



THE J.M. SMUCKER Co

Fiscal Year 2023 Third 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 third 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 third 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 strong start to the first half of our fiscal year, momentum continued across all our businesses in the third quarter. Enabled by the extraordinary contributions of our people, our strong results reflect the strength of our iconic brands, our focus on execution, and the continued advancement of our strategic priorities.

In the third quarter, comparable net sales increased 11%. Our strong top-line growth was led by our Coffee and Pet businesses, along with robust growth for the *Uncrustables*[®] brand. These platforms continue to be key enablers for sustained growth and reflect the strong execution of our strategy of leading in the attractive categories of pet, coffee, and snacking. Adjusted earnings per share decreased 5%, primarily driven by increased costs compared to the prior year.

Given our sustained business momentum, and increased visibility into the fourth quarter, we are raising our bottom-line guidance. We now expect full-year adjusted earnings per share to be in the range of \$8.55 to \$8.75.

During the quarter, brands that were growing or maintaining share accounted for 54% of our U.S. Retail sales, compared to 68% during the same period a year ago. We expect this decline to be temporary, as we experienced supply chain challenges both in our *Meow Mix*[®] dry cat food and *Smucker's*[®] fruit spreads businesses, and the *Jif*[®] brand continues to rebuild share. We remain confident in our strategy and the strength of our brands, and will continue to support them with ongoing marketing investments.

Turning now to our segment results, in Pet Foods, our momentum continued with comparable net sales up 10% versus the prior year, driven by strong growth across all categories.

In dog snacks, growth was led by the *Milk-Bone*[®] brand, which grew net sales 11%. The *Milk-Bone*[®] brand continues to drive growth for our market-leading business, and the dog snacks category overall, through core offerings and premium positioned innovation. *Milk-Bone*[®] continued to significantly outpace the category in the quarter, with consumer take-away up 18%.

In cat food, momentum for the *Meow Mix*[®] brand continued as net sales grew 6% in the quarter. This reflects another strong quarter for the brand, with year-over-year net sales growth in 20 of the last 21 quarters. Demand exceeded our ability to fulfill shipments in the quarter and we anticipate improved customer in-stocks in the fourth quarter. We continue to anticipate double-digit net sales growth for *Meow Mix*[®] this fiscal year, including continued growth in the fourth quarter.

Our wet food supply chain continues to improve, and we will unlock further growth for the *Meow Mix*[®] brand in wet food. Recently, we launched "wet 2.0", and will support this initiative through a far-reaching campaign across T.V., digital, social, influencer, and e-commerce. *Meow Mix*[®] has been the leader in household penetration and volume share in the dry cat food category over the past year, and we will leverage our brand equity in dry food to drive growth in wet food.

And in dog food, the *Nutrish*[®] brand grew net sales 20%, driven by higher pricing and increased volume/mix. The brand continues to benefit from some shifts within the category, the optimization of assortment including offerings with improved nutrition credentials, and a refreshed marketing campaign.

With the anticipated divestiture of several pet food brands, our business will shift from approximately two-thirds pet food and one-third pet snacks, to approximately 60% pet snacks and 40% cat food, which significantly improves the profit margin and product mix of the business. The brands we are divesting account for approximately 20% of total Company net sales, but only a mid-single digit percentage of total Company profit. We are well-positioned to allocate resources and increase investments into the fast-growing and high-margin dog snacks category, where we have brands and offerings ranging from value to premium.

In Coffee, net sales growth of 11% was driven by all brands in our market-leading at-home coffee portfolio, underscoring the advantages of our broad product offerings. Our results were strong year-over-year, and we continued to drive sequential volume and margin improvement in the third quarter supported by stabilization of costs and optimized promotions during the winter holidays.

Our coffee portfolio, which features three of the top eight brands in the category, grew dollar share more than any other branded manufacturer for the seventh consecutive quarter and continued to outpace the at-home coffee category.

The *Folgers*[®] brand continued its momentum with double-digit net sales growth. It was the fastest growing brand in dollar share, increasing over half a point during the quarter, and has achieved dollar share growth for four consecutive quarters. *Folgers*[®] continued to maintain double the volume share of any other brand in the category.

Café Bustelo[®] was the fastest growing brand in the at-home coffee category, and increased an impressive 28% in consumer take away. The brand grew market share in both dollars and volume during the quarter, and has experienced seven consecutive quarters of double-digit dollar sales growth.

The *Dunkin*[®] brand grew net sales modestly, largely driven by category dynamics within the overall premium segment. With increased price points due to persistent input cost inflation, the premium segment has experienced greater elasticity than others in the category. Price gaps to competitors have continued to narrow and promotional investments planned for the fourth quarter are anticipated to improve volumes. We continue to remain confident in the overall health of the *Dunkin*[®] brand, its leadership position, and our long-term outlook for growth.

Overall, at-home coffee remains strong, with at-home consumption representing 71% of all coffee drinking occasions. We expect the category to remain resilient, as macroeconomic conditions and changes in consumer habits all largely benefit at-home coffee. We are uniquely positioned in the U.S. Retail coffee market, as our portfolio of brands provides consumers offerings ranging from value to premium.

In our Consumer Foods business, comparable net sales increased 9%, driven by growth for *Uncrustables*[®] sandwiches and *Smucker's*[®] fruit spreads, partially offset by a decline in *Jif*[®] peanut butter.

Uncrustables[®] sandwiches continued to deliver exceptional growth, with net sales increasing 38%, or nearly \$40 million, driven by double digit volume/mix growth and higher pricing. Total Company net sales for *Uncrustables*[®] sandwiches, including the Away From Home business, were \$173 million this quarter. The expansion of the Longmont, Colorado facility has begun to provide increased production capacity. As demand continues to outpace supply, we expect strong double-digit growth in both sales and volume in the fourth quarter, which would be nine consecutive fiscal years of double-digit net sales growth.

In peanut butter, all *Jif*[®] SKU's are now back on shelf, and the brand is #1 in the category with 41 points of dollar share in the quarter, leading all competitors in household penetration and unit velocities. Given the strong consumer loyalty to the brand, we anticipate strong year-over-year net sales growth in the fourth quarter.

In addition to the strong top-line performance across our U.S. Retail businesses, our International and Away From Home businesses also aided our third quarter performance. Momentum continued in our Away From Home business as comparable net sales increased 17%, driven by higher net price realization and favorable volume/mix. Growth was driven by *Uncrustables*[®] sandwiches, as added capacity begins to help meet demand in away from home channels.

In International, comparable net sales increased 6%. We will continue to leverage opportunities consistent with our U.S. Retail businesses, most notably for *Uncrustables*[®] sandwiches, which launch in Canada early next fiscal year.

Across all our businesses, our third quarter results highlight our focus on our fiscal year 2023 priorities, which include:

- Driving prioritization and best-in-class execution;
- Improving profitability and cost discipline;
- Transforming our portfolio;
- Nurturing and investing in our culture; and,
- Improving diversity and fostering inclusion and equity.

These strategic priorities will continue to guide our business and position us to deliver strong results and long-term growth. Let me discuss one of our priorities now, transforming our portfolio, including the anticipated divestiture of several pet food brands.

This transaction, along with other recent divestitures from slower growth categories and brands, reflects our commitment to divesting brands and businesses that are no longer consistent with our long-term strategic focus. In-turn, we are streamlining our business, improving profit margin and product mix, while allocating resources toward our key growth platforms including:

- *Uncrustables*[®] sandwiches;
- Dog snacks and cat food; and,
- Our coffee portfolio and its expansion into new formats.

We're confident in the strategic choices we have made, and our results reaffirm they were the right ones.

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 third 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 15 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 4 percentage point decrease from volume/mix, primarily driven by the U.S. Retail Coffee segment.

Adjusted gross profit increased \$27 million, or 4% from the prior year, primarily reflecting a favorable net impact of higher net price realization and increased commodity and ingredient, manufacturing, and packaging costs, inclusive of costs related to the *Jif*[®] peanut butter product recall. The gross profit increase also reflects a reduced contribution from volume/mix and the noncomparable impact of the divested natural beverage and grains businesses.

Adjusted operating income decreased \$20 million, or 5% from the prior year, reflecting an increase in SD&A expenses. The increase in SD&A expenses was primarily driven by increased marketing investments, higher compensation expense and investments in the Transformation Office. Expenses related to expanding manufacturing capacity for *Uncrustables*[®] sandwiches also contributed to the SD&A increase.

Below operating income, net interest expense decreased \$2 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 24.8%, compared to 25.1% in the prior year.

Factoring in all these considerations, along with diluted weighted-average shares outstanding of 107.0 million, third quarter adjusted earnings per share was \$2.21, a decrease of 5% 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 10%, excluding noncomparable net sales in the prior year related to the private label dry pet food divestiture. The net sales increase was led by growth across all segments, including dog food, cat food, and dog snacks. 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 5 percentage points, primarily driven by cat food and dog snacks.

U.S. Retail Pet Foods segment profit increased 14%, primarily reflecting a favorable net impact of higher net price realization and increased commodity and ingredient, manufacturing, and packaging costs, partially offset by increased marketing investment and a reduced contribution from volume/mix.

Turning to the U.S. Retail Coffee segment, net sales increased 11% versus the prior year. Higher net price realization increased net sales by 19 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 8 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 15%, *Café Bustelo*[®] growth of 20%, and *Dunkin*[®] growth of 2%. Our K-Cup[®] portfolio continued its momentum, as net sales grew 3% versus the prior year.

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

In U.S. Retail Consumer Foods, net sales were in-line versus the prior year. Excluding the prior year noncomparable net sales impact for the divested natural beverage and grains businesses, net sales increased 9%. The comparable net sales increase was driven by higher net price realization of 6%, primarily reflecting list price increases across the portfolio. An increased contribution from volume/mix increased net sales by 3 percentage points, primarily driven by *Uncrustables*[®] sandwiches.

Net sales growth was led by *Uncrustables*[®] sandwiches and *Smucker's*[®] fruit spreads, which grew 38% and 12%, respectively. This was partially offset by a 6% decline for *Jif*[®] peanut butter.

U.S. Retail Consumer Foods segment profit decreased 5%, primarily reflecting the net impact of higher net price realization and higher manufacturing and packaging costs, inclusive of costs related to the *Jif*[®] peanut butter product recall, increased marketing investments and the noncomparable segment profit in the prior year related to the divested natural beverage and grains businesses, partially offset by the favorable volume/mix.

Lastly, in International and Away From Home, net sales increased 9%. Excluding unfavorable foreign currency exchange and noncomparable net sales in the prior year related to the divested natural beverage and grains businesses, net sales increased 12%. The comparable net sales increase was driven by higher net price realization of 15%, primarily driven by increases for coffee products and baking mixes and ingredients, partially offset by a decreased contribution from volume/mix of 3 percentage points.

The Away From Home business net sales increased 17% on a comparable basis, driven by double-digit growth for *Uncrustables*[®] sandwiches and coffee. Net sales for the International operating segment increased 6% on a comparable basis.

International and Away From Home segment profit increased 10%, primarily reflecting a favorable net impact of higher net price realization and increased commodity costs.

Third quarter free cash flow was \$443 million, compared to \$322 million in the prior year, reflecting an increase in cash provided by operating activities, partially offset by an increase in capital expenditures. Capital expenditures for the quarter were \$142 million, representing 6.4% of net sales.

We paid down \$303 million of debt during the quarter, resulting in a total debt balance of \$4.3 billion. Based on a trailing twelve-month EBITDA of approximately \$1.5 billion, our leverage ratio stands at 2.8x.

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 product 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 continue to anticipate full-year net sales growth of approximately 6% compared to the prior year. Excluding prior year net sales of the divested businesses, net sales are anticipated to increase approximately 8% 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, 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 product recall related to manufacturing downtime and customer returns and fees.

We continue to anticipate full-year adjusted gross profit margin of approximately 33.5%, which reflects continued sequential improvement in the fourth quarter.

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 primarily related to the *Uncrustables*[®] sandwich capacity expansion, 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 24.2%, along with full-year weighted-average shares outstanding of approximately 106.9 million.

Taking all these factors into consideration, we are raising our anticipated full-year adjusted earnings per share to be in the range of \$8.55 to \$8.75, reflecting a \$0.10 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 product recall inclusive of the estimated impact of manufacturing downtime, customer returns and fees, and unsaleable inventory, partially offset by insurance proceeds. This estimate has not changed since our last guidance communication.

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 remain unchanged.

Finally, we do not expect the anticipated pet divestiture to have a material impact on our fiscal year 2023 full-year net sales and adjusted earnings per share results, as the transaction is anticipated to close late in the fourth quarter of the current fiscal year.

We are pleased with our third quarter results, which show the strength of our brands and the continued momentum of the businesses. We are taking the right actions to support continued operational excellence, and our commitment to financial discipline and a balanced approach to capital deployment supports our long-term growth strategy. I am confident that we are firmly on the path to deliver consistent, long-term sustainable growth and increasing shareholder value.

In closing, I would like to express my appreciation for our talented 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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