

THE J.M. SMUCKER Co

2022 Consumer Analyst Group of New York (CAGNY) Conference Presentation Transcript

February 22, 2022

CORPORATE PARTICIPANTS

Mark Smucker, President and Chief Executive Officer
Tucker Marshall, Chief Financial Officer

MARK SMUCKER, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Good afternoon. We appreciate the opportunity to provide an update on The J.M. Smucker Company at this year's CAGNY conference.

Please note that certain information provided today is forward-looking based on current views and assumptions. Also, we use non-GAAP results for the purpose of evaluating performance internally. Details for both items can be found in the slides for today's presentation, available on our investor relations website.

Joining me today is our Chief Financial Officer, Tucker Marshall, who will give an overview of our financial strategy and priorities. And, joining us for the Q&A session is John Brase, our Chief Operating Officer.

My comments today will focus on the following themes:

- First, our business strategy is compelling and we are advancing it through solid execution,
- Next, we continue to deliver growth and sustain our momentum through this challenging and dynamic environment,
- Third, we are taking purposeful actions to reshape our portfolio to better position us for long-term growth,
- Fourth, we have become a more focused and efficient company – in terms of the categories where we participate, our supply chain operations and commercial activities, and how we allocate resources,
- And finally, we are advancing our ESG priorities.

Guided by our Purpose: Feeding connections that help us thrive – Life tastes better together, we are committed to making a meaningful impact on the lives of those who count on us. This purpose is embedded in our Thriving Together philosophy that focuses on issues impacting the quality of life for people and pets, specifically the needs of Quality Food, Education, Equitable and Ethical Treatment for All, Community Resources, and a Healthier Planet.

On this last point, we exceeded all our 2020 environmental impact goals. In 2021, we announced new targets around climate action, agricultural sustainability, and responsible packaging.

Turning to our business strategy, we continue to take substantive and decisive actions to better deliver sustained long-term growth and increase shareholder value.

In the current fast evolving environment, we are experiencing strong consumer demand and brand performance, as we benefit from our initiatives to operate with excellence, while using various levers to manage and mitigate a challenging supply chain and inflationary environment.

With this focus, we have successfully implemented net pricing actions across all our businesses and are taking additional inflation-justified pricing actions. At our manufacturing facilities we are managing production capacity, increasing staffing, and expanding our supplier base. We are also partnering with customers to maximize efficiencies such as order quantities and truckload optimization to ensure our products are in-stock and on shelf.

As we navigate this dynamic environment, we continue to make progress on our strategy to drive balanced long-term growth, by remaining focused on our Vision and Executional Priorities.

Our Vision, to engage, delight, and inspire consumers by building brands they love and leading in growing categories, guides our business priorities and aligns our organization.

This approach has enabled us to grow to an $8 billion Company with a strong portfolio and sustainable growth opportunities in the desirable categories of pet, coffee, and snacking. Our products are found in nearly 90% of all U.S. households, and over 80% of our U.S. Retail sales come from categories where we hold either the number 1 or number 2 branded position.

Looking back over the decades, we have delivered above average total shareholder return by making bold, transformative acquisitions that brought iconic brands and new categories to our portfolio. That transformation journey continues as we have built new innovation capabilities, redesigned our commercial and marketing model, and expanded in new channels, such as e-commerce, which now represents 11% of our U.S. Retail sales.

Recently, we have made incredible progress strengthening our portfolio through divestitures, assortment optimization, and better allocation of resources to our strategic platforms of pet, coffee, and snacking. We have also strengthened our balance sheet, providing flexibility for new strategic opportunities and the next phase of our transformation and growth.

To unlock the full potential of our strategy, our focus is to continue delivering on 4 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 to advance these priorities, including:

- Implementing a new sales and marketing model to ensure that we have culturally relevant brands that consumers love, and to drive in-store execution through proprietary data and analytics capabilities.
- Improving market share through our new commercial model and brand investments. These initiatives resulted in brands representing 68% of our U.S. Retail sales maintaining or increasing share in the third quarter.
- Optimizing our supply chain including the consolidation of production sites.
- Reshaping our portfolio with 4 divestitures and reallocating resources to drive faster growth and evaluating further actions to increase our scale in sustainable growth segments.
- And, increasing our organization's focus on delivering with excellence and winning in the marketplace, including revising our incentive compensation measures to include new metrics for net sales growth, as well as management incentives to improve diversity at all levels of the company.

Now turning to key initiatives within our business segments.

Our largest segment is U.S. Retail Pet Foods, which accounted for $2.8 billion of net sales last fiscal year. Pet food and snacks continues to be one of the most attractive consumer product categories. It is the largest center of the store category and is projected to grow 4% annually over the next 5 years.

Our strategy in pet is focused on prioritizing and accelerating growth in dog snacks, along with driving momentum in cat food, while improving dog food performance. We will continue to allocate our resources consistent with this strategic approach.

Pet snacks have the highest strategic importance for our pet business, as we are the market leader with a 22% dollar share. It has historically been the fastest growing segment in the pet category, and delivers significantly higher margins than pet food. We expect growth for pet snacks to outpace pet food by up to 2 times over the long-term. Our snacks portfolio has delivered year-over-year net sales growth in 12 of the last 14 quarters. Growth will continue to be led by the *Milk-Bone®* brand, with premium innovation driving incremental growth and higher dollars per occasion. We anticipate our total dog snacks portfolio to grow to $1 billion in annual net sales over the next 3 years, reflecting $100 million of growth.

In cat food, we have significant momentum demonstrated by year-over-year net sales growth for 16 of the last 17 quarters, led by the *Meow Mix®* brand. The journey for this brand has been incredible over the last few years as it became the leader in household penetration and volume share in the dry cat food category. I'm pleased to add that the *Meow Mix®* brand has also taken over as the #1 brand in terms of dollar share in the dry cat food category, and has grown over 2 times the category growth average in the past year.

And in dog food, we continue refining our dry dog food assortment consistent with consumer preferences and expanding our wet food offerings. We will be launching our new *Nutrish®* dog food advertising next fiscal year based on new positioning grounded in recent insights about the consumer, category, and competitive efforts. For the *Nutrish®* brand, we have successfully expanded into faster growing segments such as wet dog food and dog snacks.

Now I'd like to provide some highlights on our $2.4 billion coffee segment. We anticipate at-home coffee habits formed during the pandemic will persist, supporting elevated coffee sales as employers are embracing work from home flexibility. At-home coffee consumption now represents 73% of all coffee drinking occasions, compared to two-thirds pre-pandemic. Consumers have also upgraded their at-home coffee experience by investing in new home coffee equipment, and they have been more willing to trade up to premium offerings.

Our portfolio benefits significantly from these trends, as we are the number 1 branded manufacturer with 3 of the top 10 brands in the category, including the iconic *Folgers®* brand and the fast-growing *Dunkin'®* and *Café Bustelo®* brands.

Over the last several years, we have been successful in our strategy to shift our portfolio toward the faster growing one cup and premium segments. Our branded offerings in these segments now account for 54% of our coffee sales.

The *Dunkin'®* and *Café Bustelo®* brands remain 2 of the fastest growing brands in the category, delivering retail sales growth of 8% and 13% respectively over the last year. We believe there is continued opportunity for growth, particularly as *Café Bustelo®* has a relatively low household penetration, and *Dunkin'®* continues to benefit from crossover café consumers. We anticipate *Dunkin'®* becoming a $1 billion brand within the next 5 years, expanding our sales from approximately $800 million this fiscal year. We anticipate growing *Café Bustelo®* annual net sales to $300 million in the next 3 years, reflecting growth of approximately $65 million.

I'd now like to share a short video showcasing our coffee brands.

As you can see, we are driving soul and cultural relevance back into the *Folgers®* brand with bold new marketing that began airing last month and new packaging that will launch next fiscal year. We are leveraging the strength of our mainstream portfolio to higher growth and higher dollar per occasion offerings for the *Folgers®* brand with our premium and single serve offerings.

And finally, we are recharging mainstream coffee with technology and cost innovation. With over 170 years of roasting experience, our team has developed roasting capabilities which provide increased flavor extraction, consistent quality, and optimizing the amount of coffee beans per cup consumed while maintaining the same taste profile. This breakthrough innovation also provides a meaningful reduction in energy consumption, greenhouse gas emissions, and cost mitigation. We are excited to begin shipping *Folgers®* products produced with this advanced process in May.

Turning to our Consumer Foods business, which generated $1.8 billion of net sales last fiscal year. We have undertaken significant portfolio reshaping efforts over the last few years to prioritize our focus on the fast-growing *Uncrustables®* brand and our category leading *Jif®* and *Smucker's®* spreads businesses.

Since its launch 20 years ago, the *Uncrustables®* brand has delivered consistent growth and is expected to deliver approximately $500 million of net sales this fiscal year. Given the momentum and ongoing investment for this business, we expect to grow *Uncrustables®* to $1 billion brand in net sales over the next 5 years.

Over the past year, retail sales for *Uncrustables®* grew 32%, out-pacing category growth of 6%. With only 9% share of the category, the brand drove 40% of the retail category growth for the last year. The brand is #1 in households with young kids, has the #1 repeat rate, and #1 velocity growth rate. Despite being capacity constrained over the years, *Uncrustables®* net sales experienced a 10-year CAGR of 14%.

We are confident in delivering continued double-digit growth for *Uncrustables®* over the next several years as we continue to add capacity. We expect to double household penetration as expanded capacity allows us to unlock more demand drivers, including broader distribution, new channels and geographies, expanded consumption with existing and new consumers, and increased investment in marketing. We will complement volume growth with net revenue optimization, price pack architecture, and innovation.

To support these initiatives, we have made significant capital investments to improve and expand our production capabilities. We expect to complete the second phase of construction at our Longmont plant in Colorado by the end of next fiscal year. We have also begun construction on a third production location in McCalla, Alabama where operations are expected to begin in calendar 2025. Lastly, we will construct a new R&D facility on our Orrville corporate campus to support the *Uncrustables®* brand.

Let's take a look at a short video highlighting the tremendous success and opportunity ahead for *Uncrustables®*.

Finally, I'll share an update on our International and Away From Home businesses, which generated approximately $950 million of net sales last fiscal year. Our Away From Home business has returned to approximately 95% of pre-pandemic levels. We have also taken steps to optimize and focus the business for future growth. This includes a 30% reduction in SKU's, with minimal top-line impact, as well as greater focus on *Uncrustables®,* coffee, and portion control spreads. Across these segments, we've increased our market share by mid-single digits over the past year. In our International business, we will leverage growth opportunities consistent with our U.S. Retail businesses, most notably for *Uncrustables®* and pet food and snacks, as well as our category leading Baking business in Canada.

In summary, we continue to deliver strong financial results, and our actions to deliver on our Vision and Executional Priorities position us well for the future. We're confident in the strategic choices we have made that are transforming us into a company with improved focus on sustainable growth. 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 dedicated employees, who I would like to thank for their outstanding contributions.

With that, I'll turn it over to Tucker.

TUCKER MARSHALL, CHIEF FINANCIAL OFFICER

Thank you, Mark, and good afternoon everyone. It's great to join you for this year's conference.

I'll begin with brief comments about our current fiscal year, then transition to a longer-term view of our top-line and bottom-line growth ambitions. Finally, I'll provide some preliminary considerations as we develop our financial plan for next fiscal year.

We are pleased with our financial performance this fiscal year, as we are taking the right actions to ensure continued operational excellence, while managing through this dynamic and challenging cost and supply chain environment.

Next Tuesday, we'll report our third quarter financial results. Our results are ahead of our expectations, and we remain confident in delivering full-year adjusted earnings per share around the midpoint of the guidance range that we provided in November. During this quarter, we completed the divestiture of 2 businesses, and we anticipate using the cash proceeds to offset the divested earnings.

I'm proud to report that we are making progress against the financial priorities that I established as CFO. I'll share updates on each of them:

- We've focused on consistent and transparent communication, increased our engagement with investors, and shared both the key opportunities and challenges in this very dynamic environment;
- We've improved our execution to meet annual and long-term financial targets, and delivered on our adjusted earnings per share expectations for 7 consecutive quarters;
- We've increased our focus on financial returns by prioritizing the highest and best use of our capital. An example of this approach is our investment in the ongoing growth opportunity for the *Uncrustables®* brand;
- We've introduced cost management programs across the business and instilled a holistic approach to profit and productivity savings.
- Finally, we've delivered balanced capital deployment by reinvesting in the business, returning cash to shareholders, and maintaining a strong balance sheet, with an investment grade debt rating.

Our strategic framework and financial priorities give us confidence to achieve our long-term financial objectives. Those objectives include:

- Low-single-digit net sales growth;
- Mid-single-digit operating income growth;
- High-single-digit adjusted earnings per share growth;
- And, total shareholder return of approximately 10% or greater when considering our dividend policy.

Long-term, we anticipate low-single-digit top-line growth as a result of our strengthened portfolio and projected growth rates in our respective categories. We also continue to see positive momentum in our brands through improved market share trends, and focused growth initiatives within each of our business segments.

As we streamlined the business with 4 divestitures over the last 2 years, we have reallocated resources to more strategic, faster growing opportunities. We're focused on key enablers of future top-line growth:

- The *Uncrustables®* brand, is expected to account for 1 percentage point of the total Company's growth rate, as it continues on its path to reaching $1 billion in annual sales.
- We expect continued growth for our coffee portfolio, driven by the *Dunkin'®* and *Café Bustelo®* brands.
- We expect accelerated growth for our pet snacks driven by *Milk-Bone®*, along with continued momentum of the cat food business led by *Meow Mix®*.
- And lastly, we expect continued growth in our Away From Home business.

We anticipate operating income will outpace sales growth and increase at a mid-single-digit percentage over our strategic horizon. Our operating income growth and margin expansion will be achieved through gross profit improvement over time, driven by favorable sales volume and mix, pricing to recover cost inflation, net revenue optimization, value engineering, and ongoing efficiency improvements within our supply chain. We expect an increase in SD&A expenses primarily driven by marketing investments. We will also continue to align our portfolio to focus on our growth platforms and the most productive items.

Our margin management programs have delivered significant cost savings across the Company. Our actions have included minimizing discretionary spend, reducing non-working marketing spend, managing sales and brokerage expenses, initial steps to optimize our manufacturing and supply chain environments, and restructuring our corporate support organization. Looking ahead, we are shifting away from episodic cost programs to a continuous productivity model across commercial, supply chain, and corporate activities. This approach enables us to ensure profitability and margin growth, while balancing return and reinvestment.

Below operating income, we expect our capital deployment model to drive a high-single-digit percentage growth for adjusted earnings per share.

We have consistently demonstrated the ability to generate strong cash flow that provides a balanced approach to capital deployment, while maintaining an investment grade debt rating. We anticipate allocating approximately 50% of cash from operations for future growth through capital expenditures and strategic investments, including the ability to pursue acquisitions. We anticipate returning approximately 50% of cash to shareholders through dividends, reduction of debt, and share repurchases.

Our long-term goal remains to generate $1 billion in free cash flow annually, which can be used to support the growth of our business and create shareholder value. Our long-term strategic target for capital expenditures is approximately 3.5% of net sales. However, capital expenditures will remain elevated over the next few years, primarily due to investments related to *Uncrustables®* capacity expansion.

Acquisitions continue to play an important role in our strategy of driving category leadership and scale through large, iconic brands, coupled with smaller, emerging growth brands. We will pursue bolt-on opportunities across our U.S. Retail segments and explore transformative acquisitions that could bring the company into new categories, channels, or geographies. We anticipate a potential large-scale deal to focus

on growing categories that are aligned with our current North American footprint and center-of-store capabilities. The reasonableness of multiples paid and the strength of financial returns remain critical in every deal we evaluate.

Last July, we increased our quarterly dividend by 10%, marking the 20th consecutive year we have grown our dividend. Our dividend increase has averaged 8% over the past 10 years. We expect the Board to maintain the Company's current dividend policy, which is to return approximately 40 to 45% of our annual adjusted earnings per share to shareholders.

In addition, we have used cash to pay down debt resulting in a debt leverage ratio around 3.0x. This level of debt provides the financial flexibility for a balanced approach to capital deployment, while maintaining an investment-grade debt rating, and allowing us to take advantage of strategic growth opportunities.

Historically, we have used opportunistic share repurchases to deliver cash to our shareholders and to replace divested earnings. We will continue to evaluate share repurchases as a lever to increase shareholder value.

Looking ahead to next fiscal year the current environment remains very dynamic and uncertain. I'll provide some perspectives about the elements that we are considering, as we plan our next fiscal year.

We are focused on maintaining the business momentum and increased at-home consumption for our brands, while making strategic investments to grow our portfolio in the pet, coffee, and snacking segments. We also continue to address the inflationary environment, while navigating a disruptive supply chain.

For next fiscal year top-line tailwinds include a full year of price increases implemented during the current fiscal year; additional pricing actions in response to incremental costs; continued brand momentum and expansion; and ongoing recovery for our Away From Home Business.

Anticipated top-line headwinds include lapping of net sales from divested businesses; some at-home consumption deceleration as consumer mobility increases; and price elasticity of demand due to overall inflationary pressures impacting consumers' purchasing behavior.

On the bottom line, considerations for next fiscal year include:

- Volume, mix, and pricing benefits from ongoing growth and business momentum and input cost recovery;
- The impact of price elasticity of demand due to overall inflationary pressures, and the risk of supply chain disruption;
- Incremental costs for commodities and ingredients, packaging and transportation, along with labor and wage considerations;
- An increase in investments to support top-line growth, including the capacity expansion for *Uncrustables®*;
- Any benefits from our cost management and productivity programs;
- Lapping profits from divested businesses, before any use of cash proceeds; and
- Reduced interest expense reflecting debt repayments and re-financing activities.

In closing, I would like to emphasize the following:

- We continue to deliver strong results in this environment.
- We have made significant progress carrying out our strategic and executional priorities.
- Our commitment to financial discipline and balanced approach to capital deployment supports our long-term growth strategy.
- And, we are confident that we are firmly on the path to deliver consistent, long-term sustainable growth and increasing shareholder value.

Thank you for your time today.

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.