

THE J.M. SMUCKER Co

Fiscal Year 2024 Third Quarter Earnings
Prepared Management Remarks

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CORPORATE PARTICIPANTS

Aaron Broholm, Vice President, Investor Relations
Mark Smucker, Chair of the Board, President and Chief Executive Officer
Tucker Marshall, Chief Financial Officer

AARON BROHOLM, VICE PRESIDENT, INVESTOR RELATIONS

Good morning, this is Aaron Broholm, Vice President, Investor Relations for The J. M. Smucker Company. Thank you for listening to our prepared remarks on our fiscal 2024 third quarter earnings. After this brief introduction, Mark Smucker, Chair of the Board, President and Chief Executive Officer, will give an overview of the quarter's results and an update on strategic initiatives. Tucker Marshall, Chief Financial Officer, will 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.

We invite all interested parties to join us at 9:00 am Eastern Standard Time today for a live question-and-answer session with management to further discuss our third quarter results and outlook for the full 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 third quarter, momentum continued across our portfolio, building on the strong start to our fiscal year. We delivered another positive quarter of financial results, including organic sales growth and double-digit earnings growth. Our strong top- and bottom-line increase was led by volume growth, reflecting sustained consumer demand for our iconic brands, and our continued focus on superior execution and disciplined cost management.

In the third quarter, comparable net sales increased 6%, in-line with our expectations, driven by our Pet Foods segment, along with growth for the Away From Home business and the Frozen Handheld and Spreads segment.

Adjusted earnings per share increased double-digits, driven by improved gross profit margin and favorable SD&A expenses.

Overall, the strength of our categories and brands supported volume share gains across our portfolio. Brands that are growing or maintaining volume share accounted for 86% of our U.S. Retail sales in the third quarter, up from 34% in the same period a year ago.

We also continued to make important progress in reshaping our portfolio during the quarter, as we completed the acquisition of Hostess and divested the *Sahale Snacks*® and Canadian condiment businesses. These actions support our strategy of focusing our resources toward our fastest growth opportunities and leading in the attractive categories of coffee, snacking, and pet foods. This focus and prioritization of resources positions us to drive continued growth and enhance shareholder value.

Turning to our business segments, in Coffee, net sales decreased 1%, primarily driven by a list price decline, as we continued to pass through the benefit of lower coffee costs to consumers. Volume growth for the portfolio was driven by our key growth drivers, the *Café Bustelo*® and *Dunkin'*® brands, as well as K-Cups®.

Café Bustelo® net sales grew double-digits in the quarter, driven by volume growth. The brand has now experienced double-digit net sales growth for 10 consecutive quarters. It remains one of the fastest growing brands in the mainstream, one cup, and instant categories. And amongst leading brands, *Café Bustelo*® was #1 in both dollar and volume growth, with 2.5x the volume growth rate of the next leading brand.

Dunkin'® also gained volume share this quarter, and we expect continued volume growth for the *Dunkin'*® brand, supported by our competitive price points now reflected on shelf at retailers. We are also encouraged by new innovations the brand is bringing to the liquid category through *Dunkin'*® Cold Brew concentrates, where the brand has quickly grown to the #2 position in the shelf-stable category.

Folgers® continued to maintain its leading volume position, growing share in both mainstream and one cup. Strong volume performance for *Folgers*® K-Cups® was more than offset by declines for roast and ground coffee as we lapped significant promotions at a key retailer in the prior year.

Overall, the coffee category continues to remain strong and at-home consumption remains sticky, with over 70% of all coffee drinking occasions continuing to be at home.

Turning to our Frozen Handheld and Spreads business, comparable net sales grew 2%.

In peanut butter, the *Jif*® brand net sales grew double-digits in the quarter. *Jif*® has the #1 position in the category with 38 points of dollar share, leading all competitors in household penetration and volume velocity. We're expanding the *Jif*® brand to meet the growing usage of spreads and are excited about our new innovation launching this summer. Retailer acceptance has already exceeded our expectations and we anticipate this innovation will be highly incremental to the brand.

This time last year, we completed the expansion of our second *Uncrustables*® sandwiches plant in Longmont, Colorado, which enabled us to increase distribution, improve in-stock levels, and come off allocation for the first time in years. As we lapped 38% growth in the prior year, net sales in the quarter declined 2% for the U.S. Retail segment. We anticipate net sales growth will re-accelerate to double-digits in the fourth quarter, supported by distribution gains and planned advertising. We are already seeing the benefits of our first national advertising campaign, as consumer take-away grew double-digits in the latest 13-week period. In January, we experienced the second highest month of dollar consumption for *Uncrustables*® sandwiches ever, with the highest being the back-to-school period last year.

Total company net sales for *Uncrustables*® sandwiches grew 6%, driven by over 30% growth in the Away From Home business. Our launch in Canada also continues to exceed our expectations. We continue to expect total company net sales of approximately $800 million for the full fiscal year. Additionally, construction of our third *Uncrustables*® manufacturing site in McCalla, Alabama, remains on track to begin production in calendar year 2024. The expanded capacity will create a runway for further growth, and we remain confident in growing the brand to $1 billion in annual net sales by the end of fiscal year 2026.

Smucker's® fruit spreads grew volume share more than any competitor in the quarter, driven by key price points and the benefits of new distribution.

In Pet Foods, comparable net sales increased 20% versus the prior year, driven by strong double-digit growth for our *Meow Mix*® and *Milk-Bone*® brands. We are extremely pleased with how our refocused portfolio is performing from both a sales growth and margin perspective.

The *Milk-Bone*® brand grew net sales by double-digits, primarily driven by volume/mix. *Milk-Bone*® continues to outpace the category, growing over 2x the category rate. The brand has grown dollar share for 10 consecutive quarters, driven by superior retail execution, elevated innovation, and continued investment in brand-building. We continue to be excited about the incremental innovation we are bringing to the category with *Milk-Bone*® Peanut Buttery Bites, seasonal and limited-time offerings, and continued innovation to come.

For the *Meow Mix*® brand, supply has significantly improved, and the brand has returned to #1 in the dry cat food category in both dollars and volume. The brand had a record quarter for volume and sales.

Our Pet segment results this quarter continue to highlight the benefits of focusing on brands and categories where we have a leading market share position and divesting brands where we did not. Profit margin improved significantly versus the prior year, driven by product mix, and profit dollars remained in-line with the prior year, despite divesting half of the Pet Foods segment net sales.

The Sweet Baked Snacks business contributed sales and profit in-line with our expectations, and both the *Hostess*® and *Voortman*® brands gained volume share in the quarter. The integration is progressing very well, and we continue to be encouraged by the many opportunities for the business.

Upcoming innovation has been well received by customers, and we intend to continue the strong track record of *Hostess* ® product innovation, which led the sweet baked goods category in sales for three years in a row. We look forward to sharing future updates around new product launches and marketing plans, including significantly increased marketing support for the *Hostess*® brand.

Our new bakery in Arkadelphia, Arkansas, began operations in the quarter, and we are now able to fully meet demand for *Donettes*® single serve products. This bakery provides incremental capacity for *Donettes*® and cake products, supporting future growth for the *Hostess*® brand.

Long-term snacking trends continue to be favorable, providing tailwinds for our business. We are confident in the Sweet Baked Snacks business and its future contributions to our long-term growth objectives for the Company.

In addition to the strong performance of our U.S. Retail portfolio, momentum continued in our Away From Home business as comparable net sales grew by a double-digit percentage. Growth was driven by *Uncrustables*® sandwiches and portion control items. Our Away From Home business continues to have a competitive advantage with leading national brands that has led to above industry average growth rates across our categories. We expect this momentum to continue as we leverage our key platforms to drive future growth in Away From Home channels.

Across the portfolio, our third quarter results demonstrate an increased focus and continued progress on our strategic priorities of delivering growth for the core business, integrating and growing the Sweet Baked Snacks business, and achieving our transformation and cost management aspirations. We are confident that these strategic priorities will guide us in achieving long-term sustainable growth and increasing shareholder value.

Looking ahead, we are well-positioned to adapt to consumer preferences, execute with excellence, and sustain the positive momentum in our business. All of which is powered by our unique culture and talented employees, who I would like to thank for their dedication and 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 with an overview of third quarter results, then I'll provide additional details on our updated financial outlook for fiscal year 2024.

Net sales increased 1%, in the quarter. Comparable net sales increased 6%, excluding the prior year sales related to the divested businesses, current year sales for the Hostess acquisition, and foreign exchange.

The increase in comparable net sales was driven by favorable volume/mix of 4%, primarily driven by *Meow Mix*® cat food, contract manufacturing sales related to the divested pet food brands, and the *Café Bustelo*® brand.

Comparable net sales growth was also supported by a 2 percentage point increase from higher net price realization, primarily due to list price increases to recover increased costs for the Pet Foods, Frozen Handheld and Spreads, and International and Away From Home businesses. This growth was partially offset by lower net price realization for Coffee.

Adjusted gross profit increased $89 million, or 12% compared to the prior year. The increase reflects a favorable impact from the acquisition of Hostess, lower costs, higher net price realization, and favorable volume/mix, partially offset by the impact of divestitures.

Adjusted operating income increased $100 million, or 28%, reflecting the increased gross profit and favorable SD&A expenses.

Below operating income, net interest expense increased $62 million, primarily due to an increase in interest expense related to debt issued to partially finance the Hostess acquisition. The adjusted effective income tax rate was 26.1%, compared to 24.8% in the prior year, primarily due to an increase in state income taxes related to the Hostess acquisition.

Weighted-average shares outstanding were 106.1 million in the quarter, reflecting the weighted impact of approximately 4.0 million shares issued in connection with the Hostess acquisition.

Factoring in all these considerations, third quarter adjusted earnings per share was $2.48, an increase of 12% from the prior year.

Turning to our segment results, in the U.S. Retail Coffee segment, net sales decreased 1% versus the prior year. Net price realization reduced net sales by 4 percentage points, primarily driven by a list price decline for the majority of the portfolio. Favorable volume/mix increased net sales by 3 percentage points, driven by growth for the *Café Bustelo*® and *Dunkin'*® brands.

Net sales for the *Folgers*® brand declined 4% in the quarter, versus 15% growth in the prior year, primarily driven by lapping strong promotions at a key retailer.

Our K-Cup® portfolio grew net sales 6% in the quarter, primarily driven by a double-digit volume/mix increase, with growth across all our brands.

U.S. Retail Coffee segment profit increased 2%, primarily driven by favorable volume/mix, mostly offset by the unfavorable net impact of lower net price realization and lower commodity costs.

In U.S. Retail Frozen Handheld and Spreads, net sales increased 1 percentage point versus the prior year. Excluding noncomparable sales in the prior year related to the divested *Sahale Snacks*® business, net sales increased 2%. Higher net price realization increased net sales by 5 percentage points. This primarily reflects a favorable impact of lapping customer returns and fees related to the *Jif*® product recall, and a list price increase to recover increased costs for *Jif*® peanut butter. A reduced contribution from volume/mix decreased net sales by 2 percentage points, primarily driven by a decrease for *Jif*® peanut butter and *Smucker's*® toppings and syrups.

U.S. Retail Frozen Handheld and Spreads segment profit increased 11%, primarily reflecting higher net price realization, partially offset by increased marketing investments for the *Uncrustables*® and *Jif*® brands and increased pre-production expenses related to the new *Uncrustables*® facility.

In U.S. Retail Pet Foods, net sales decreased 39% versus the prior year. Excluding noncomparable sales in the prior year related to the divested pet food brands, net sales increased 20%. Volume/mix increased net sales by 13 percentage points, primarily driven by a double-digit increase for *Meow Mix*® cat food, $25 million of contract manufacturing sales related to the divested pet food brands, and growth for the *Milk-Bone*® brand. Higher net price realization increased net sales by 7 percentage points, driven by list price increases in the prior year across the portfolio to recover increased costs.

The *Meow Mix*® and *Milk-Bone*® brands continued to perform well in the quarter. *Milk-Bone*® net sales grew 11%, primarily driven by 8% volume/mix growth. *Meow Mix*® net sales grew 28% versus the prior year, and 17% on a 2-year CAGR basis. We anticipate this strong brand momentum to continue into the fourth quarter.

U.S. Retail Pet Foods segment profit was neutral, primarily driven by higher net price realization, favorable volume/mix, and lower costs, mostly offset by the impact of noncomparable segment profit in the prior year related to the divested brands and increased distribution costs.

The Sweet Baked Snacks segment, which reflects the acquired Hostess business, contributed net sales of $300 million and segment profit of $68 million, which were in-line with our expectations. Segment profit includes the recognition of an unfavorable fair value purchase accounting adjustment of approximately $8 million attributable to the acquired inventory, which increased cost of products sold for the segment.

Lastly, in International and Away From Home, net sales increased 4%. Excluding noncomparable net sales in the prior year related to divestitures and unfavorable foreign currency exchange, net sales increased 9%. Volume/mix increased net sales by 5 percentage points for the combined businesses, primarily driven by *Uncrustables*® sandwiches. Net price realization contributed a 4 percentage point increase to net sales, primarily driven by list price increases across the majority of the portfolio to recover increased costs, partially offset by increased trade spend.

Net sales for the Away From Home business increased 13% on a comparable basis, led by 33% growth for *Uncrustables*® sandwiches, and 22% growth for portion control products. Net sales for the International business increased 3% on a comparable basis, primarily driven by *Carnation*® milk, and *Uncrustables*® sandwiches in Canada.

International and Away From Home segment profit increased 34%, primarily reflecting higher net price realization and lower costs.

Third quarter free cash flow was $250 million, compared to $443 million in the prior year, driven by a decrease in cash provided by operating activities and a $15 million increase in capital expenditures. The decrease in cash provided by operating activities was primarily driven by more cash required to fund working capital and lower net income adjusted for noncash items, partially offset by the settlement of the Hostess business interest rate contracts. The increase in capital expenditures was driven by the capacity expansion for *Uncrustables*® sandwiches at the new McCalla, Alabama, facility.

We finished the quarter with cash and cash equivalent balances of $36 million and a total debt balance of $8.5 billion.

Let me now provide details on our updated outlook for fiscal year 2024.

Our net sales guidance reflects total sales of approximately $8.22 billion. Net sales are anticipated to decline approximately 3.6% compared to the prior year, reflecting lost sales in the prior year from the pet food, *Sahale Snacks*®, and Canada condiment business divestitures, and a $650 million increase in sales from the Hostess acquisition.

Excluding the divestitures and acquisition, comparable net sales are anticipated to grow approximately 8.75%. This is consistent with the mid-point of our previous guidance range, which we have narrowed considering there is only one quarter remaining in the fiscal year. This demonstrates the continued momentum of our business and brands and 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 $140 million in net sales, which is $5 million less than our previous estimate.

We continue to anticipate full-year adjusted gross profit margin of approximately 37.5%.

We now project SD&A expenses to be flat compared to the prior year, including $40 million of pre-production expenses related to the *Uncrustables*® capacity expansion. Total marketing expense is estimated to be approximately 5.3% of net sales.

We now anticipate net interest expense of approximately $270 million, including incremental expense of $140 million related to new debt to fund the acquisition. The full-year adjusted effective income tax rate is now anticipated to be 24.6%, along with a full-year weighted-average share count of 104.4 million. This share count includes the weighted impact of approximately 4.0 million shares issued in connection with the Hostess acquisition and 106.4 million shares outstanding in the fourth quarter.

Taking all these factors into consideration, we now anticipate full-year adjusted earnings per share to be in the range of $9.45 to $9.65, which reflects a $0.10 increase at the mid-point of the range.

Excluding $0.40 of dilution related to the Hostess acquisition, adjusted earnings per share is anticipated to be $9.95 at the mid-point of the guidance range, an increase of approximately 12% compared to the prior year. This also includes an approximate 7%, or $0.60, headwind related to the net impact of stranded overhead from the pet food divestiture.

We anticipate fourth quarter comparable net sales to increase a mid- single digit percentage. Fourth quarter adjusted earnings per share is anticipated to decline by a mid-teen percentage, primarily driven by approximately $20 million of pre-production expenses related to the new *Uncrustables*® facility and incremental marketing investments, including a shift in timing of marketing spend from the third quarter to the fourth quarter.

We now project free cash flow of approximately $500 million, with capital expenditures of $610 million for the year. This guidance includes $155 million of transaction and integration costs.

Other key assumptions affecting cash flow include: depreciation expense of approximately $240 million, amortization expense of approximately $190 million, share-based compensation expense of $25 million, other non-cash charges of $35 million, and cash tax payments of approximately $90 million that are incremental to tax expense.

In closing, our third quarter results demonstrate the continued momentum of our business and brands. We remain confident in our strategy and ability to deliver continued growth across our portfolio. We are well positioned to deliver consistent and long-term growth for our shareholders.

And, I would like to express my appreciation for all 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'*®, which is a trademark of DD IP Holder 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, as well as in certain away from home channels. This information does not pertain to products for sale in *Dunkin'*® restaurants.

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