



THE J.M. SMUCKER Co

Fiscal Year 2023 First Quarter Earnings Prepared Management Remarks

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CORPORATE PARTICIPANTS

Aaron Broholm, Vice President, Investor Relations

Mark Smucker, Chair of the Board, President and Chief Executive Officer

Tucker Marshall, Chief Financial Officer

AARON BROHOLM, VICE PRESIDENT, INVESTOR RELATIONS

Good morning, this is Aaron Broholm, Vice President, Investor Relations for The J. M. Smucker Company. Thank you for listening to our prepared remarks on our fiscal 2023 first quarter earnings. After this brief introduction, Mark Smucker, Chair of the Board, President and Chief Executive Officer, will give an overview of the quarter's results and an update on strategic initiatives. Tucker Marshall, Chief Financial Officer, will then provide a detailed analysis of the financial results and our updated fiscal 2023 outlook. Later this morning, we will hold a separate, live question-and-answer webcast.

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

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

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

MARK SMUCKER, CHAIR OF THE BOARD, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thank you, Aaron, and good morning everyone.

In the first quarter, our momentum continued across our businesses as we delivered a strong start to the fiscal year. Enabled by the extraordinary contributions of our people, we delivered results that exceeded our expectations. Our performance reflects our ability to execute against our strategy, the resilience of our categories, and continued demand for our iconic brands.

In the first quarter, net sales increased 1%, including a 9% unfavorable impact related to the *Jif*[®] peanut butter recall. Comparable net sales excluding divested businesses and foreign exchange, increased 4%, primarily driven by pricing actions to recover cost inflation. Elasticities remain modest across most of our categories, most notably for pet food and snacks.

Growth was led by our Pet business, along with robust growth for our coffee portfolio and the *Uncrustables*[®] brand. These platforms continue to be key enablers of future growth and reflect strong execution against our strategy of leading in the attractive categories of pet, coffee, and snacking.

Adjusted earnings per share was \$1.67, a decrease of 12%, including an estimated \$0.65, or 34%, unfavorable impact related to the *Jif*[®] peanut butter recall.

Our strong first quarter results and the sustained momentum of our business gives us confidence to raise our top-line, adjusted earnings per share, and free cash flow guidance. We have increased our full-year expectations to include:

- Net sales growth of 4% to 5% versus the prior year;
- Adjusted earnings per share in the range of \$8.20 to \$8.60; and
- Free cash flow of \$550 million.

Tucker will provide more details regarding the inputs informing our updated fiscal 2023 guidance.

Turning to our segment results, in Pet Foods, results exceeded expectations with comparable net sales increasing 17% over the prior year, driven by growth across all categories. While supply chain challenges continue across the industry, our business is benefiting from improved execution and a portfolio of brands that provide great value to consumers.

In cat food, net sales increased 24% led by the *Meow Mix*[®] brand, which grew sales 25% and benefited from higher pricing and increased volume/mix. In dry cat, *Meow Mix*[®] gained over 2 points of share in the quarter, and grew nearly 4x the dollar share of any other brand in the category. *Meow Mix*[®] is the number one dry cat food brand, and is growing both household penetration and brand loyalty. Our growth was aided by some consumers shifting purchases from wet to dry cat food based on the value proposition.

In dog snacks, net sales increased 14% led by the *Milk-Bone*[®] brand, which grew sales 27% benefiting from higher price realization and increased volume/mix. The *Milk-Bone*[®] brand continues to drive growth through core offerings and premium positioned innovation for our market-leading dog snacks business and the category overall. *Milk-Bone*[®] gained over 1 point of dollar share in the quarter and grew over 2x the category rate.

And in dog food, net sales increased 18%, led by the *Nutrish*[®] and *Kibbles 'N Bits*[®] brands. Our dog food offerings saw accelerated growth in the quarter, with consumer take away up 15%, as we continue efforts to stabilize our dog food portfolio. Our results are supported by our strong execution as supply chain challenges continue to impact the dog food category. We are well positioned to benefit from some shifting within the category, as our brands provide offerings across the value spectrum including premium, mainstream, and value products.

In Coffee, net sales growth of 10% was driven by all brands in our market-leading at-home coffee portfolio. While our results were strong year-over-year, we anticipated a moderation in volume. Earlier this year, we led the market in increasing prices to recover significant commodity cost inflation, which impacted price gaps and elasticities. Competitive price gaps are beginning to narrow and we expect our volume to improve moving forward. We also expect margin improvement throughout the year.

Our brands grew dollar share more than any other branded manufacturer for the fifth consecutive quarter and continued to outpace the coffee category. *Café Bustelo*[®] was the fastest growing brand in the at-home coffee category, with consumer take away up 24% in the quarter. Additionally, *Café Bustelo*[®] is now the eight largest brand in the category and grew market share in both dollars and volume.

The *Dunkin*[®] brand grew net sales 12% in the quarter. We are excited to further expand the brand outside of hot coffee. The *Dunkin*[®] platform now includes at-home coffee offerings for *Dunkin*[®] Cold in both K-Cup[®] and pre-pack roast and ground formats, which expands the brand to meet the cold coffee trend of brewing hot coffee over ice.

Folgers[®] continued its momentum and was the second fastest growing brand in the at-home coffee category in dollar share during the quarter. The *Folgers*[®] brand outpaced the category in dollar sales and has more than double the volume share of any other brand in the category. Early this calendar year, we launched our bold, new marketing campaign with initiatives to reinvigorate the iconic brand. This included innovation that optimizes the amount of coffee per cup while maintaining the same taste profile, and rolling out new packaging, which is beginning to show up on shelf.

And in the K-Cup[®] segment, we continue to have strong momentum as we grew both volume and net sales in the quarter, registering double-digit sales growth for each of our brands. As consumers seek to modify their spending habits, K-Cups[®] offer an affordable and convenient solution. With at-home consumption now representing over 70% of all coffee drinking occasions, compared to two-thirds pre-pandemic, we expect the category to remain resilient despite continuing inflationary pressures.

In our Consumer Foods business, comparable net sales declined 23%, primarily reflecting the anticipated unfavorable impact from the recall of *Jif*[®] peanut butter.

Following the recall, which impacted production at our Lexington, Kentucky facility, we enhanced our food safety and testing protocols, and quickly resumed operations. We are replenishing retailer shelves and *Jif*[®] brand equity remains strong with continued week over week market share improvement. As we return to full distribution, we anticipate year-over-year net sales growth for the remainder of this fiscal year.

Net sales of *Smucker's*[®] *Uncrustables*[®] frozen sandwiches grew over 30%, driven by higher pricing and a return to double-digit volume/mix growth. Total Company sales of *Uncrustables*[®] sandwiches, including the Away From Home business, exceeded \$160 million this quarter. Completion of the Longmont, Colorado facility expansion is on track to provide increased production capacity in the back half of this fiscal year. Additionally, we have broken ground on our *Uncrustables*[®] sandwiches facility in McCalla, Alabama, which will further support capacity expansion as demand continues to exceed supply. We look forward to providing regular updates and progress on our path to grow *Uncrustables*[®] sandwiches to a \$1 billion brand in annual net sales.

Smucker's[®] fruit spreads net sales grew 15% in the quarter. We are working to reduce complexity and optimize production in the spreads business with the closure of the Ripon, Wisconsin production facility later this calendar year and consolidation of production to our Orrville, Ohio location. We are also reducing our total SKU count by approximately 30%, as we position the business for improved profitability, opportunities for growth, and continued category leadership. Despite the reduction in SKU's, we expect profit growth for fruit spreads this fiscal year as we increase focus on our core *Smucker's*[®] fruit spreads items.

In addition to strong top-line performance across our U.S. Retail businesses, our International and Away From Home businesses also aided our first quarter performance. Driven by coffee and *Smucker's*[®] *Uncrustables*[®] sandwiches, net sales grew by a double-digit percentage excluding the impact of the *Jif*[®] peanut butter recall.

Across all our businesses, our first quarter results underscore our increased focus and the significant progress we've made against our executional priorities, which include driving commercial excellence, streamlining our cost infrastructure, reshaping our portfolio, and unleashing our organization to win. We remain focused on these priorities to deliver our financial goals, while navigating the ongoing challenging operating environment.

Consumer behavior continues to evolve as inflation is impacting purchasing patterns. However, at-home food purchases have remained strong, this is particularly true for the key categories we operate in, including pet, coffee, and frozen handhelds. Our overall business is experiencing lower pricing elasticities compared to other center of the store categories.

Additionally, our exposure to private label remains low at 12% share across our business, compared to 21% for the total store. This is particularly the case for the key enablers of future top-line growth, notably pet food, coffee, and the *Uncrustables*[®] brand have significantly less private label exposure than the total store. Overall brands in our portfolio growing or maintaining dollar share accounted for over 78% of our U.S. Retail business in the first quarter. This performance reflects the positive strategic changes the Company has made over the last few years.

Our portfolio provides consumers, of any income level, options across the value spectrum, as market share for our brands is balanced across lower, middle, and upper income groups, skewing slightly higher to lower income consumers.

Additionally, we are well positioned for the current macroeconomic environment, as the pet and coffee categories have performed well during recessionary periods. Both categories grew faster during the 2008 recession than the average of the subsequent ten years.

We recognize inflation is pressuring many Americans, and we remain committed to ensuring our trusted brands and quality products provide value to consumers.

As we look ahead, we are well-positioned to adapt, execute with excellence in a challenging environment, and sustain the momentum for our business. Our success continues to be powered by our focused strategy, unique culture, outstanding leadership team, and all our dedicated employees, who I would like to thank for their exceptional contributions to provide the products and brands that consumers love.

I'll now turn the discussion over to Tucker.

TUCKER MARSHALL, CHIEF FINANCIAL OFFICER

Thank you, Mark. Good morning, everyone.

Let me begin by giving an overview of first quarter results, which exceeded our expectations. Then I'll provide details on our updated financial outlook for fiscal 2023.

Net sales increased 1%, including a 9% unfavorable impact from *Jif*[®] peanut butter related to the product recall. Excluding the impact of divestitures and foreign exchange, net sales increased 4%. The increase in comparable net sales was primarily driven by a 14 percentage point increase from net price realization, primarily reflecting list price increases for the U.S. Retail Coffee, U.S. Retail Pet Foods, and International and

Away from Home businesses, partially offset by the unfavorable impact of customer returns and fees related to the *Jif*[®] peanut butter recall. The favorable net price realization was partially offset by a 9 percentage point decrease from volume/mix, primarily due to manufacturing downtime related to the *Jif*[®] peanut butter recall as well as declines for mainstream roast and ground coffee.

Adjusted gross profit decreased \$59 million, or 9% from the prior year, including an 18% unfavorable impact related to the *Jif*[®] peanut butter recall. The decrease reflects the lower contribution from volume/mix, primarily due to manufacturing downtime related to the *Jif*[®] peanut butter recall, unsaleable inventory related to the recall, and the noncomparable impact of the divested natural beverage and grains and private label dry pet food businesses. Higher costs, primarily driven by commodities and ingredients, manufacturing, and packaging, were offset by higher net price realization, including the unfavorable impact to net price realization from customer returns and fees related to the recall.

Adjusted operating income decreased \$53 million, or 17%, including a 29% unfavorable impact related to the *Jif*[®] peanut butter recall. The decline reflects the decrease in gross profit and an increase in SD&A expense, partially offset by an anticipated insurance recovery related to the recall.

Below operating income, net interest expense decreased \$4 million and net other income increased \$12 million. The adjusted effective income tax rate was 23.0%, compared to 23.6% in the prior year.

Factoring in all these considerations, along with weighted-average shares outstanding of 106.8 million, first quarter adjusted earnings per share was \$1.67, a decrease of 12% from the prior year. Our first quarter adjusted earnings per share reflects an estimated unfavorable impact of \$0.65, or 34%, related to *Jif*[®] peanut butter, primarily as a result of the product recall, inclusive of the estimated impact of manufacturing downtime and direct costs including customer returns, fees, unsaleable inventory, and other product recall related costs.

Turning to our segment results, U.S. Retail Pet Foods net sales increased 13% versus the prior year. Net sales increased 17% excluding noncomparable sales in the prior year related to the private label dry pet food divestiture. Growth was led by double-digit percentage increases for *Meow Mix*[®], *Milk-Bone*[®], and *Nutrish*[®]. Higher net pricing actions across the portfolio contributed a 20 percentage point increase to net sales, partially offset by a decreased contribution from volume/mix of 3%.

U.S. Retail Pet Foods segment profit increased 51%, primarily reflecting a favorable net impact of higher net price realization and increased commodity and ingredient, packaging, and manufacturing costs and lower marketing spend, partially offset by a decreased contribution from volume/mix.

Turning to the U.S. Retail Coffee segment, net sales increased 10% versus the prior year. Net price realization increased net sales by 24 percentage points, primarily reflecting list price increases across the portfolio to recover higher commodity costs. A reduced contribution from volume/mix decreased net sales by 14 percentage points, primarily driven by mainstream roast and ground coffee. Sales growth occurred across all brands in the portfolio, led by *Folgers*[®] growth of 7%, *Dunkin*[®] growth of 12%, and *Café Bustelo*[®] growth of 17%. Our K-Cup[®] portfolio continued its momentum, as net sales and volume grew 15% and 2%, respectfully.

U.S. Retail Coffee segment profit decreased 4%, primarily reflecting a decreased contribution from volume/mix and increased marketing investment, partially offset by the favorable net impact of higher net price realization and increased commodity costs.

In U.S. Retail Consumer Foods, net sales decreased 29% versus the prior year, inclusive of a 32% unfavorable impact related to the *Jif*[®] peanut butter recall. Net sales decreased 23% excluding the noncomparable divestiture impact of the natural beverage and grains businesses. Volume/mix decreased net sales by 20 percentage points, primarily driven by manufacturing downtime for *Jif*[®] peanut butter, partially offset by an increase for *Smucker's*[®] *Uncrustables*[®] frozen sandwiches. Lower net price realization also contributed 3 percentage points to the net sales decline, primarily driven by the unfavorable impact of customer returns and fees related to the *Jif*[®] peanut butter recall, partially offset by list price increases across the remainder of the portfolio.

U.S. Retail Consumer Foods segment profit decreased 54%, primarily reflecting the impact of the *Jif*[®] peanut butter recall and the noncomparable segment profit in the prior year related to the divested businesses. Excluding the unfavorable impact of the *Jif*[®] recall and divested businesses, segment profit increased primarily due to the net favorable impact of higher net price realization and higher commodity and ingredient, manufacturing, and packaging costs and favorable volume/mix.

Lastly, in International and Away From Home, net sales increased 2%, inclusive of an estimated 10% unfavorable impact related to the *Jif*[®] peanut butter recall. Excluding noncomparable net sales in the prior year for the divested businesses and unfavorable foreign currency exchange, net sales increased 4%. The Away From Home business increased 15% on a comparable basis, driven by double-digit growth for coffee and *Uncrustables*[®] frozen sandwiches. The International business decreased 6% on a comparable basis, primarily due to the unfavorable impact from the *Jif*[®] peanut butter recall.

International and Away From Home segment profit decreased 50%, primarily reflecting the impact of the recall and higher commodity costs, partially offset by higher net pricing.

First quarter free cash flow was \$(127) million, compared to \$70 million in the prior year. The decline was driven by a decrease in cash provided by operating activities and a \$20 million increase in capital expenditures. The decrease in cash provided by operating activities was primarily due to pension contributions of \$70 million, reduced earnings, including the impact of the *Jif*[®] peanut butter recall, and an increase in cash required to fund working capital. Capital expenditures for the quarter were \$88 million, representing 4.7% of net sales.

Based on a total debt balance of \$4.7 billion and a trailing twelve-month EBITDA of approximately \$1.5 billion, our leverage ratio stands at 3x. We continue to prioritize the use of cash toward dividends and debt repayments, while evaluating other strategic uses of cash to support future growth and shareholder value.

Let me now provide additional color on our revised outlook for fiscal 2023.

Ongoing cost inflation, volatility in supply chains and the overall macroeconomic environment continue to impact financial results and cause uncertainty and risk for the fiscal year 2023 outlook. Any manufacturing or supply chain disruption, as well as changes in consumer purchasing behavior, including the potential impact to volume due to recent price increases, retailer inventory levels, and macroeconomic conditions could materially impact actual results. In particular, the *Jif*[®] peanut butter recall will continue to impact our financial results for fiscal year 2023. The Company continues to focus on managing the elements it can control, including taking the necessary steps to minimize the impact of cost inflation, the recall, and any additional business disruption. As always, we will continue to plan for unforeseen volatility, while ensuring we have

contingency plans in place. This guidance reflects performance expectations based on the Company's current understanding of the overall environment.

We increased our full-year net sales expectations to be up 4% to 5% compared to the prior year. Excluding prior year sales of divested businesses, net sales are anticipated to increase approximately 6.5% at the mid-point of our guidance range on a comparable basis. This growth reflects higher net pricing actions, primarily to recover increased commodity and ingredient, and transportation and packaging costs. Net sales growth continues to reflect increased volume/mix for the *Uncrustables*[®] brand, K-Cups[®], and continued momentum in away from home channels. These tailwinds are being partially offset by the anticipated volume/mix impact of price elasticity of demand, and an estimated 2% unfavorable impact from the *Jif*[®] peanut butter recall related to manufacturing downtime and customer returns and fees.

The increase in our net sales guidance versus our previous expectation reflects stronger than anticipated demand in the first quarter, continued increased demand in our Pet business, partially offset by moderated growth assumptions in our coffee portfolio, and an improvement in the estimated impact from the *Jif*[®] peanut butter recall.

We now anticipate full-year adjusted gross profit margin of 33.5% to 34.0%. This reflects our expectations for modest cost favorability versus our original expectations, primarily for commodities and transportation.

We continue to project SD&A expenses to be unfavorable by approximately 9%, primarily reflecting increased compensation, along with approximately \$30 million of pre-production expenses and higher marketing spend. Total marketing expense remains unchanged at 5.5% of net sales, demonstrating our commitment to invest in our brands.

We anticipate net interest expense of approximately \$160 million and an adjusted effective income tax rate of 24.2%, along with full-year weighted-average shares outstanding of 106.5 million.

Taking all these factors into consideration, we anticipate full-year adjusted earnings per share to be in the range of \$8.20 to \$8.60, reflecting a \$0.35, or 4%, increase at the mid-point of the range compared to our previous expectations.

The earnings outlook includes an estimated \$0.80 unfavorable impact to adjusted earnings per share related to the *Jif*[®] peanut butter recall inclusive of the estimated impact of manufacturing downtime, customer returns and fees, and unsaleable inventory, partially offset by anticipated insurance proceeds. This estimate reflects a \$0.10 improvement compared to our original expectation of a \$0.90 earnings impact related to the *Jif*[®] peanut butter recall.

Free cash flow is now anticipated to be \$550 million, which reflects the adjustment to earnings guidance, working capital considerations, and capital expenditures of \$550 million. Other key assumptions affecting cash flow include: depreciation expense of approximately \$235 million, amortization expense of approximately \$225 million, pension contributions of \$70 million, share-based compensation expense of \$30 million, and other non-cash charges of \$20 million.

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

We invite all interested parties to join us at 9:00 am Eastern Time today for a live question-and-answer session with management to further discuss our first quarter results and outlook for the full 2023 fiscal year. The live webcast can be accessed at investors.jmsmucker.com.

In closing, I would like to express my appreciation for our employees. They have demonstrated their commitment to executing with excellence, and their passion for our Company positions us for continued success.

Thank you.

Additional Information

The J.M. Smucker Co. is the owner of all trademarks referenced herein, except for the following, which are used under license: *Dunkin*[®] 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 The J.M. Smucker Co. for packaged coffee products sold in retail channels such as grocery stores, mass merchandisers, club stores, e-commerce and drug stores. This information does not pertain to products for sale in *Dunkin*[®] restaurants.

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