



THE J.M. SMUCKER Co

**Fiscal Year 2023 Second 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 second 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.

We invite all interested parties to join us at 9:00 am Eastern Standard Time today for a live question-and-answer session with management to further discuss our second quarter results and outlook for the full 2023 fiscal year.

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.

Following a solid start to the fiscal year, our momentum continued across all our businesses in the second quarter. Enabled by the extraordinary contributions of our people, we delivered strong results that exceeded our expectations, reflecting the strength of our iconic brands, our focus on execution, and the continued advancement of our strategic priorities.

In the second quarter, net sales increased 8% versus the prior year, with every business outperforming our expectations. Comparable net sales excluding divested businesses and foreign exchange, increased 11%. Elasticities remained modest across our portfolio, most notably for pet food and snacks, *Uncrustables*[®] sandwiches, and fruit spreads.

Our strong top-line growth was led by our Pet and Coffee businesses, along with robust growth for the *Uncrustables*[®] brand. These platforms continue to be key enablers of sustained growth and reflect strong execution against our strategy of leading in the attractive categories of pet, coffee, and snacking.

Adjusted earnings per share decreased 1%, primarily driven by reduced volume/mix and anticipated cost increases, inclusive of the unfavorable impact from the *Jif*[®] peanut butter recall, mostly offset by higher net price realization.

Given our stronger than anticipated second quarter results, sustained business momentum, and increased visibility into the second half of the fiscal year, we are raising our top- and bottom-line guidance. We now expect net sales for fiscal 2023 to be up 6% at the midpoint of our range, which reflects 8% comparable growth versus the prior year. Additionally, we expect full-year adjusted earnings per share to be in the range of \$8.35 to \$8.75, reflecting the strong Q2 results and increased top-line growth expectations for the remainder of the fiscal year.

We remain confident in our strategy and the strength of our brands, while our improved execution reinforces our ability to sustain our market share gains. Brands that are growing or maintaining share accounted for 71% of our U.S. Retail sales in the second quarter, up from 49% during the same period two years ago.

Turning to our segment results, in Pet Foods our momentum continued with comparable net sales up 14% versus the prior year, driven by solid growth across all segments.

In cat food, net sales increased 19% led by the *Meow Mix*[®] brand, which grew 22% and benefited from higher pricing and increased volume/mix. This reflects another strong quarter for the brand, with year-over-year net sales growth in 19 of the last 20 quarters. *Meow Mix*[®] is the #1 dry cat food brand, and continues to grow both household penetration and brand loyalty.

In dog snacks, net sales increased 15% led by the *Milk-Bone*[®] brand, which grew sales 20%, benefiting from higher net 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 segment overall. *Milk-Bone*[®] gained 1 point of dollar share in the quarter and grew 2x the category rate.

And in dog food, net sales increased 10%, led by the *Kibbles 'N Bits*[®] and *Nutrish*[®] brands. Consumer take away was even stronger, up 18%, demonstrating progress on our efforts to stabilize our dog food portfolio. We are well positioned to continue benefiting from some shifts within the category, as our portfolio provides offerings across the price spectrum including premium, mainstream, and value products.

In Coffee, net sales growth of 10% was driven by all of the brands in our market-leading at-home coffee portfolio, underscoring the advantages of our broad offerings. Our results were strong year-over-year, and we continued to see sequential volume and margin improvement. As a reminder, earlier this year, we led the market increasing prices to recover significant commodity cost inflation, which impacted price gaps and elasticities. Competitive price gaps have continued to narrow, and we expect volume and margin improvement to continue for the remainder of the fiscal year.

Our coffee brands grew dollar share more than any other branded manufacturer for the sixth consecutive quarter and continued to outpace the coffee category. *Café Bustelo*[®] was one of the fastest growing brands in the at-home coffee category, growing market share in both dollars and volume during the quarter. Consumer takeaway was also up an impressive 28%.

With higher absolute price points due to significant input cost inflation, the premium segment of the category has experienced greater elasticity than other segments. As a result, the *Dunkin*[®] brand grew net sales modestly as volume decelerated, consistent with trends within the premium coffee segment. That said, price gaps have narrowed, as anticipated, and we remain confident in the overall health of the *Dunkin*[®] brand, its leadership position, and our long-term outlook for growth.

The *Folgers*[®] brand continued its momentum with double digit net sales growth. It was the fastest growing brand in dollar share, increasing nearly half a point during the quarter, and maintained more than double the volume share of any other brand in the category. This growth was supported by our bold, new marketing campaign and refreshed packaging.

Overall, at-home coffee remains strong, with at-home consumption representing 70% of all coffee drinking occasions. We expect the category to remain resilient, despite inflationary pressures and volume declines, given consumers' love of daily coffee rituals.

In our Consumer Foods business, comparable net sales increased 7%, driven by growth for *Uncrustables*[®] sandwiches and *Smucker's*[®] fruit spreads, partially offset by a decline in *Jif*[®] peanut butter.

Net sales for *Uncrustables*[®] sandwiches grew 21%, driven by higher pricing and volume/mix growth. Total Company net sales of *Uncrustables*[®] sandwiches, including the Away From Home business, were \$168 million this quarter. Completion of the expansion of the Longmont, Colorado facility has begun to provide increased production capacity that will support the back half of this fiscal year. As a result, we expect to see double-digit growth in both volume and sales for the remainder of the year.

Smucker's[®] fruit spreads net sales grew 19% in the quarter. We reduced complexity and optimized our SKU count by approximately 30% and are now starting to see flowback into the core offerings and improved elasticities. Our dollars per total points of distribution were up 43%.

In peanut butter, the *Jif*[®] brand declined by 4% in the quarter. All *Jif*[®] SKU's are now back on shelf, and the brand has regained its #1 position in the category with 40 points of dollar share, leading all competitors in household penetration and unit velocities. Given the strong consumer loyalty to the brand, we anticipate year-over-year net sales growth for the remainder of this fiscal year.

In addition to the strong top-line performance across our U.S. Retail businesses, our International and Away From Home businesses also aided our second quarter performance. We saw continued momentum in our Away From Home business as comparable net sales increased 19%, driven by higher net price realization and volume/mix growth.

In International, comparable net sales increased 15%, primarily driven by pet food and snacks, which experienced double-digit sales and volume growth in the quarter led by the *Meow Mix*[®] brand.

Across all our businesses, our second quarter results highlight our focus on our fiscal year 2023 priorities to nurture and invest in our culture, drive prioritization and best-in-class execution, improve profitability and cost discipline, transform our portfolio, and enhance diversity and foster inclusion & equity. We remain focused on these priorities to achieve long-term, sustainable success, while navigating the ongoing challenging operating environment, which I will touch on briefly.

The consistency of our performance through an unprecedented period of inflation and supply chain challenges demonstrates the effectiveness of the world-class capabilities we have developed over the last few years. Though the macro environment remains dynamic, the balance is now beginning to shift in favor of some Company-specific tailwinds. These include the benefits of reduced complexity in our portfolio, our improved capabilities and our competitive advantage through superior execution, improved supply chain, and the ability to recover cost increases through inflation justified pricing actions.

As consumer behavior continuously evolves, with inflation impacting purchasing patterns and channel preferences, overall at-home food purchases have remained strong. This is particularly true for the key growth categories we operate in, including pet, coffee, and frozen handheld snacks. As we look ahead, I am excited for the future and the vision we have for the Company, and look forward to discussing this in more detail at our Investor Day in mid-December.

Our success continues to be powered by our focused strategy, unique culture, outstanding leadership team, and dedicated employees, who I would like to thank for their exceptional contributions to provide the products and brands that consumers love. And together, we will continue to deliver on our commitment to achieve long-term growth while making a meaningful, positive impact in the world and on the lives of those who count on us.

I'll now turn the discussion over to Tucker.

TUCKER MARSHALL, CHIEF FINANCIAL OFFICER

Thank you, Mark. Good morning, everyone.

First, I'll begin by giving an overview of our second quarter results, and then I'll provide details on our updated financial outlook for the remainder of fiscal 2023.

Total company net sales increased 8%. Excluding the impact of divestitures and foreign exchange, net sales increased 11%. The increase in comparable net sales was primarily driven by a 17 percentage point increase from higher net price realization, reflecting list price increases for each of the Company's U.S. Retail segments and for International and Away from Home, partially offset by a 6 percentage point decrease from volume/mix, primarily driven by the U.S. Retail Coffee segment.

Adjusted gross profit was in-line with the prior year, primarily reflecting a favorable net impact of higher net price realization and increased commodity and ingredient, transportation, and packaging costs, inclusive of the unfavorable impact related to the *Jif*[®] peanut butter recall, mostly offset by a reduced contribution from volume/mix, and the noncomparable impact of the divested natural beverage and grains businesses. Further, excluding the unfavorable impact related to the *Jif*[®] peanut butter recall, gross profit would have increased versus the prior year.

Adjusted operating income decreased \$8 million, or 2%, reflecting an increase in SD&A expenses. Within SD&A, general and administrative and distribution expenses increased \$13 million, partially offset by favorable marketing expense of \$8 million. We remain confident in our overall level and consistency of marketing and brand building activities to sustain momentum for our key growth platforms.

Below operating income, net interest expense decreased \$1 million, primarily due to the net favorable impact of debt repayments and issuances in the prior fiscal year. The adjusted effective income tax rate was 24.4%, compared to 23.5% in the prior year.

Factoring in all these considerations, along with diluted weighted-average shares outstanding of 106.9 million, second quarter adjusted earnings per share was \$2.40, a decrease of 1% from the prior year.

Turning to our segment results, U.S. Retail Pet Foods net sales increased 9% versus the prior year. Net sales increased 14%, excluding noncomparable net sales in the prior year related to the private label dry pet food divestiture. Higher net pricing actions across the portfolio contributed a 16 percentage point increase to net sales, partially offset by a decreased contribution from volume/mix of 3 percentage points, primarily driven by decreases for dog food.

Net sales growth was led by double-digit percentage increases across all segments, including cat food, dog snacks, and dog food. Our strategic growth brands, *Meow Mix*[®] and *Milk-Bone*[®], experienced both sales and volume growth in the quarter, with net sales increases of 22% and 20%, respectively.

U.S. Retail Pet Foods segment profit increased 21%, primarily reflecting a favorable net impact of higher net price realization and increased commodity and ingredient, transportation, and packaging costs.

Turning to the U.S. Retail Coffee segment, net sales increased 10% versus the prior year. Higher net price realization increased net sales by 23 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 13 percentage points, primarily driven by the *Folgers*[®] and *Dunkin*[®] brands.

Net sales growth occurred across all brands in the portfolio, led by *Folgers*[®] growth of 12%, *Café Bustelo*[®] growth of 21%, and *Dunkin*[®] growth of 3%. Our K-Cup[®] portfolio continued its momentum, as net sales grew 7% versus the prior year.

U.S. Retail Coffee segment profit decreased 10%, 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 and manufacturing costs.

In U.S. Retail Consumer Foods, net sales decreased 2% versus the prior year. Excluding the prior year noncomparable net sales impact for the divested natural beverage and grains businesses, net sales increased 7%. The comparable net sales increase relative to the prior year was driven by higher net price realization of 9%, primarily reflecting list price increases across the portfolio. A reduced contribution from volume/mix decreased net sales by 3 percentage points, primarily driven by decreases for peanut butter and fruit spread products, partially offset by an increase for *Uncrustables*[®] sandwiches.

Net sales growth was led by *Uncrustables*[®] sandwiches and *Smucker's*[®] fruit spreads, which grew 21% and 19% respectively, partially offset by a 4% decline for *Jif*[®] peanut butter.

U.S. Retail Consumer Foods segment profit decreased 10%, primarily reflecting higher manufacturing, commodity and ingredient, and packaging costs, inclusive of costs related to the *Jif*[®] peanut butter product recall, and the noncomparable segment profit in the prior year related to the divested businesses. The decrease was partially offset by higher net price realization, lower marketing spend, and favorable volume/mix.

Lastly, in International and Away From Home, net sales increased 14%. Excluding noncomparable net sales in the prior year related to the divested natural beverage and grains businesses and unfavorable foreign currency exchange, net sales increased 17%. The Away From Home business net sales increased 19% on a comparable basis, driven by double-digit growth for coffee and *Uncrustables*[®] sandwiches. The International operating segment net sales increased 15% on a comparable basis, primarily due to pet food and pet snacks, baking mixes and ingredients, and coffee.

International and Away From Home segment profit increased 3%, primarily reflecting a favorable net impact of higher net price realization and increased commodity costs, partially offset by a decreased contribution from volume/mix.

Second quarter free cash flow was \$103 million, compared to \$106 million in the prior year, as a \$43 million increase in capital expenditures offset the increase in cash provided by operating activities. Capital expenditures for the quarter were \$102 million, representing 4.6% of net sales.

Based on a total debt balance of \$4.6 billion and a trailing twelve-month EBITDA of approximately \$1.5 billion, our leverage ratio stands at 3.0x. 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 broader macroeconomic conditions, could materially impact actual results. In particular, the *Jif*[®] peanut butter recall will impact our financial results for the full fiscal year.

We continue to focus on managing the elements we can control, including taking the necessary steps to minimize the impact of cost inflation, the product recall, and any potential 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 our current understanding of the overall environment.

We are pleased to increase our full-year net sales expectations by 1.5% and now anticipate full-year net sales to be up 5.5 to 6.5% compared to the prior year. Excluding prior year sales of divested businesses, net sales are anticipated to increase approximately 8% 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, transportation, and packaging costs. Net sales growth reflects increased volume/mix for *Uncrustables*[®] sandwiches, the *Meow-Mix*[®] brand, 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 results in the second quarter across our U.S. Retail segments, and increased demand in our U.S. Retail Pet Foods and Consumer Foods segments in the back-half of the fiscal year.

We expect a full-year adjusted gross profit margin of 33.5%.

We continue to project SD&A expenses to increase 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 approximately 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 24.1%, along with full-year weighted-average shares outstanding of approximately 106.9 million.

Taking all these factors into consideration, we anticipate full-year adjusted earnings per share to be in the range of \$8.35 to \$8.75, reflecting a \$0.15, or 2%, increase at the mid-point of the guidance range as 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 has not changed since our last guidance communication.

Earnings are expected to decline in the third quarter by a low-double-digit percentage compared to the prior year, as benefits from continued top-line momentum across our portfolio will be offset by higher compensation and marketing expenses, as well as business investments. Fourth quarter earnings are expected to grow approximately 10%, reflecting the benefits of continued momentum across our portfolio, sequential gross margin improvement, and moderation of SD&A expenses.

Free cash flow for fiscal year 2023 is anticipated to be \$550 million, reflecting 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 \$20 million, and other non-cash charges of \$20 million.

We are pleased with our second quarter results, which show the strength of our brands and the continued momentum of the business. We are taking the right actions to support continued operational excellence, while managing through this dynamic and inflationary environment. I am confident in our strategy and believe we are in a strong financial position to deliver sustainable and consistent long-term growth for our shareholders.

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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