

THE J.M. SMUCKER Co

Fiscal Year 2022 Second Quarter Earnings Prepared Management Remarks

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CORPORATE PARTICIPANTS

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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 2022 second quarter earnings. After this brief introduction, Mark Smucker, President and Chief Executive Officer, will give an overview of second quarter 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 2022 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.

MARK SMUCKER, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thank you, Aaron, and good morning everyone.

After a solid start to the fiscal year, our momentum continues across our businesses. Enabled by the extraordinary contributions of our people, we delivered second quarter results that exceeded our expectations. Our performance through the first half of the fiscal year reflects the strength of our brands, our focus on execution, and our targeted response to a dynamic operating environment. Macroeconomic conditions remain volatile as supply chain disruptions and cost inflation persist. Our teams continue to navigate the challenging environment, execute our strategy, and deliver exceptional results. We continue to see elevated at-home consumption trends that developed during the pandemic as consumers increasingly seek out brands they trust most.

In the second quarter, net sales increased 1 percent versus the prior year. Excluding noncomparable net sales from divestitures and foreign exchange, net sales grew 8 percent, with every business outperforming our expectations. Organic net sales grew 6 percent on a 2-year CAGR basis, demonstrating growth across all three of our U.S. Retail segments.

We continued to successfully implement net pricing actions across our businesses and benefited from lower than anticipated elasticity. Strong demand for our brands was supported by our improved commercial execution and innovative marketing.

As a result, adjusted earnings per share increased 2 percent, benefitting from the top-line growth and favorable spending, partially offset by increased costs.

While top-line growth is healthy, we continue to experience supply chain and transportation constraints, along with isolated labor shortages. In addition, the extreme weather events earlier in the year and the rising cost environment are delaying incremental bottom-line growth due to the disruption and timing of cost recovery through higher net pricing. We will continue to mitigate these pressures with additional inflation-justified pricing actions including list price increases, trade spend optimization, and revenue growth management strategies, as well as productivity initiatives.

The combination of strong underlying demand and effective pricing actions is allowing us to raise our net sales outlook for fiscal 2022 to be flat at the midpoint of our range, which reflects 4.5 percent comparable growth. We also increased our full-year adjusted earnings per share expectation to be in the range of $8.35 to $8.75, as increased sales and productivity savings will help offset the continued inflationary dynamics.

We are confident in our strategy and the strength of our brands, while our improved execution reinforces our ability to sustain our market share improvements. Brands that are growing or maintaining share accounted for 76 percent of our U.S. Retail sales in the second quarter, up from 48 percent during the same period a year ago.

Turning to our segment results, in Pet Foods, comparable net sales grew 7 percent versus the prior year. Growth was mostly driven by our cat food and market-leading dog snacks businesses, with net sales increases of 9 percent and 7 percent, respectively, while dog food grew 1 percent.

Our dry cat food portfolio continues to outperform the category, as retail sales growth for the *Meow Mix®* brand was nearly double the category rate, leading to a 1.2-point market share gain in the quarter.

Sales growth for dog snacks was led by the *Milk-Bone®* brand, which grew 17 percent, and outpaced the category in retail sales, reflecting benefits of net pricing and revenue growth management actions, as well as volume growth supported by premium positioned innovation.

In Coffee, net sales growth of 8 percent was driven by all brands in our market-leading at-home coffee portfolio. Our portfolio gained over a half point of dollar share in the quarter, more than any other manufacturer, as we outpaced the category in all segments, including mainstream, premium, one cup, and instant. Growth was led by *Dunkin' ®* and *Café Bustelo®,* which grew 10 percent and 15 percent, respectively in retail sales. In the K-cup® segment, we continue to grow at over 2.5x the category rate and gained over a point of share in the quarter. Our K-Cup growth was led by the *Folgers®* brand, which delivered the largest share increase of any K-cup brand in the category. We are confident in continued K-cup growth, as household penetration for new brewers is expected to increase by 2 million households annually.

We remain optimistic in the momentum for our total coffee portfolio. At-home coffee habits formed during the pandemic continue to persist, as at-home consumption now represents 72 percent of all coffee drinking occasions, compared to two-thirds pre-pandemic.

In our Consumer Foods business, we delivered strong results across all categories. Comparable net sales grew 9 percent. Growth was driven by another quarter of net sales growth across all our key brands, including *Smucker's® Uncrustables®* frozen sandwiches, *Jif®* peanut butter, and *Smucker's®* fruit spreads and toppings.

Total company net sales for *Uncrustables®*, including Away From Home, were approximately $140 million this quarter, the 30th consecutive quarter of growth for the brand. The brand generated sales of nearly $490 million over the past four quarters and is on track to exceed $500 million this fiscal year, a full year ahead of our stated target.

Given the momentum we are seeing in the business and investments we are making to more than double production capacity, over the next five years we expect to grow *Smucker's® Uncrustables®* to $1 billion in annual net sales. This is still a powerful growth opportunity for our Company, both for the near-term and long-term. To support this growth, phase two of construction at our Longmont, Colorado facility remains on track for completion by the end of next fiscal year, which will support double-digit top-line growth for the next several years. Last week, we announced that we will begin construction on a third production location in Alabama that is expected to begin operations in calendar year 2025, further supporting our long-term growth opportunity.

In peanut butter, the *Jif®* brand grew net sales by 5 percent in the quarter, building upon double-digit growth last year. Our total peanut butter market share increased nearly 2 points versus the prior year and grew to 49 percent. Consumption remains strong, and we anticipate lasting benefits from distribution gained in recent shelf resets, although we do expect year-over-year market share growth to moderate as competitive supply begins to normalize in the third quarter.

We delivered strong top-line performance across our U.S. retail businesses, along with a robust recovery for our Away From Home business, which delivered 25 percent comparable net sales growth. Our Away From Home business sales have reached approximately 95 percent of pre-pandemic levels, as growth for *Smucker's® Uncrustables®* and market share gains in liquid coffee and portion control spreads have been significant contributors to the recovery. Notably, the introduction of *Jif®* branded portion control spreads has supported recent growth and share gains.

Across all our businesses, our second quarter results demonstrate the significant progress we've made against our execution priorities, which include driving commercial excellence, streamlining our cost infrastructure, reshaping our portfolio for faster growth, and unleashing our organization to win.

Some of our key accomplishments against these priorities include:

- Demonstrating our ability to navigate complex supply chain challenges and leverage our improved commercial model and investments in data capabilities to deliver improved in-store fundamentals and in-stock performance for our brands.
- Successfully implementing significant inflation-justified pricing actions across all businesses with lower than anticipated elasticity impacts.
- Our marketing transformation continued delivering results, as our new breakthrough social media campaign, the *Jif ®*Rap Challenge, which features rap icons Ludacris and Gunna, was viewed more than 7 billion times on TikTok®.
- Growing or maintaining share for over 75 percent of our U.S. Retail revenues in the quarter.

- And, we announced a significant multi-year investment to enable sustained long-term growth for our *Smucker's® Uncrustables®* brand. This is just one example of where we continue increasing our focus and resources to reshape our portfolio toward sustainable growth in the excellent categories of pet food and pet snacks, coffee, and snacking.

As we look ahead, we are committed to the delivery of our business as we continue to support our "Thriving Together" agenda, which helps improve the quality of life for people and pets by supporting access to quality food and education, connections with community resources, the equitable and ethical treatment for all people and animals, and a healthier planet.

In closing, we continue to have strong conviction in our strategy, with this quarter demonstrating our momentum and improved execution in a dynamic environment, while taking actions to strengthen our Company to support long-term sales and profit growth and shareholder value creation. Our success continues to be powered by our unique culture and our dedicated employees, who I would like to thank for their outstanding contributions.

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 second quarter results. Then I'll provide details on our updated financial outlook for fiscal 2022.

Net sales increased 1 percent. Excluding the impact of divestitures and foreign exchange, net sales increased 8 percent. The increase in comparable net sales was primarily due to favorable volume/mix and higher net price realization across each of the U.S. Retail segments. In addition, the Away From Home business continues to recover from pandemic-related headwinds and contributed favorable volume/mix.

Adjusted gross profit decreased $56 million, or 7 percent, from the prior year. This was primarily driven by higher costs for commodities, manufacturing, transportation, and packaging, as well as lapping the noncomparable divested profit in the prior year. These headwinds were partially offset by increased pricing and favorable volume/mix.

Adjusted operating income decreased $21 million, or 5 percent, reflecting the gross profit decline, partially offset by favorable SD&A expenses. Within SD&A, general and administrative expenses decreased $27 million, or 21 percent. This primarily reflects benefits of our organization redesign in the fourth quarter of the prior year and lapping higher incentive compensation and reinstatement of salary increases in the prior year.

Below operating income, interest expense decreased $5 million, primarily due to reduced debt outstanding as compared to the prior year. Further, the adjusted effective income tax rate was 23.5 percent, compared to 24.0 percent. Weighted average shares outstanding were 108.4 million, versus 114.2 million, reflecting shares repurchased in the third and fourth quarters of the prior year. Factoring all this in, second quarter adjusted earnings per share was $2.43, compared to $2.39, an increase of 2 percent from the prior year.

Turning to our segment results, U.S. Retail Pet Foods net sales decreased 1 percent versus the prior year. Net sales increased 7 percent excluding the noncomparable divestiture impact. This was driven by increased net pricing across the portfolio and favorable volume/mix for dog snacks, private label offerings, and cat food, partially offset by declines for dog food.

Higher commodity, manufacturing, and transportation costs, partially offset by initial higher net pricing actions, led Pet Foods segment profit to decline 20 percent.

Turning to the U.S. Retail Coffee segment, net sales increased 8 percent versus the prior year, driven by a 5-percentage point increase from volume/mix and a 3-percentage point increase from higher net pricing. Growth occurred across all brands and formats in the portfolio, led by *Dunkin'®* growth of 14 percent, *Folgers®* growth of 4 percent, and *Café Bustelo®* growth of 18 percent. Our K-cup portfolio continues to be a key growth driver for our portfolio, as sales increased 20 percent and accounted for over 30 percent of the segment's net sales.

Coffee segment profit increased 3 percent, reflecting higher net pricing and favorable volume/mix, partially offset by higher green coffee costs.

In U.S. Retail Consumer Foods, net sales decreased 8 percent. Excluding the noncomparable net sales for the divested *Crisco®* business, net sales increased 9 percent versus the prior year. This was driven by volume/mix growth of 6 percent and 3 percentage points from higher net pricing. Growth was led by *Uncrustables®* frozen sandwiches, which grew 33 percent. The *Jif®* brand grew 5 percent and *Smucker's®* fruit spreads grew 3 percent.

Consumer Foods segment profit decreased 18 percent, due to lapping the prior year noncomparable profit from the divested business. Comparable segment profit growth from volume/mix and higher net pricing was partially offset by higher costs related to manufacturing, transportation, ingredients, and packaging.

Lastly, in International and Away From Home, net sales increased 4 percent. Excluding noncomparable net sales in the prior year for the divested business and foreign exchange, net sales increased 6 percent. The Away From Home business increased 25 percent on a comparable basis, driven by double-digit growth for coffee, *Uncrustables®* frozen sandwiches, and portion control spreads. The International business declined 10 percent on a comparable basis, primarily due to lapping significant pandemic-related at-home consumption for the Canadian baking business.

Overall, International and Away From Home segment profit increased 2 percent, primarily reflecting increased contribution from volume/mix, higher net pricing, and favorable foreign exchange. This was partially offset by higher commodity costs and the noncomparable profit from the divested *Crisco®* business.

Second quarter free cash flow was $106 million, compared to $326 million in the prior year. This reflects a decrease in cash provided by operating activities due to greater working capital requirements -- driven by the timing of payments for accounts payable and accrued liabilities -- as well as a reduction in net income adjusted for noncash items. Capital expenditures for the quarter were $59 million, compared to $52 million in the prior year, and represented 2.9 percent of net sales.

During the quarter, we issued $800 million of senior notes. The net proceeds were primarily used to repay $750 million of senior notes that were due in October. Based on a total debt balance of $4.6 billion and a trailing twelve-month EBITDA of approximately $1.7 billion, our leverage ratio stands at 2.8 times.

We anticipate maintaining a strong balance sheet and leverage ratio, enabling a balanced capital deployment model, which includes strategic reinvestment in the business through capital expenditures and acquisitions, while returning cash to shareholders through increasing dividends and evaluating share repurchases, over time.

Let me now provide additional color on our revised outlook for fiscal 2022.

The pandemic and related implications, along with cost inflation and volatility in supply chains, continue to impact financial results and cause uncertainty and risk for the fiscal year 2022 outlook. Any manufacturing or supply chain disruption, inclusive of any labor shortages, whether related to illness, vaccine requirements, or other factors, as well as changes in consumer mobility and purchasing behavior, retailer inventory levels, and macroeconomic conditions, could materially impact actual results. We continue to focus on managing the elements we can control, including taking the necessary steps to minimize the impact of cost inflation and any business or labor disruption. We 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 expectation to be flat compared to the prior year at the midpoint of our guidance range. On a comparable basis, net sales are anticipated to increase approximately 4.5 percent, demonstrating the continued momentum for our business and brands. This reflects benefits from higher pricing actions across most of our portfolio, primarily to recover increased commodity, ingredient, transportation, and packaging costs, along with double-digit volume growth for the *Smucker's®* *Uncrustables®* brand, and a recovery in away from home channels. These tailwinds are being partially offset by reduced volume/mix, inclusive of a deceleration in at-home consumption trends and anticipated pricing elasticities mostly impacting the back half of the year, as well as supply chain disruption primarily impacting our wet pet food business.

The increase in our net sales guidance versus our previous expectation reflects stronger than anticipated demand in the second quarter and for the remainder of the fiscal year, inclusive of lower price elasticity, and incremental pricing actions, notably due to sustained inflation for green coffee.

We now anticipate adjusted gross profit margin of approximately 35.0 to 35.5 percent. This reflects our expectations for higher net pricing, cost and productivity savings, and a mix benefit associated with the divestitures being more than offset by higher cost inflation. We have updated our assumptions to reflect ongoing cost inflation and the timing of additional pricing actions. We will experience higher costs for the remainder of the fiscal year, most notably due to green coffee and transportation. We also anticipate additional manufacturing expenses, primarily for labor and business continuity plans. Gross margin is expected to decline sequentially over 150 basis points in the third quarter, before improving in the fourth quarter as incremental pricing is reflected. Cost inflation is now anticipated to have a low-double-digit impact on total cost of products sold for the fiscal year.

SD&A expenses are now projected to decrease by approximately 7 percent. This reflects the benefits of our cost management and organizational restructuring programs, lower marketing expense primarily due to lapping elevated investments in the fourth quarter of the prior year, reduced incentive compensation, and reductions in discretionary expenses. Total marketing spend is anticipated to be approximately 6.0 percent of net sales, reflecting the impact of higher sales and a slight reduction in planned spend as we continue to maximize productivity for our high-growth priorities and optimize spend in areas with tighter capacity.

We continue to anticipate net interest expense of approximately $165 million, net other expense of $20 million, an adjusted effective income tax rate of 24.0 percent, and full-year weighted average shares outstanding of 108.3 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, a $0.10 increase to our previous guidance range.

Given the timing of cost increases and recovery through both initial higher net pricing actions, and additional net pricing actions later this fiscal year, earnings are expected to decline in the third quarter approximately 15 to 20 percent. The fourth quarter is expected to grow approximately 15 to 20 percent, reflecting higher net pricing catching up to higher costs, as well as the lapping of around $40 million of incremental marketing spend in the prior year.

Free cash flow is now anticipated to be $700 million, which reflects the adjustment to earnings expectations, increased working capital considerations, primarily for inventory, and capital expenditures of $400 million. The increase in capital expenditures versus our previous guidance reflects the new investment to support the growth for our *Smucker's® Uncrustables®* brand.

In closing, we remain confident in our strategy and are pleased with the continued momentum for our business and brands. We are taking the appropriate actions to ensure continued operational excellence, while managing through this volatile environment, and we remain in a strong financial position to deliver sustainable and consistent long-term growth for our shareholders.

Finally, I want to express my appreciation for our employees. They have demonstrated their commitment to executing with excellence through unprecedented circumstances. Their outstanding work and 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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