



THE J.M. SMUCKER Co

Fiscal Year 2022 Fourth Quarter Earnings Prepared Management Remarks

June 7, 2022

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 fourth quarter earnings. After this brief introduction, Mark Smucker, President and Chief Executive Officer, will give an overview of fourth 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 fiscal 2023 outlook. Later this morning, we will hold a separate, live question-and-answer webcast.

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

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

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

MARK SMUCKER, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thank you, Aaron. Good morning, everyone. Today, I will highlight how we've transformed into a stronger company over the past year despite industry-wide challenges and disruptions, and then summarize our performance in the fourth quarter. I'll also touch on the operating environment and the growth factors that give us confidence we can achieve our fiscal 2023 guidance. Tucker will then discuss financial results for the quarter and our outlook in more detail.

Before discussing our results, let me address the recent *Jif*[®] peanut butter recall. Once we learned of the issue, we voluntarily initiated the recall, with a sense of urgency and in full cooperation with regulators. We have an unwavering commitment to doing the right thing and our consumers' health and safety has always been our number one priority.

Fiscal 2022 was yet another unprecedented year. The operating environment remained dynamic as the pandemic, along with factors such as inflation, labor shortages, and supply chain disruptions, presented challenges. Our business and dedicated employees continued to manage through these circumstances with agility and focus. We delivered strong results, grew market share for our brands, and continued to make progress on our strategy to drive balanced long-term growth.

This past year, we continued to deliver on our four executional priorities: driving commercial excellence, streamlining our cost infrastructure, reshaping our portfolio, and unleashing our organization to win. I'm proud of what our teams have accomplished. Notably, we:

- Maintained business continuity through the pandemic;
- Demonstrated supply chain resilience and agility;
- Fully implemented our commercial transformation;
- Improved in-store execution through leveraging proprietary data and analytics capabilities;
- Reduced complexity through continued portfolio reshaping with two divestitures and SKU optimization;
- And, achieved meaningful market share growth.

Our fiscal 2022 full-year net sales increased 5% on a comparable basis. This performance demonstrates how we are winning in the marketplace, and the strength of our brands, with momentum that has continued as we delivered a strong finish to our fiscal year.

In the fourth quarter, we delivered results ahead of our expectations as comparable net sales increased 9% with growth across all three of our U.S. Retail segments and our International and Away From Home business.

Strong demand for our brands supported overall market share gains in the quarter. Brands that are growing or maintaining dollar share accounted for 86% of our U.S. Retail business in the fourth quarter, up from 68% in the third quarter and 57% during the same period a year ago. This was supported by underlying brand momentum and consumer loyalty combined with our improved commercial capabilities and innovative marketing.

Our Company was recently recognized as one of the most innovative companies in branding by Fast Company, and our share results speak to the best-in-class marketing capabilities of our team and partners. While we did not seek this, we are proud of this award which recognizes our focus on reenergizing our approach for how we build brands and go to market.

Gross profit declined in the fourth quarter, largely due to the impact of the estimated customer returns and inventory write-off related to the *Jif*[®] peanut butter recall. However, adjusted earnings per share increased 18%, driven by favorable SD&A, primarily due to lapping significant marketing investments a year ago. Adjusted earnings also reflect the anticipated insurance recovery, which mostly offsets the unfavorable gross profit impact of the recall.

In the fourth quarter, price elasticity trends were favorable compared to our expectations and historical levels across our business. We also successfully partnered with retailers to implement additional net pricing actions in April and May in response to higher costs.

As inflation persists, we will continue to partner with retailers to implement incremental pricing actions to recover costs, as necessary. We remain focused on limiting the impact of inflation on consumers, while protecting profitability for our partners and our Company by working together to reduce costs and complexity, enhance data sharing, optimize shelf sets and inventory, and improve logistical efficiency.

Turning to our segment results, in Pet Foods, growth across all categories drove a 10% increase in comparable net sales versus the prior year. Our strong finish in Pet Foods was driven by growth of 22% for cat food, 8% for dog snacks, and 7% for dog food. Our growth in cat food and dog snacks reflects our increased focus on prioritizing and accelerating growth in these segments.

In cat food, *Meow Mix*[®] sales grew 29% benefiting from higher pricing and volume. *Meow Mix*[®] gained nearly 3 points of share in the quarter, growing over 2x the category rate. *Meow Mix*[®] is now the number one dry cat food brand in America in the latest 52-week period. The journey for this brand continues to be incredible as it finished off a phenomenal year as the fastest growing brand in our portfolio in the fourth quarter.

In pet snacks, *Milk-Bone*[®] sales grew 15%. This growth reflects the benefits of net pricing to recover increased costs, volume growth, improved marketing and sales execution, and contributions from premium positioned innovation. The *Milk-Bone*[®] brand continues to drive growth for our market-leading dog snacks business. The brand gained a full point of dollar share in the quarter and grew over 2.5x the category rate.

And in dog food, net sales for *Nutrish*[®] grew 14%. We are expanding the brand into faster growing segments such as wet dog food and dog snacks, and continue to refine our assortment consistent with consumer preferences. We plan to upgrade *Nutrish*[®] dog food formulations with improved nutrition credentials in the back half of fiscal 2023. The launch will be supported by a new advertising campaign that showcases the brand's purpose to provide all dogs the highest quality of life.

In Coffee, net sales growth of 11% was driven by all brands in our market-leading at-home coffee portfolio. The momentum for our coffee portfolio is tremendous. For the fourth consecutive quarter, we grew dollar share more than any other top manufacturer, gaining nearly a half point of share. For the quarter, our brands were three of the top four fastest growing at-home coffee brands, and we outpaced the category in all segments, including mainstream, premium, one cup, and instant.

Café Bustelo[®] was the fastest growing brand in mainstream, one cup, and instant, with consumer take away up 19% in the quarter. It was also the only top ten brand that grew share in both dollars and volume.

Dunkin[®] brand net sales grew 9% in the quarter as it continued on its path to becoming a \$1 billion brand within the next five years. *Dunkin*[®] grew over 5x the total at-home coffee category rate in measured channels over the last 52-weeks.

Folgers[®] continued its momentum growing net sales for the third consecutive quarter. *Folgers*[®] K-cups[®] grew volume share more than any other brand in the category over the last 52-weeks. In late January we launched our bold new marketing campaign for the brand, and are extremely pleased with the initial results. We will continue to build on this momentum with initiatives to reinvigorate the iconic brand including new packaging rolling out toward the end of calendar 2022.

Coffee habits formed during the pandemic continue and at-home consumption remains elevated. At-home consumption now represents over 70% of all coffee drinking occasions, compared to two-thirds pre-pandemic. We are well positioned to benefit from these trends with a portfolio that provides consumers options ranging from value to premium offerings.

In our Consumer Foods business, comparable net sales grew 3%. Growth was primarily driven by net sales gains for *Smucker's*[®] fruit spreads, *Smucker's*[®] *Uncrustables*[®] frozen sandwiches, and *Sahale*[®] snacks. *Jif*[®] peanut butter net sales declined driven by estimated customer returns related to the recall.

Smucker's[®] *Uncrustables*[®] continued to deliver growth as total net sales were approximately \$130 million in the quarter for our combined U.S. Retail and Away From Home businesses. Total brand sales for the full fiscal year exceeded \$500 million, a year ahead of our original target. We are confident *Uncrustables*[®] can grow to a \$1 billion brand in annual net sales over the next five years as we continue to make investments in production capacity. *Smucker's*[®] *Uncrustables*[®] growth moderated in the fourth quarter due to capacity constraints primarily related to temporary labor and supply chain challenges. We expect the *Uncrustables*[®] brand to return to double-digit growth in the first quarter of fiscal 2023, and accelerate further in the back-half of the year as additional capacity comes online with the completion of the Longmont facility expansion. Demand for the brand continues to significantly exceed supply, and we couldn't be more excited about the future of *Uncrustables*[®].

In addition to the momentum for our U.S. retail businesses, our Away From Home business experienced 13% comparable net sales growth. Our Away From Home business sales and volume have returned to pre-pandemic levels, with growth in liquid coffee and portion control spreads as significant contributors to the recovery. Notably, *Jif*[®] portion control spreads gained 10 share points over the past year, and *Uncrustables*[®] volume over indexed compared to pre-pandemic levels.

In addition to our financial and organizational successes this year, we continued to make meaningful progress on our Thriving Together agenda, which guides our approach to key environmental, social and governance issues relevant to our business. We introduced new environmental targets around climate action, agricultural sustainability, and responsible packaging. Also, we continued our journey to advance our inclusion, diversity, and equity efforts, including chartering our first set of employee resource groups during the fourth quarter.

As we turn the page on fiscal 2022, we continue to delight and inspire consumers by building brands they love and lead in growing categories. With a strong portfolio and sustainable growth opportunities in the desirable categories of pet, coffee, and snacking we will continue to build on the momentum for our businesses and have conviction in our strategy.

Looking ahead to fiscal 2023, we anticipate continued top-line growth with comparable net sales up 6%, inclusive of a 2% impact related to estimated manufacturing downtime and customer returns for *Jif*[®] peanut butter. Our confidence is grounded in the strength of our brands, from *Uncrustables*[®] where there remains unmet demand across the country, to our coffee business where each of our brands has momentum, to our pet business which is seeing accelerated demand for dog snacks and continued momentum in cat food.

While the supply chain remains volatile and the cost environment can change rapidly, we will continue to mitigate inflation with continued focus on cost management and further inflation driven pricing as necessary.

Finally, our teams have shown their ability to navigate near-term uncertainty successfully without losing focus on our execution priorities: driving commercial excellence, streamlining our cost infrastructure, reshaping our portfolio, and unleashing our organization to win.

These priorities continue to power our financial results, positioning the business to deliver long-term growth and shareholder value. As we look to the upcoming year, we will continue to leverage our strong portfolio of brands and world-class commercial capabilities – all of which are powered by our unique culture and fantastic employees, whom I would like to thank again for their outstanding contributions.

I'll now turn it over to Tucker to go over our quarterly financial results and fiscal 2023 outlook in more detail.

TUCKER MARSHALL, CHIEF FINANCIAL OFFICER

Thank you, Mark. Good morning, everyone. I'll begin by giving an overview of fourth quarter results, which finished above our expectations. Then I'll provide additional details on our financial outlook for fiscal 2023.

Net sales increased 6%, including a 1% unfavorable impact of estimated customer returns related to the *Jif*[®] peanut butter product recall. Excluding the impact of divestitures and foreign exchange, net sales increased 9%. The increase in comparable net sales was primarily driven by a 10 percentage point increase in net price realization across the portfolio. The favorable net price realization was partially offset by a 1 percentage point decrease from volume/mix.

Adjusted gross profit decreased \$72 million, or 10% compared to the prior year. This was mostly driven a \$51 million unfavorable impact from unsaleable inventory and estimated customer returns related to the *Jif*[®] peanut butter product recall, the noncomparable impact of the divested businesses, and a decreased contribution from volume/mix. Higher costs, primarily driven by increased commodity and ingredient, packaging, and manufacturing costs were offset by higher net price realization.

Adjusted operating income increased \$39 million, or 13%, reflecting favorable SD&A expenses, mostly due to a decrease in marketing and general and administrative expenses. As a reminder, significant marketing investments were pulled into the fourth quarter last year, contributing to part of the year-over-year decline. The decrease in general and administrative expenses reflects benefits of our organization redesign in the fourth quarter of last year. Adjusted operating income includes a \$50 million anticipated insurance recovery, net of deductible, which mostly offsets the unfavorable impact of estimated customer returns, unsaleable inventory, and consumer refunds related to the *Jif*[®] peanut butter product recall.

Below operating income, interest expense decreased \$4 million, and the adjusted effective income tax rate was 22.3%, compared to 23.3% in the prior year. Factoring in these considerations, along with share repurchases that resulted in weighted average shares outstanding of 107.8 million, fourth quarter adjusted earnings per share was \$2.23, an increase of 18% from the prior year.

Turning to our segment results, U.S. Retail Pet Foods net sales increased 6% versus the prior year. Net sales increased 10% excluding noncomparable sales in the prior year related to the private-label divestiture. Growth was led by double-digit percentage increases for *Meow Mix*[®], *Nutrish*[®], and *Milk-Bone*[®]. Higher net pricing actions across the portfolio contributed a 10 percentage point increase to net sales. The volume/mix contribution was in-line with the prior year as growth for cat food and dog snacks was partially offset by decreases primarily for dog food, including ongoing constraints for wet food related to continuing supply constraints.

U.S. Retail Pet Foods segment profit increased 19%, primarily reflecting lower marketing spend, partially offset by the net impact of higher net price realization and increased commodity and ingredient, manufacturing, and transportation costs.

Turning to the U.S. Retail Coffee segment, net sales increased 11% versus the prior year, driven by increased net pricing across the portfolio. Growth occurred across all brands and formats in the portfolio, led by *Folgers*[®] growth of 11%, *Dunkin*[®] growth of 9%, and *Café Bustelo*[®] growth of 19%. Our K-cup[®] portfolio continued its momentum as sales increased 8% and accounted for approximately 30% of the segment's net sales.

U.S. Retail Coffee segment profit decreased 5%, primarily reflecting an unfavorable contribution from volume/mix, partially offset by the net impact of higher net price realization and increased commodity costs.

In U.S. Retail Consumer Foods, net sales decreased 5% versus the prior year, including a 5% unfavorable impact of estimated customer returns related to the *Jif*[®] peanut butter product recall. Net sales increased 3% excluding the noncomparable divestiture impact. The fourth quarter comparable net sales increase was driven by a 2 percentage point increase from favorable volume/mix and higher net price realization of 1%.

U.S. Retail Consumer Foods segment profit was in-line with the prior year reflecting lower marketing spend and favorable volume/mix, offset by the net impact of higher net price realization and increased commodity and ingredient, manufacturing, and packaging costs and the noncomparable segment profit in the prior year related to the divested natural beverage and grains businesses. The unfavorable impact of unsaleable inventory, estimated customer returns, and consumer refunds related to the *Jif*[®] peanut butter product recall was mostly offset by an anticipated insurance recovery, net of deductible.

Lastly, in International and Away From Home, net sales increased 12%. Excluding noncomparable net sales in the prior year for the divested business and unfavorable foreign currency exchange, net sales increased 13%. The Away From Home business increased 13% on a comparable basis, driven by double-digit growth for coffee and portion control spreads. The International business increased 13% on a comparable basis, primarily due to baking and pet food and pet snacks.

International and Away From Home segment profit increased 18%, primarily reflecting favorable volume/mix and the net impact of higher net price realization and increased commodity costs.

Fourth quarter free cash flow was \$221 million compared to \$183 million in the prior year, as the increase in cash provided by operating activities was partially offset by a \$65 million increase in capital expenditures. On a full-year basis, free cash flow was \$719 million, with capital expenditures of \$418 million, representing approximately 5% of net sales.

In the fourth quarter, we repurchased 2 million common shares, which settled for \$263 million, reducing our outstanding share count by approximately 1%.

We finished the year with cash and cash equivalent balances at \$170 million, compared to the prior year end of \$334 million. We finished the year with a gross debt balance of \$4.5 billion, and paid down \$262 million for the full year. Based on a trailing twelve-month EBITDA of approximately \$1.6 billion, our leverage ratio stands at 2.8x.

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 outlook for fiscal 2023.

Macro factors impacting the industry – including the pandemic and its related implications, cost inflation, and volatility in supply chains – continue to cause uncertainty for the fiscal year 2023 outlook. Any manufacturing or supply chain disruption, as well as changes in consumer purchasing behavior, retailer inventory levels, and macroeconomic conditions could materially impact actual results. In particular, the recent *Jif*® peanut butter product recall will impact our financial results for fiscal year 2023. We continue to focus on managing the elements we can control, including taking the necessary steps to minimize the impact of cost inflation, the recall, and any additional business disruption. As always, we will continue to plan for unforeseen volatility, while ensuring we have contingency plans in place. This guidance reflects performance expectations based on the Company's current understanding of the overall environment, inclusive of the estimated unfavorable impact of the product recall.

We expect full-year net sales to increase 3.5% to 4.5% compared to the prior year. On a comparable basis, net sales are anticipated to increase approximately 6% at the mid-point of our guidance range, demonstrating the continued momentum for our business and brands. This reflects benefits from higher net pricing actions across our portfolio, primarily to recover increased commodity and ingredient, and transportation and packaging costs. Net sales growth also reflects increased volume/mix for the *Uncrustables*® 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 a 2% unfavorable impact for estimated manufacturing downtime and customer returns from the *Jif*® peanut butter recall.

We anticipate full-year gross profit margin of 33.0% to 34.0%, which reflects a 100 basis point impact related to the *Jif*® peanut butter recall at the mid-point of the range. This also reflects higher net pricing, cost and productivity savings, and a mix benefit associated with the divestitures. These benefits will be more than offset by higher costs and unfavorable volume/mix expected throughout the full year, including the unfavorable impact of estimated customer returns and unsaleable inventory related to the recall. Excluding the estimated unfavorable gross profit impact of the recall in both fiscal year 2022 and 2023, gross profit margin is estimated to contract 30 basis points. Cost inflation is anticipated to have a mid-to-high teen percentage impact on total cost of products sold for the fiscal year.

SD&A expenses are projected to be unfavorable by approximately 9%, primarily reflecting increased compensation, along with approximately \$30 million of pre-production expenses and higher marketing spend. Total marketing expense is estimated to be 5.5% of net sales.

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

Taking all these factors into consideration, we anticipate full-year adjusted earnings per share to be in the range of \$7.85 to \$8.25. This includes a \$0.90 unfavorable impact to adjusted earnings per share inclusive of the estimated customer returns and refunds, unsaleable inventory, and fees and penalties related to the *Jif*® peanut butter product recall, partially offset by insurance proceeds.

In the first quarter of the fiscal year, net sales are anticipated to be flat, and earnings are expected to decline approximately 35%, primarily due to the unfavorable impact of the *Jif*[®] peanut butter recall.

We project free cash flow of approximately \$500 million, with capital expenditures of \$550 million for the year. The increase for capital expenditures primarily relates to capacity expansion for *Smucker's*[®] *Uncrustables*[®]. Other key assumptions affecting cash flow include: depreciation expense of approximately \$235 million, amortization expense of approximately \$225 million, pension contributions of \$80 million, share-based compensation expense of \$35 million, and other non-cash charges of \$20 million.

We continue to be encouraged by the 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.

Finally, 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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