



**THE J.M. SMUCKER Co**

**Fiscal Year 2023 Fourth Quarter Earnings  
Prepared Management Remarks**

June 6, 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 2023 fourth 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 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 a.m. Eastern Time today for a live question-and-answer session with management to further discuss our fourth 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.

Fiscal 2023 was a strong year for our Company amid a dynamic macro environment. Our performance exceeded our expectations and reflects progress against our strategy, improved execution capabilities, the resilience of our categories, and our consumers' sustained demand for our portfolio of leading brands. We successfully navigated industry-wide challenges including inflation, labor shortages, supply chain disruptions, and increased competitive activity. Our dedicated employees continued to manage through these circumstances with agility and relentless focus on delivering results.

I'll first summarize our fourth quarter results, and then provide some highlights on our full-year performance. I'll also share why we are confident in delivering strong sales and earnings growth in fiscal year 2024, while investing to strengthen our brands and expand key platforms that position us for long-term growth. Tucker will then provide additional detail on our fourth quarter results and fiscal year 2024 outlook.

For the fourth quarter, we delivered results well ahead of our expectations as comparable net sales increased 11% with growth across all of our U.S. Retail segments and our International and Away From Home business.

Fourth quarter adjusted earnings per share increased 18%, primarily driven by the net sales growth and improved profit margins, partially offset by increased SD&A expenses.

In Pet Foods, our momentum continued with comparable net sales up 11% versus the prior year, driven by strong growth across all categories.

Dog snacks growth was led by the *Milk-Bone*<sup>®</sup> brand, which grew net sales 20%. This growth reflects the benefits of higher net pricing, to recover increased costs, and volume growth. The *Milk-Bone*<sup>®</sup> brand continues to drive growth for our market-leading dog snacks business, and the category overall, through core offerings and premium positioned innovation. *Milk-Bone*<sup>®</sup> continued to significantly outpace the category, growing over 1.5x the category rate, with consumer take-away up over 16% in the quarter.

In cat food, momentum for the *Meow Mix*<sup>®</sup> brand continued as net sales grew 7%. This reflects another strong quarter for the brand, with year-over-year net sales growth in 21 of the last 22 quarters. Demand continued to exceed our production capacity in the quarter. We are investing in infrastructure and labor to improve efficiencies and increase throughput for the long-term. We expect improvement in supply catching up to demand through the first half of the new fiscal year.

And in dog food, momentum continued, as comparable net sales grew 13%. We completed the divestiture of certain pet food brands at the end of the quarter, and our pet business has shifted from approximately two-thirds pet food and one-third pet snacks, to approximately 60% pet snacks and 40% cat food. This shift will significantly improve our profit margin and product mix over time. This enables us to allocate more resources and increase investments in the fast-growing and high-margin dog snacks category. We expect to grow our dog snacks portfolio to \$1 billion in annual net sales over the next several years.

In Coffee, net sales grew 7%, with growth across all brands in our market-leading at-home coffee portfolio. This growth underscores the advantages of our broad product offerings across various formats and price points. In addition to the strong year-over-year results, we continued to drive sequential volume/mix improvement and margin recovery.

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 eighth consecutive quarter and continued to outpace the at-home coffee category.

*Café Bustelo*<sup>®</sup> net sales grew double-digits for the eighth consecutive quarter, and was the fastest growing brand in the mainstream, one cup, and instant categories, with consumer take away up 23% in the quarter. *Café Bustelo*<sup>®</sup> also captured more share growth than any other brand during the quarter, in both dollars and volume.

*Folgers*<sup>®</sup> continued its momentum with net sales growth of 9% versus the prior year. *Folgers*<sup>®</sup> grew the second most dollar share in the category in the quarter, with consumer takeaway growth of 8%. The brand has achieved dollar share growth for five consecutive quarters and continues to maintain over double the volume share of any other brand in the category.

The *Dunkin*<sup>®</sup> brand grew net sales as price gaps to competitors have continued to narrow and planned promotional investments in the fourth quarter improved volumes. The brand has now returned to volume share growth despite category dynamics and the overall premium segment declining in the quarter.

Overall, at-home coffee remains strong, with at-home consumption representing 71% of all coffee drinking occasions. The at-home retail coffee market is positioned for continued growth, as macroeconomic conditions and changes in consumer habits all largely benefit at-home coffee. Our portfolio is well-positioned within the category and benefits significantly from these changes in consumer behavior, including our expansion into cold coffee and no-brew liquid coffee concentrates, multi-serve offerings, and ready-to-drink offerings.

In our Consumer Foods business, net sales grew 14% driven by net sales gains for *Smucker's*<sup>®</sup> *Uncrustables*<sup>®</sup> frozen sandwiches, *Smucker's*<sup>®</sup> fruit spreads, and *Jif*<sup>®</sup> peanut butter.

The *Uncrustables*<sup>®</sup> brand continued to deliver exceptional growth, with net sales increasing 43%, driven by 30% volume/mix growth and higher net price realization. Total Company net sales for *Uncrustables*<sup>®</sup>, including the Away From Home business, were \$185 million this quarter, and for the full fiscal year, the brand grew 34%. *Uncrustables*<sup>®</sup> is now the #1 brand in the frozen snacks and sandwiches category.

In peanut butter, *Jif*<sup>®</sup> returned to net sales growth. After being temporarily unavailable last year, the brand has returned to #1 in the category with 39 points of dollar share in the quarter. With increased marketing and other demand driving activities, we anticipate strong double-digit net sales growth in fiscal 2024.

In addition to the strong performance for our U.S. Retail businesses, momentum continued in our Away From Home business as comparable net sales increased 25%, driven by higher net price realization and double-digit volume/mix growth. Growth was driven by coffee, *Uncrustables*<sup>®</sup> sandwiches, and portion control spreads. With added production capacity to help meet demand, we are expanding availability of *Uncrustables*<sup>®</sup> sandwiches in away from home channels beyond its current distribution predominantly in K-12 schools.

Turning to the full-year, fiscal year 2023 net sales grew well above our long-term algorithm, with comparable net sales increasing 9%. Adjusted earnings per share was flat versus the prior year despite a high teen percentage increase in costs and an estimated \$0.80 headwind related to the *Jif*<sup>®</sup> peanut butter recall. Our results were significantly higher than our initial guidance for the full year, driven largely by better-than-expected elasticities, demonstrating the strength of our brands.

These results continue to underscore the significant progress we've made against our strategic priorities, which we have updated slightly to reflect our focus on driving continued growth, including:

- Superior execution;
- Improving profitability and cost discipline;
- Transforming our portfolio;
- Advancing corporate responsibility, sustainability, and inclusion, diversity and equity;
- And, nurturing and evolving our culture.

We've enhanced our brand building model through superior execution, allowing us to demonstrate market share strength across our focused portfolio of leading brands. During the fourth quarter, brands that were growing or maintaining share, excluding the recently divested brands, accounted for 57% of our U.S. Retail sales. We experienced temporary dynamics in the quarter, including ongoing capacity constraints for our

*Meow Mix*<sup>®</sup> dry cat food and the *Jif*<sup>®</sup> brand rebuilding share. With competitive price points, brand loyalty, and our relatively low exposure to private label, in comparison to the total store, we are confident our brands will continue to grow and maintain share.

We continue to improve profitability and advance cost discipline through our Transformation Office. We have begun executing against prioritized initiatives that will begin delivering benefits in fiscal year 2024. To be clear, this is not just a cost savings program; it is a core competency to support our long-term profit growth targets and sustain improved profit margins. Additionally, the Transformation Office will help mitigate stranded overhead costs related to divestitures.

Progress on optimizing our portfolio continued this past year, as we completed the divestiture of certain pet food brands and exited the dog food category. This divestiture supports our strategy to focus investments and resources in the higher margin dog snacks and cat food segments, where we hold leading market share positions with our iconic *Milk-Bone*<sup>®</sup> and *Meow Mix*<sup>®</sup> brands. Our portfolio reshaping activities have streamlined our business, improved profit margins and product mix, and reallocated resources for growth opportunities in the pet, coffee, and snacking categories. This includes investments to increase capacity for *Uncrustables*<sup>®</sup> at our McCalla, Alabama facility, and expand our liquid coffee presence and capabilities.

Corporate responsibility, sustainability, and ID&E continue to be focal points for us, all while nurturing and evolving our culture. We firmly believe our culture and people are a competitive advantage. Cultivating a diverse and inclusive workforce ensures we are maximizing performance, and in-turn, delivering long-term shareholder value. We are dedicated to supporting these efforts and continue to make progress on our journey to advance inclusion, diversity, and equity at every level of the organization.

These strategic priorities will continue to guide our business and position the Company to deliver increased shareholder value over the long-term.

We delivered strong financial results this year, while increasing investments in our brands, strengthening our balance sheet by reducing debt, and delivering value for shareholders. We returned \$800 million of capital to shareholders this year in the form of dividends and share repurchases. With a portfolio of leading brands and sustainable growth opportunities in the desirable categories of pet, coffee, and snacking, we will continue to build on the momentum of our business and remain confident in our long-term strategy.

Looking ahead to fiscal year 2024, we anticipate continued top-line growth with comparable net sales up approximately 9% at the mid-point of our guidance range. This growth will be supported by the continued momentum of our brands and anticipated volume growth across all three of our U.S. Retail segments and our International and Away From Home business.

Adjusted earnings per share is expected to increase approximately 5% at the mid-point of our guidance range, inclusive of an approximate 7% headwind related to the net impact of stranded overhead from the recent divestiture. This reflects top-line growth, improved profit margins, benefits from our Transformation Office and recent share repurchases, partially offset by stranded overhead and investments into the business.

Our confidence is grounded in our ability to continue delivering results and drive growth through our key platforms including:

- *Uncrustables*<sup>®</sup> sandwiches;
- Dog snacks and cat food; and,
- Our coffee portfolio, including expansion into new formats.

We will continue to deliver long-term growth while making a meaningful, positive impact in the world and on the lives of those who count on us. All of which is 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 fourth quarter results, which finished above our expectations. Then I'll provide additional details on our financial outlook for fiscal year 2024.

Net sales increased 10%, including a 1% favorable impact of lapping customer returns related to the *Jif*<sup>®</sup> peanut butter product recall. Excluding the impact of divestitures and foreign exchange, net sales increased 11%. The increase in comparable net sales was driven by an 11 percentage point increase in net price realization, primarily reflecting list price increases across the portfolio. Volume/mix was neutral compared to the prior year.

Adjusted gross profit increased \$117 million, or 18% compared to the prior year. The increase reflects a favorable net impact of higher net price realization and increased commodity and ingredient, packaging, and manufacturing costs. Favorable volume/mix also contributed to the gross profit increase and improved margins.

Adjusted operating income increased \$57 million, or 16%, reflecting the increased gross profit, partially offset by higher SD&A expenses. The increase in SD&A expenses was primarily driven by increased incentive compensation.

Adjusted operating income also reflects the net benefit of one-time, unplanned, items in the quarter of approximately \$20 million related to certain legal, tax, and insurance matters.

Below operating income, net interest expense decreased \$3 million, and the adjusted effective income tax rate was 23.8% , compared to 22.3% in the prior year. Factoring in all these considerations, along with share repurchases that resulted in weighted average shares outstanding of 105.9 million, fourth quarter adjusted earnings per share was \$2.64, an increase of 18% 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 11% excluding noncomparable sales in the prior year related to the divestiture of certain pet food brands. The net sales increase was led by growth across all segments, including dog snacks, dog food, and cat food. Higher net pricing actions across the portfolio contributed a 12 percentage point increase to net sales. A reduced contribution from volume/mix decreased net sales by 1 percentage point, primarily driven by cat food, as we continued to experience capacity constraints, partially offset by dog food and dog snacks.

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

manufacturing costs, and a one-time, unplanned, benefit associated with a legal matter from a prior acquisition, partially offset by increased marketing investments.

Turning to the U.S. Retail Coffee segment, net sales increased 7% versus the prior year. Higher net price realization increased net sales by 10 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 3 percentage points, primarily driven by roast and ground coffee.

Net sales growth occurred across all brands in the portfolio, led by *Folgers*<sup>®</sup> growth of 9%, *Café Bustelo*<sup>®</sup> growth of 19%, and *Dunkin*<sup>®</sup> growth of 1%. Our K-Cup<sup>®</sup> portfolio continued its momentum, as net sales grew 7% versus the prior year.

U.S. Retail Coffee segment profit increased 22%, primarily reflecting lower marketing spend, as we lapped the *Folgers*<sup>®</sup> relaunch campaign in the fourth quarter of the prior year, and a favorable net impact of higher net price realization and increased commodity costs.

In U.S. Retail Consumer Foods, net sales increased 14 percentage points versus the prior year, including a 5% favorable impact of lapping customer returns related to the *Jif*<sup>®</sup> peanut butter product recall. Higher net price realization increased net sales by 12 percentage points, primarily reflecting list price increases across the portfolio and lapping the unfavorable impact of customer returns in the prior year related to the *Jif*<sup>®</sup> peanut butter product recall. Volume/mix increased net sales by 2 percentage points, primarily driven by *Smucker's*<sup>®</sup> *Uncrustables*<sup>®</sup> frozen sandwiches, partially offset by a decrease for *Jif*<sup>®</sup> peanut butter.

U.S. Retail Consumer Foods segment profit increased 9%, primarily reflecting favorable volume/mix, partially offset by increased marketing investments. Segment profit also reflects lapping the prior year unfavorable impact of unsaleable inventory, customer returns and customer refunds, mostly offset by an insurance recovery related to the *Jif*<sup>®</sup> peanut butter product recall. Excluding items related to the recall, the net impact of higher net pricing and increased commodity and ingredient, manufacturing, and packaging costs was slightly unfavorable.

Lastly, in International and Away From Home, net sales increased 12%. Excluding unfavorable foreign currency exchange and noncomparable net sales in the prior year related to the divested pet food brands, net sales increased 15%. Net price realization contributed a 13 percentage point increase to net sales for the combined businesses, primarily reflecting list price increases across the portfolio. Volume/mix increased net sales by 2 percentage points, primarily driven by coffee and frozen handheld products, partially offset by baking mixes and ingredients and fruit spreads.

The Away From Home business net sales increased 25% on a comparable basis, driven by double-digit growth for coffee, *Uncrustables*<sup>®</sup> sandwiches, and portion control. Net sales for the International operating segment increased 4% on a comparable basis.

International and Away From Home segment profit increased 38%, primarily reflecting a favorable net impact of higher net price realization and increased commodity costs.

Fourth quarter free cash flow was \$299 million, compared to \$221 million in the prior year, driven by an increase in cash provided by operating activities and a decrease in capital expenditures as compared to the prior year. On a full-year basis, free cash flow was \$717 million, with capital expenditures of \$471 million, representing approximately 5.5% of net sales.

In fiscal 2023, we increased our quarterly dividend by 3%, marking 25 consecutive calendar years of dividend growth. And, we were added to the S&P 500 Dividend Aristocrats Index.

In the fourth quarter, we repurchased approximately 2.4 million common shares, which settled for \$360 million.

Cash and cash equivalent balances were at \$656 million, compared to the prior year end of \$170 million. We finished the year with a gross debt balance of \$4.3 billion, and paid down \$186 million for the full year. Based on a trailing twelve-month adjusted EBITDA of approximately \$1.6 billion, our leverage ratio stands at 2.7x.

We anticipate maintaining a strong balance sheet with an investment grade debt rating. This enables a balanced capital deployment model, which includes strategic reinvestments in the business through capital expenditures and acquisitions, while returning cash to shareholders through dividends and share repurchases.

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 expect comparable net sales to increase 8.5% to 9.5% compared to the prior year, demonstrating the continued momentum for our business and brands. This reflects increased 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 pricing, primarily due to the carryover of pricing actions implemented in the prior year to recover increased costs across our portfolio.

We anticipate full-year gross profit margin of 36.5% to 37.0%, which reflects a 355 basis point increase at the mid-point versus the prior year. This reflects higher net pricing from actions taken in the last fiscal year, cost and productivity savings, including benefits from our Transformation Office, and a mix benefit associated with the divestiture.

SD&A expenses are projected 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 \$45 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 5.5% of net sales.

We anticipate net interest expense of approximately \$140 million and an adjusted effective income tax rate of 24.2% – along with a full-year weighted-average share count of 102.5 million.

This weighted-average share count reflects repurchases of approximately 2.4 million shares completed during the month of March, and approximately 2.4 million shares completed during the month of May.



Taking all these factors into consideration, we anticipate full-year adjusted earnings per share to be in the range of \$9.20 to \$9.60. This reflects a mid-single digit percentage increase at the mid-point of the guidance range.

There are factors impacting the comparability of our guidance versus the prior year, including the recovery of earnings related to the *Jif*<sup>®</sup> peanut butter product recall in fiscal year 2023 and the net stranded overhead impact from the divested pet food brands in fiscal year 2024. We anticipate the net stranded overhead impact to be approximately \$0.60, inclusive of income and reimbursements from transition services and co-manufacturing agreements.

In the first quarter, comparable net sales and adjusted earnings per share are anticipated to increase approximately 20%, primarily due to lapping the impact of the *Jif*<sup>®</sup> peanut butter recall and continued business momentum.

We project free cash flow of approximately \$650 million, with capital expenditures of \$550 million for the year. The increase for capital expenditures primarily relates to capacity expansion for *Smucker's*<sup>®</sup> *Uncrustables*<sup>®</sup>. Other key assumptions affecting cash flow include: depreciation expense of approximately \$225 million, amortization expense of approximately \$155 million, share-based compensation expense of \$30 million, and other non-cash charges of \$15 million.

In closing, 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.

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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