dividend distribution, acquisition opportunities, share repurchases, and other corporate purposes.

The $271.2 decrease in cash provided by operating activities in the first three months of 2022 was primarily driven by greater working capital requirements in 2022, as well as lower net income adjusted for noncash items in the current year. The increase in cash required to fund working capital, as compared to the prior year, was primarily attributable to an increase in trade receivables due to the timing of payments and an increase in inventory levels.

Cash used for investing activities in the first three months of 2022 consisted primarily of $68.0 in capital expenditures and an increase of $11.4 in our derivative cash margin account balances. Cash used for investing activities in the first three months of 2021 consisted of $76.6 in capital expenditures, partially offset by a $27.6 decrease in our derivative cash margin account balances.

Cash used for financing activities in the first three months of 2022 consisted primarily of long-term debt repayments of $407.0 and dividend payments of $97.2, partially offset by a net increase in short-term borrowings of $284.0. Cash used for financing activities in the first three months of 2021 consisted primarily of long-term debt repayments of $300.0 and dividend payments of $100.1, partially offset by a net increase in short-term borrowings of $47.8.

Supplier Financing Program

As part of ongoing efforts to maximize working capital, we work with our suppliers to optimize our terms and conditions, which includes the extension of payment terms. Payment terms with our suppliers, which we deem to be commercially reasonable, range from 0 to 180 days. During 2020, we entered into an agreement with a third-party administrator to provide an accounts payable tracking system and facilitate a supplier financing program which allows participating suppliers the ability to monitor and voluntarily elect to sell our payment obligations to a designated third-party financial institution. Participating suppliers can sell one or more of our payment obligations at their sole discretion, and our rights and obligations to our suppliers are not impacted. We have no economic interest in a supplier’s decision to enter into these agreements. Our obligations to our suppliers, including amounts due and scheduled payment terms, are not impacted by our suppliers’ decisions to sell amounts under these arrangements. As of July 31, 2021 and April 30, 2021, $278.2 and $304.2 of our outstanding payment obligations, respectively, were elected and sold to a financial institution by participating suppliers. During the first three months of 2022 and 2021, we paid $267.7 and $122.1, respectively, to a financial institution for payment obligations that were settled through the supplier financing program.

Contingencies

We, like other food manufacturers, are from time to time subject to various administrative, regulatory, and other legal proceedings arising in the ordinary course of business. We are currently a defendant in a variety of such legal proceedings, including certain lawsuits related to the alleged price-fixing of shelf stable tuna products prior to 2011 by a business previously owned by, but divested prior to our acquisition of, Big Heart Pet Brands, the significant majority of which were settled and paid during 2019 and 2020. While we cannot predict with certainty the ultimate results of these proceedings or potential settlements associated with these or other matters, we have accrued losses for certain contingent liabilities that we have determined are probable and reasonably estimable at July 31, 2021. Based on the information known to date, with the exception of the matters discussed below, we do not believe the final outcome of these proceedings would have a material adverse effect on our financial position, results of operations, or cash flows.

In addition to the legal proceedings discussed above, we are currently a defendant in CERT v. Brad Barry LLC, et al., which alleges that we, in addition to the Defendants who manufacture, package, distribute, or sell packaged coffee, failed to provide warnings for our coffee products of exposure to the chemical acrylamide as required under Proposition 65. CERT sought equitable relief, including warnings to consumers, as well as civil penalties in the amount of the statutory maximum of $2,500 per day per violation of Proposition 65. In addition, CERT asserted that every consumed cup of coffee, absent a compliant warning, was equivalent to a violation under Proposition 65. In June 2019, the state agency responsible for administering the Proposition 65 program, OEHHA, approved a regulation clarifying that cancer warnings are not required for coffee under Proposition 65, and in August 2020, the trial court granted the Defendants’ motion for summary judgment based on the regulation. CERT appealed the ruling in November 2020 to the California Court of Appeals for the Second Appellate District, which is currently pending.

We are also defendants in nine pending putative class action lawsuits filed in federal courts in California, Florida, Illinois, Missouri, Texas, Washington, and Washington D.C. The plaintiffs in those actions assert claims arising under various state laws for false advertising, consumer protection, deceptive and unfair trade practices, and similar statutes. Their claims are premised on allegations that we have misrepresented the number of servings that can be made from various canisters of *Folgers* coffee on the packaging for those products. Five of the lawsuits have been transferred to the United States District Court for the Western District of Missouri for coordinated pre-trial proceedings. Similar claims have been asserted against certain retailers of our *Folgers* coffee products, and indemnity claims have been asserted by such retailers against us. Various other potential plaintiffs have threatened to assert similar claims against us.

The outcome and the financial impact of these cases, if any, cannot be predicted at this time. Accordingly, no loss contingency has been recorded for these matters as of July 31, 2021, and the likelihood of loss is not considered probable or estimable. However, if we are required to pay significant damages, our business and financial results could be adversely impacted, and sales of those products could suffer not only in these locations but elsewhere.

Capital Resources

The following table presents our capital structure.

	July 31, 2021	April 30, 2021
Current portion of long-term debt	$ 751.6	$ 1,152.9
Short-term borrowings	366.0	82.0
Long-term debt, less current portion	3,517.5	3,516.8
Total debt	$ 4,635.1	$ 4,751.7
Shareholders’ equity	8,170.3	8,124.8
Total capital	$ 12,805.4	$ 12,876.5

During the first quarter of 2022, we prepaid $400.0 in principal of the Senior Notes due March 15, 2022, and as a result, we recognized a net loss on extinguishment of $6.9, which primarily consisted of a make-whole payment and was included in other income (expense) – net in the Condensed Statement of Consolidated Income.

As of July 31, 2021, we had available a $1.8 billion unsecured revolving credit facility with a group of 11 banks that was scheduled to mature in September 2022. Additionally, we participate in a commercial paper program under which we can issue short-term, unsecured commercial paper not to exceed $1.8 billion at any time. The commercial paper program is backed by our revolving credit facility and reduces what we can borrow under the revolving credit facility by the amount of commercial paper outstanding. Commercial paper is used as a continuing source of short-term financing for general corporate purposes. As of July 31, 2021, we had $366.0 of short-term borrowings outstanding, all of which were issued under our commercial paper program, at a weighted-average interest rate of 0.17 percent.

Subsequent to the first quarter of 2022, we entered into an unsecured revolving credit facility with a group of 11 banks, which provides for a revolving credit line of $2.0 billion and matures in August 2026. As a result of entering into the new facility in August 2021, we terminated the $1.8 billion revolving credit facility. Furthermore, in conjunction with entering into the new unsecured revolving credit facility, we also increased our commercial paper program to $2.0 billion.

We are in compliance with all of our debt covenants as of July 31, 2021. For additional information on our long-term debt, sources of liquidity, and debt covenants, see Note 7: Debt and Financing Arrangements.

During the first quarter of 2022, we did not repurchase any common shares under a repurchase plan authorized by the Board. At July 31, 2021, approximately 2.8 million common shares remain available for repurchase pursuant to the Board’s authorizations. There is no guarantee as to the exact number of shares that may be repurchased or when such purchases may occur.

Absent any material acquisitions or other significant investments, we believe that cash on hand, combined with cash provided by operations, borrowings available under our revolving credit facility and commercial paper program, and access to capital markets, will be sufficient to meet our cash requirements for the next 12 months, including the payment of quarterly dividends, principal and interest payments on debt outstanding, and capital expenditures. However, as a result of COVID-19, we may experience an increase in the cost or the difficulty to obtain debt or equity financing, or to refinance our debt in the future. We continue to evaluate these risks, which could affect our financial condition or our ability to fund operations or future investment opportunities.

As of July 31, 2021, total cash and cash equivalents of $17.3 was held by our foreign subsidiaries, primarily in Canada.

Non-GAAP Financial Measures

We use non-GAAP financial measures, including: net sales excluding divestitures and foreign currency exchange, adjusted gross profit, adjusted operating income, adjusted income, adjusted earnings per share, and free cash flow, as key measures for purposes of evaluating performance internally. We believe that investors' understanding of our 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 our operating results. The Board also utilizes certain non-GAAP financial measures as components for measuring performance for incentive compensation purposes.

Non-GAAP financial 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; special project costs; gains and losses related to the sale of a business; the change in net cumulative unallocated derivative gains and losses; and other one-time items that do not directly reflect ongoing operating results. Income taxes, as adjusted is calculated using an adjusted effective income tax rate that is applied to adjusted income before income taxes and reflects the exclusion of the previously discussed items, as well as any adjustments for one-time tax-related activities, when they occur. While this adjusted effective income tax rate does not generally differ materially from our GAAP effective income tax rate, certain exclusions from non-GAAP results can significantly impact our adjusted effective income tax rate.

These non-GAAP financial measures are not intended to replace the presentation of financial results in accordance with U.S. GAAP. Rather, the presentation of these non-GAAP financial measures supplements other metrics we use to internally evaluate our businesses and facilitate 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.

The following table reconciles certain non-GAAP measures to the comparable GAAP financial measure. See page 20 for a reconciliation of net sales adjusted for certain noncomparable items to the comparable GAAP financial measure.

	Three Months Ended July 31,	
	2021	2020
Gross profit reconciliation:		
Gross profit	$ 639.4	$ 775.4
Change in net cumulative unallocated derivative gains and losses	2.2	(16.2)
Cost of products sold – special project costs	4.6	—
Adjusted gross profit	$ 646.2	$ 759.2
Operating income reconciliation:		
Operating income	$ 259.4	$ 361.1
Amortization	55.4	59.6
Change in net cumulative unallocated derivative gains and losses	2.2	(16.2)
Cost of products sold – special project costs	4.6	—
Other special project costs	1.8	—
Adjusted operating income	$ 323.4	$ 404.5
Net income reconciliation:		
Net income	$ 153.9	$ 237.0
Income tax expense	51.3	76.6
Amortization	55.4	59.6
Change in net cumulative unallocated derivative gains and losses	2.2	(16.2)
Cost of products sold – special project costs	4.6	—
Other special project costs	1.8	—
Adjusted income before income taxes	$ 269.2	$ 357.0
Income taxes, as adjusted	63.4	87.0
Adjusted income	$ 205.8	$ 270.0
Weighted-average shares – assuming dilution	108.4	114.1
Adjusted earnings per share – assuming dilution	$ 1.90	$ 2.37

Off-Balance Sheet Arrangements and Contractual Obligations

We do not have material off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as variable interest entities. Transactions with related parties are in the ordinary course of business and are not material to our results of operations, financial condition, or cash flows.

As of July 31, 2021, there were no material changes to our future contractual obligations as previously reported in our Annual Report on Form 10-K for the year ended April 30, 2021.

Critical Accounting Estimates and Policies

A discussion of our critical accounting estimates and policies can be found in the “Management’s Discussion and Analysis” section of our Annual Report on Form 10-K for the year ended April 30, 2021. There were no material changes to the information previously disclosed.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

(Dollars in millions, unless otherwise noted)

The following discussions about our market risk disclosures involve forward-looking statements. Actual results could differ from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates, commodity prices, and foreign currency exchange rates.

Interest Rate Risk: The fair value of our cash and cash equivalents at July 31, 2021, approximates carrying value. We are exposed to interest rate risk with regard to existing debt consisting of fixed- and variable-rate maturities. Our interest rate exposure primarily includes U.S. Treasury rates and commercial paper rates in the U.S.

We utilize derivative instruments to manage interest rate risk associated with anticipated debt transactions, as well as to manage changes in the fair value of our long-term debt. At the inception of an interest rate contract, the instrument is evaluated and documented for qualifying hedge accounting treatment. If the contract is designated as a cash flow hedge, the mark-to-market gains or losses on the contract are deferred and included as a component of accumulated other comprehensive income (loss), and reclassified to interest expense in the period during which the hedged transaction affects earnings. If the contract is designated as a fair value hedge, the contract is recognized at fair value on the balance sheet, and changes in the fair value are recognized in interest expense. Generally, changes in the fair value of the contract are equal to changes in the fair value of the underlying debt and have no net impact on earnings.

In 2020, we terminated interest rate contracts concurrent with the pricing of the Senior Notes due March 15, 2030, and March 15, 2050. They were designated as cash flow hedges and were used to manage our exposure to interest rate volatility associated with the anticipated debt financing. The termination resulted in a pre-tax loss of $239.8, which was deferred and included as a component of accumulated other comprehensive income (loss) and is being amortized as interest expense over the life of the debt.

In 2015, we terminated the interest rate swap on the Senior Notes due October 15, 2021, which was designated as a fair value hedge and used to hedge against the changes in the fair value of the debt. As a result of the early termination, we received $58.1 in cash, which included $4.6 of accrued and prepaid interest and a $53.5 benefit that is deferred as a component of the carrying value of the long-term debt and is being recognized ratably as a reduction to interest expense over the remaining life of the related debt. At July 31, 2021, the remaining benefit of $1.9 was recorded as an increase in the long-term debt balance.

In measuring interest rate risk by the amount of net change in the fair value of our financial liabilities, a hypothetical 100 basis-point decrease in interest rates at July 31, 2021, would increase the fair value of our long-term debt by $400.6.

Commodity Price Risk: We use certain raw materials and other commodities that are subject to price volatility caused by supply and demand conditions, political and economic variables, weather, investor speculation, and other unpredictable factors. To manage the volatility related to anticipated commodity purchases, we use derivatives with maturities of generally less than one year. We do not qualify commodity derivatives for hedge accounting treatment. As a result, the gains and losses on all commodity derivatives are immediately recognized in cost of products sold.

The following sensitivity analysis presents our potential loss of fair value resulting from a hypothetical 10 percent change in market prices related to commodities.

	July 31, 2021	April 30, 2021
High	$ 46.5	$ 47.5
Low	11.3	11.7
Average	28.6	29.0

The estimated fair value was determined using quoted market prices and was based on our net derivative position by commodity for the previous four quarters. The calculations are not intended to represent actual losses in fair value that we expect to incur. In practice, as markets move, we actively manage our risk and adjust hedging strategies as appropriate. The commodities hedged have a high inverse correlation to price changes of the derivative instrument. Thus, we would expect that over time any gain or loss in the estimated fair value of its derivatives would generally be offset by an increase or decrease in the estimated fair value of the underlying exposures.

Foreign Currency Exchange Risk: We have operations outside the U.S. with foreign currency denominated assets and liabilities, primarily denominated in Canadian currency. Because we have foreign currency denominated assets and liabilities, financial exposure may result, primarily from the timing of transactions and the movement of exchange rates. The foreign currency balance sheet exposures as of July 31, 2021, are not expected to result in a significant impact on future earnings or cash flows.

We utilize foreign currency derivatives to manage the effect of foreign currency exchange fluctuations on future cash payments primarily related to purchases of certain raw materials and finished goods. The contracts generally have maturities of less than one year. We do not qualify instruments used to manage foreign currency exchange exposures for hedge accounting treatment. Therefore, the change in value of these instruments is immediately recognized in cost of products sold. Based on our hedged foreign currency positions as of July 31, 2021, a hypothetical 10 percent change in exchange rates would not materially impact the fair value.

Revenues from customers outside the U.S., subject to foreign currency exchange, represented 5 percent of net sales during the three months ended July 31, 2021. Thus, certain revenues and expenses have been, and are expected to be, subject to the effect of foreign currency fluctuations, and these fluctuations may have an impact on operating results.

Certain Forward-Looking Statements

Certain statements included in this Quarterly Report on Form 10-Q contain forward-looking statements within the meaning of federal securities laws. The forward-looking statements may include statements concerning our current expectations, estimates, assumptions, and beliefs concerning future events, conditions, plans, and strategies that are not historical fact. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as “expect,” “anticipate,” “believe,” “intend,” “will,” “plan,” and similar phrases.

Federal securities laws provide a safe harbor for forward-looking statements to encourage companies to provide prospective information. We are providing this cautionary statement in connection with the safe harbor provisions. Readers are cautioned not to place undue reliance on any forward-looking statements, as such statements are by nature subject to risks, uncertainties, and other factors, many of which are outside of our control and could cause actual results to differ materially from such statements and from our historical results and experience. These risks and uncertainties include, but are not limited to, the following:

- the impact of the COVID-19 pandemic on our business, industry, suppliers, customers, consumers, employees, and communities, particularly with respect to our Away From Home business;
- disruptions or inefficiencies in our operations or supply chain, including any impact of the COVID-19 pandemic and labor shortages;
- volatility of commodity, energy, and other input costs;
- risks associated with derivative and purchasing strategies we employ to manage commodity pricing and interest rate risks;
- the availability of reliable transportation on acceptable terms, including any impact of the COVID-19 pandemic;
- our ability to achieve cost savings related to our restructuring and cost management programs in the amounts and within the time frames currently anticipated;

- our ability to generate sufficient cash flow to continue operating under our capital deployment model, including capital expenditures, debt repayment, dividend payments, and share repurchases;
- our 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 our 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 our products or our competitors' products;
- the impact of accidents, extreme weather, natural disasters, and pandemics (such as COVID-19);
- the concentration of certain of our businesses with key customers and suppliers, including single-source suppliers of certain key raw materials and finished goods, and our ability to manage and maintain key relationships;
- impairments in the carrying value of goodwill, other intangible assets, or other long-lived assets or changes in useful lives of other intangible assets or other long-lived 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 exchange rate and interest rate fluctuations; and
- risks related to other factors described under "Risk Factors" in other reports and statements we have filed with the SEC.

Readers are cautioned not to unduly rely on such forward-looking statements, which speak only as of the date made, when evaluating the information presented in this Quarterly Report on Form 10-Q. We do not undertake any obligation to update or revise these forward-looking statements to reflect new events or circumstances subsequent to the filing of this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. Management, including the principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of July 31, 2021 (the "Evaluation Date"). Based on that evaluation, the principal executive officer and principal financial officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in ensuring that information required to be disclosed in reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and (2) accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting during the three months ended July 31, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Information required for Part II, Item 1 is incorporated by reference to the discussion in Note 14: Contingencies in Part I, Item 1 in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors.

Our business, operations, and financial condition are subject to various risks and uncertainties. The risk factors described in “Part I, Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended April 30, 2021, should be carefully considered, together with the other information contained or incorporated by reference in this Quarterly Report on Form 10-Q and in our other filings with the SEC, in connection with evaluating the Company, our business, and the forward-looking statements contained in this Quarterly Report on Form 10-Q. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may affect us. The occurrence of any of these known or unknown risks could have a material adverse impact on our business, financial condition, and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers: The following table presents the total number of shares of common stock purchased during the first quarter of 2022, the average price paid per share, the number of shares that were purchased as part of a publicly announced repurchase program, if any, and the approximate dollar value of the maximum number of shares that may yet be purchased under the share repurchase program:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
May 1, 2021 - May 31, 2021	4,864	$ 137.72	—	2,811,472
June 1, 2021 - June 30, 2021	45,195	135.23	—	2,811,472
July 1, 2021 - July 31, 2021	196	131.33	—	2,811,472
Total	50,255	$ 135.45	—	2,811,472

(a) Shares in this column include shares repurchased from stock plan recipients in lieu of cash payments.
(d) As of July 31, 2021, there were approximately 2.8 million common shares remaining available for repurchase pursuant to the Board’s authorizations.

Item 6. Exhibits.

See the Index of Exhibits that appears on Page No. 32 of this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

August 26, 2021	THE J. M. SMUCKER COMPANY
	/s/ Mark T. Smucker
	By: MARK T. SMUCKER President and Chief Executive Officer
	/s/ Tucker H. Marshall
	By: TUCKER H. MARSHALL Chief Financial Officer

INDEX OF EXHIBITS

The following exhibits are either attached or incorporated herein by reference to another filing with the SEC.

Exhibit Number	Exhibit Description
3.1	Amended Regulations of The J. M. Smucker Company
10.1	Revolving Credit Agreement, dated as of August 19, 2021, by and among The J. M. Smucker Company, Smucker Foods of Canada Corp., Bank of America, N.A., as Administrative Agent, and the several financial institutions and U.S. subsidiaries of the Company from time to time party thereto.
31.1	Certifications of Mark T. Smucker pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
31.2	Certifications of Tucker H. Marshall pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
104	The cover page of this Quarterly Report on Form 10-Q for the quarter ended July 31, 2021, formatted in Inline XBRL

Exhibit 31.1

RULE 13a-14(a)/15d-14(a) CERTIFICATIONS

I, Mark T. Smucker, President and Chief Executive Officer of The J. M. Smucker Company, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of The J. M. Smucker Company;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Mark T. Smucker

Name: Mark T. Smucker

Title: President and Chief Executive Officer

Date: August 26, 2021

Exhibit 31.2

RULE 13a-14(a)/15d-14(a) CERTIFICATIONS

I, Tucker H. Marshall, Chief Financial Officer of The J. M. Smucker Company, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of The J. M. Smucker Company;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Tucker H. Marshall

Name: Tucker H. Marshall
Title: Chief Financial Officer

Date: August 26, 2021

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of The J. M. Smucker Company (the “Company”) for the quarter ended July 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer’s knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Mark T. Smucker

Name: Mark T. Smucker
Title: President and Chief Executive Officer

/s/ Tucker H. Marshall

Name: Tucker H. Marshall
Title: Chief Financial Officer

Date: August 26, 2021

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.