



**THE J.M. SMUCKER Co**

**Fiscal Year 2024 First Quarter Earnings  
Prepared Management Remarks**

August 29, 2023

## **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 2024 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 2024 outlook. Later this morning, we will hold a separate, live question-and-answer webcast.

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

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

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 2024 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.

In the first quarter, our momentum continued across our businesses as we delivered a positive start to the fiscal year. Consumer demand for our iconic brands combined with our focus on execution, increased marketing investments and disciplined cost management, drove double-digit comparable sales and earnings growth in the quarter. Growth was strong across all our businesses, reflecting ongoing execution against our proven strategy of leading in the coffee, consumer foods, dog snacks, and cat food categories.

Comparable net sales in the first quarter increased 21%, which was in-line with our expectations, driven by volume growth across each of our U.S. Retail segments and our International and Away From Home business. Favorable net price realization also contributed to net sales growth, primarily due to the carryover of pricing actions implemented in the prior year to recover increased costs across our portfolio. Price elasticities continued to be modest across our portfolio and remained below historical levels.

There are several factors impacting the comparability of our first quarter net sales versus the prior year, including the favorable impact from the *Jif*<sup>®</sup> brand, primarily due to lapping the product recall in the prior year, and contract manufacturing sales related to the divested pet food brands. Excluding these favorable items, our portfolio achieved comparable net sales growth of approximately 6.5% versus the prior year, including volume growth in each business segment.

Adjusted earnings per share was \$2.21, an increase of 32%. Earnings per share results benefitted from improved gross profit margins and favorable SD&A expenses.

Our first quarter results and continued business momentum gave us confidence to raise our adjusted earnings per share guidance. We have increased our full-year expectations for adjusted earnings per share to be in the range of \$9.45 to \$9.85, which reflects a 3% increase across the range versus our prior outlook.

Tucker will provide more details on our updated fiscal 2024 guidance.

Turning to our business segments, in Coffee, net sales grew 5%, driven by volume/mix growth across all brands. This growth underscores the advantages of our broad coffee offerings across various formats and price points.

Our coffee portfolio, which now features three of the top seven at-home coffee brands, grew dollar share more than any other branded manufacturer for the ninth consecutive quarter. Our portfolio continued to outpace the coffee category, with the three fastest growing leading brands in the quarter - - *Café Bustelo*<sup>®</sup>, *Dunkin*<sup>®</sup>, and *Folgers*<sup>®</sup>. We expect our strong momentum in coffee to continue, as we increase marketing investments behind our brands and pass through a moderation in commodity costs that will provide consumers with increased value and some relief from inflation. This is consistent with our historical practice of passing through lower coffee costs, while successfully maintaining profit margins and dollar profit.

*Café Bustelo*<sup>®</sup> net sales grew 22% with volume/mix growth of 19%. *Café Bustelo*<sup>®</sup> is the fastest growing national brand in the mainstream, one cup, and instant categories, with consumer take away up 18% in the quarter. *Café Bustelo*<sup>®</sup> also captured more share growth than any other leading brand in both dollars and volume during the quarter.

*Folgers*<sup>®</sup> also continued its momentum with net sales increasing 6%, driven by volume/mix growth. *Folgers*<sup>®</sup> continues to maintain its strong volume position of over double the nearest branded competitor and has returned to volume share growth in the last month.

The *Dunkin*<sup>®</sup> brand achieved both dollar and volume growth in the quarter. Price gaps to competitors have continued to narrow and planned promotional investments supported volume growth, as the recent premium category trade down dynamic has moderated. We expect continued volume growth for the *Dunkin*<sup>®</sup> brand supported by our recently announced price decline.

We recently launched *Dunkin*<sup>®</sup> cold brew concentrates, and we are very pleased with retailer acceptance. The concentrate is currently available in Black and Pumpkin Spice flavors at leading retailers. Coffee concentrate is highly convenient for consumers, as it requires no brewing equipment, and allows for easy customization of the strength of coffee. We look forward to bringing more no-brew innovation to the at-home market, as we continue to make investments and explore opportunities in the fast-growing liquid and cold coffee segments.

In the one cup category, our brands grew 2x the category average during the quarter. Our brands achieved the top three volume share gains among all leading brands, as our portfolio realized double-digit volume growth in consumer take away.

Overall, the coffee category continues to remain resilient, as the pandemic driven increase in at-home consumption remains sticky and over 70% of all coffee drinking occasions continue to be at home.

Turning to our Consumer Foods business, net sales grew 49%, including a 43% benefit from *Jif*<sup>®</sup> peanut butter, primarily due to lapping the product recall in the prior year. Net sales also benefited from strong growth for *Smucker's*<sup>®</sup> *Uncrustables*<sup>®</sup> frozen sandwiches and *Smucker's*<sup>®</sup> fruit spreads.

Net sales for *Smucker's*<sup>®</sup> *Uncrustables*<sup>®</sup> frozen sandwiches grew 11%, primarily driven by double-digit volume/mix growth. Total Company net sales of *Uncrustables*<sup>®</sup> sandwiches were approximately \$180 million. We anticipate the rate of growth to accelerate for the balance of the fiscal year, as the total brand is expected to grow net sales approximately 20% for the full year to over \$800 million.

This growth will be supported by our initiatives to turn on demand drivers to further increase household penetration, including advertising and in-store activations. We believe we can significantly increase household penetration for *Uncrustables*<sup>®</sup>, as our peanut butter and fruit spreads products maintain household penetration of nearly 3x the current level of *Uncrustables*<sup>®</sup>.

We remain confident in growing *Uncrustables*<sup>®</sup> to a \$1 billion brand with the completion of our third manufacturing site in McCalla, Alabama. Construction is on track and is expected to provide increased production capacity in calendar year 2025.

With this expanded capacity, *Uncrustables*<sup>®</sup> has significant runway for continued growth.

In peanut butter, the *Jif*<sup>®</sup> brand has fully recovered, as we lapped the recall in the prior year. *Jif*<sup>®</sup> has returned to the #1 brand in household penetration, #1 in dollar, unit and volume share, and *Jif*<sup>®</sup> has seven of the top 10 selling SKUs in the peanut butter category. We will continue to drive growth for the brand as we bring innovation to the category. This month, we launched *Jif*<sup>®</sup> in a portable, squeeze format, which is an on-the-go snack that can be clipped onto backpacks or other convenient locations. This is an extension of our successful *Jif*<sup>®</sup> Squeeze products that are driving incremental growth in the category.

Peanut butter is an attractive category, as consumers are increasingly seeking affordable sources of protein. This is driving category trade-in that is providing outsized benefits for *Jif*<sup>®</sup> as the #1 brand in the category.

In Pet Foods, comparable net sales increased 22% versus the prior year, including a 14% benefit from contract manufacturing sales related to the divested pet food brands, and strong growth for *Meow Mix*<sup>®</sup> cat food and *Milk-Bone*<sup>®</sup> dog snacks.

In dog snacks, the *Milk-Bone*<sup>®</sup> brand grew net sales 10%, as volume/mix and net price realization each contributed 5%. *Milk-Bone*<sup>®</sup> continued to outpace the category, with consumer take-away up over 13%, and grew nearly 2x the category rate. The *Milk-Bone*<sup>®</sup> brand continues to drive growth through core offerings and premium positioned innovation.

Mainstream dog snacks are driving category growth through favorable price per ounce economics and consumers' desire for value. Biscuits and Soft and Chewy offerings have generated the largest dollar share growth in the dog snacks category over the last year. Our portfolio benefits significantly from this, as we are the #1 manufacturer in both categories. In biscuits, *Milk-Bone*<sup>®</sup> has a 62% dollar share and grew over 2 points of share in the quarter. And in Soft and Chewy, we are the #1 manufacturer with twice the dollar and volume share of the nearest competitor, and we grew over 2 points of dollar share in the quarter.

*Meow Mix*<sup>®</sup> brand net sales grew 13%, and demand continued to exceed our production capacity for dry cat food in the quarter. Following recent out-of-stocks due to supply constraints, we have begun to replenish retailer inventories. The brand has begun to recover share, and *Meow Mix*<sup>®</sup> Original Choice is again #1 in dry cat food based on volume consumption. We expect continued improvement in supply catching up to demand through the second quarter.

Our Pet segment results this quarter demonstrate the benefits of our recent pet food divestiture, as profit margins improved nearly 200 basis points over the prior year, driven by improved product mix. We anticipate margins to further improve over time after we fulfill contract manufacturing requirements and mitigate stranded overhead costs related to the recent divestiture.

In addition to the strong performance of our U.S. Retail businesses, momentum continued in our Away From Home business as comparable net sales increased 21%, inclusive of a 12% benefit from *Jif*<sup>®</sup> peanut butter primarily due to lapping the recall in the prior year. Growth was driven by portion control, fruit spreads, and *Uncrustables*<sup>®</sup> sandwiches.

Late in the first quarter, we expanded distribution of *Uncrustables*<sup>®</sup> sandwiches in away from home channels. The expansion includes convenience stores, micro markets, and other grab-and-go, immediate consumption foodservice locations. As distribution in these channels accelerates, we expect over 20% net sales growth for *Uncrustables*<sup>®</sup> sandwiches in our Away From Home business for the remainder of the fiscal year.

Overall, our first quarter results demonstrate the strength of our brands and our continued business momentum, which supported market share gains across our portfolio. Brands that are growing or maintaining dollar share accounted for 79% of our U.S. Retail sales in the first quarter, up from 57% in the prior quarter and 75% during the same period a year ago. Our strong market share performance reflects the ongoing and incremental marketing investments in our brands and serves as a testament to the success of our commercial model.

In summary, I would like to highlight a few key points:

- We had a strong first quarter, including volume growth in each of our U.S. Retail segments and our International and Away From Home business;
- The momentum for our brands remains strong and consumer loyalty remains high;
- The categories we play in continue to be resilient and have relatively low private label exposure in comparison to the total store;
- The breadth of our portfolio provides an advantageous position in the current macroeconomic environment, as we provide consumers options ranging from value to premium offerings;
- And, the bold actions to reshape our portfolio over the past few years have positioned our Company to deliver increased shareholder value over the long-term.

As we look ahead, we are well-positioned to adapt to consumer preferences, execute with excellence, and sustain the momentum for our business. All of which are powered by our unique culture and dedicated employees, who I would like to thank for their outstanding contributions.

I'll now turn it over to Tucker to go over our quarterly financial results and fiscal year 2024 outlook in more detail.

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

Thank you, Mark. Good morning, everyone.

I'll begin by giving an overview of first quarter results, then I'll provide additional details on our updated financial outlook for fiscal year 2024.

Net sales decreased 4%, primarily due to lost sales from the divested pet food business in the prior year. Comparable net sales increased 21%, excluding the prior year sales for the divested business and foreign exchange. The comparable net sales increase reflects an 11% favorable impact from *Jif*<sup>®</sup> peanut butter, primarily due to lapping the product recall in the prior year, and a 3% favorable impact from contract manufacturing sales in the current year related to the divested pet food brands.

The increase in comparable net sales was due to favorable volume/mix of 13%, with growth across each of our U.S. Retail segments and our International and Away From Home business. Items favorably impacting the year-over-year volume/mix increase include lapping the temporary unavailability of *Jif*<sup>®</sup> peanut butter in the prior year and contract manufacturing sales in the current year related to the divested pet food brands. Excluding these two items, volume/mix increased low-single-digits, driven by coffee, *Uncrustables*<sup>®</sup> sandwiches, and *Milk-Bone*<sup>®</sup> dog snacks.

Comparable net sales growth was also supported by an 8 percentage point increase from net price realization, primarily due to the carryover of pricing actions implemented in the prior year to recover increased costs across our portfolio and the favorable impact of lapping customer returns and fees related to the *Jif*<sup>®</sup> peanut butter product recall in the prior year.

Adjusted gross profit increased \$57 million, or 10% compared to the prior year. The increase reflects a favorable net impact of higher net price realization and increased costs and favorable volume/mix, including the benefits from lapping the impact of the *Jif*<sup>®</sup> peanut butter product recall. Gross profit also reflects the unfavorable impact from forgone profits related to the divested pet food brands.

Adjusted operating income increased \$62 million, or 23%, reflecting the increased gross profit and favorable SD&A expenses, partially offset by lapping the insurance recovery in the prior year from the *Jif*<sup>®</sup> peanut butter product recall.

Below operating income, net interest expense decreased \$7 million, primarily due to an increase in interest income, reflecting higher interest rates as compared to the prior year, and a decrease in interest expense related to the Company's commercial paper program, as there was no outstanding balance at the end of the quarter. The adjusted effective income tax rate was 23.6%, compared to 23.0% in the prior year.

Factoring in all these considerations, along with share repurchases that decreased weighted-average shares outstanding to 102.8 million, first quarter adjusted earnings per share was \$2.21, an increase of 32% from the prior year.

Turning to our segment results, in the U.S. Retail Coffee segment, net sales increased 5% versus the prior year. Favorable volume/mix increased net sales by 4 percentage points, with growth across all brands in the portfolio. Net price realization was neutral in the quarter.

Net sales growth was led by *Folgers*<sup>®</sup> and *Café Bustelo*<sup>®</sup>, growing 6% and 22%, respectively. The *Dunkin*<sup>®</sup> brand declined 4%, primarily driven by planned promotional investments in the quarter.

U.S. Retail Coffee segment profit increased 17%, primarily reflecting decreased commodity costs and favorable volume/mix.

In U.S. Retail Consumer Foods, net sales increased 49 percentage points versus the prior year, including a 43% favorable impact from *Jif*<sup>®</sup> peanut butter product recall primarily due to lapping the product recall in the prior year. Volume/mix increased net sales by 28 percentage points, primarily driven by *Jif*<sup>®</sup> peanut butter and *Uncrustables*<sup>®</sup> sandwiches. Higher net price realization increased net sales by 22 percentage points, primarily reflecting the favorable impact of lapping customer returns and fees related to the *Jif*<sup>®</sup> peanut butter product recall.

U.S. Retail Consumer Foods segment profit increased 93%, primarily reflecting the net favorable impact of lapping the *Jif*<sup>®</sup> peanut butter product recall and favorable volume/mix for *Uncrustables*<sup>®</sup> sandwiches. Excluding the impact related to *Jif*<sup>®</sup> peanut butter, the net impact of increased costs and higher net price realization was unfavorable.

In U.S. Retail Pet Foods, net sales decreased 40% versus the prior year. Net sales increased 22%, excluding noncomparable sales in the prior year related to the divested pet food brands. Volume/mix increased net sales by 12 percentage points, primarily driven by \$51 million of contract manufacturing sales and the *Milk-Bone*<sup>®</sup> brand. Higher net price realization increased net sales by 10 percentage points, driven by list price increases in the prior year across the portfolio to recover higher costs.

U.S. Retail Pet Foods segment profit decreased 32%, primarily reflecting the noncomparable segment profit in the prior year related to the divested pet food brands, increased marketing investments for the remaining brands, and increased distribution costs, partially offset by a favorable net impact of higher net price realization and increased costs and favorable volume/mix.

Lastly, in International and Away From Home, net sales increased 17%, including a 12% benefit from *Jif*<sup>®</sup> peanut butter primarily due to lapping the product recall in the prior year. Excluding noncomparable net sales in the prior year related to the divested pet food brands and unfavorable foreign currency exchange, net sales increased 22%. Volume/mix increased net sales by 14 percentage points for the combined businesses, primarily driven by portion control and peanut butter products. Net price realization contributed an 8 percentage point increase to net sales, primarily driven by list price increases across the portfolio, partially offset by increased trade spend.

The Away From Home business net sales increased 21% on a comparable basis, primarily driven by *Jif*<sup>®</sup> and *Smucker's*<sup>®</sup> portion control. Net sales for the International operating segment increased 24% on a comparable basis, primarily driven by *Jif*<sup>®</sup> peanut butter, coffee products and *Uncrustables*<sup>®</sup> sandwiches, which recently launched in Canada.

International and Away From Home segment profit increased 119%, reflecting favorable volume/mix, primarily due to the favorable impact of lapping the *Jif*<sup>®</sup> peanut butter product recall in the prior year, and a favorable net impact of higher net price realization and increased costs.

First quarter free cash flow was \$68 million, compared to negative \$127 million in the prior year, driven by an increase in cash provided by operating activities, partially offset by a \$62 million increase in capital expenditures. The increase in cash provided by operating activities was primarily due to less cash required to fund working capital, lapping a \$70 million pension contribution in the prior year, and increased earnings, including lapping the impact of the *Jif*<sup>®</sup> peanut butter product recall. The increase in capital expenditures was driven by the capacity expansion for *Uncrustables*<sup>®</sup> sandwiches at our McCalla, Alabama facility.

In the first quarter, we repurchased approximately 2.4 million common shares, which settled for \$372 million.

We finished the quarter with cash and cash equivalent balances of \$241 million, and a total debt balance of \$4.3 billion. Based on a trailing twelve-month adjusted EBITDA of approximately \$1.7 billion, our leverage ratio stands at 2.6x.

In the first quarter, we began entering into derivative transactions to facilitate the forward sale of shares of Post common stock received from the pet food divestiture. All 5.4 million shares of our Post common stock were hedged during, and subsequent to, the first quarter. We will receive cash proceeds of approximately \$466 million in the third quarter of this fiscal year.

We anticipate using the proceeds to pay down debt and maintain a strong balance sheet and investment grade debt rating. This is consistent with our balanced capital deployment model, which includes strategic reinvestments in the business through capital expenditures and acquisitions, while returning value to shareholders through dividends, share repurchases and debt reduction. In the first quarter, we increased our quarterly dividend by 4% from \$1.02 to \$1.06.

Let me now provide additional color on our outlook for fiscal year 2024.

Ongoing inflation, supply chain challenges and the overall macroeconomic environment continue to impact financial results and cause uncertainty and risk for the fiscal year 2024 outlook. Any manufacturing or supply chain disruption, as well as changes in consumer purchasing behavior, including the potential impact to volume due to pricing and broader macroeconomic conditions, could materially impact actual results. We continue to focus on managing the elements that we can control, including taking the necessary steps to minimize the impact of inflation and any potential business disruption. This outlook reflects performance expectations based on the Company's current understanding of the overall environment.

We continue to expect comparable net sales growth of approximately 9% at the mid-point of the guidance range compared to the prior year, demonstrating the continued momentum of our business and brands. This reflects volume/mix benefits across all three of our U.S. Retail segments and our International and Away From Home business. Net sales growth also reflects higher net price realization, primarily due to pricing



actions to recover increased costs across our portfolio, mostly in the prior year, partially offset by a decrease in net price realization for the U.S. Retail Coffee segment.

We now expect the contract manufacturing sales related to the divested pet food brands to contribute approximately \$160 million in net sales, which is approximately \$25 million less than our original estimate.

We are increasing our full-year adjusted gross profit margin expectations to approximately 37.0%. This reflects our outlook for some cost favorability versus our original expectations.

We continue to project SD&A expenses to be favorable by approximately 5% at the mid-point of the guidance range, primarily reflecting reduced expenses associated with the divested business, partially offset by approximately \$40 million of pre-production expenses related to the *Uncrustables*<sup>®</sup> capacity expansion, increased marketing spend across the remaining business, and investments in liquid coffee. Total marketing expense is estimated to be approximately 5.5% of net sales.

We now anticipate net interest expense of approximately \$135 million, a reduction from our original projection, driven by higher interest income. The full-year adjusted effective income tax rate is now anticipated to be 24.0%, along with a full-year weighted-average share count of 102.5 million, which reflects share repurchase activity in the months of March and May and remains unchanged from our original expectations.

Taking all these factors into consideration, we anticipate full-year adjusted earnings per share to be in the range of \$9.45 to \$9.85. At the mid-point of the guidance range, this reflects an increase of approximately 8% compared to the prior year, inclusive of an approximate 7% headwind related to the net impact of stranded overhead from the pet food divestiture.

We continue to anticipate the net stranded overhead impact to be approximately \$0.60, inclusive of income and reimbursements from transition services and co-manufacturing agreements.

We anticipate second quarter comparable net sales to increase a mid-single digit percentage and adjusted earnings per share to increase a low single-digit percentage compared to the prior year.

We continue to project free cash flow of approximately \$650 million, with capital expenditures of \$550 million for the year. Capital expenditures remain elevated due to capacity expansion for *Smucker's*<sup>®</sup> *Uncrustables*<sup>®</sup>. Other key assumptions affecting cash flow include: depreciation expense of approximately \$220 million, amortization expense of approximately \$155 million, share-based compensation expense of \$30 million, other non-cash charges of \$40 million, and cash tax payments of approximately \$75 million that are incremental to tax expense.

In closing, our first quarter results demonstrate the continued momentum for our business and brands, and we remain confident in our strategy and ability to deliver on the commitments we outlined today. We are in a strong financial position to deliver sustainable and consistent long-term growth for our shareholders.

And, 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 *Dunkin*<sup>®</sup> which is used under license and is trademark of DD IP Holder LLC.

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

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