



# J.M. Smucker (SJM)

Updated November 28<sup>th</sup>, 2018 by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$105	<b>5 Year CAGR Estimate:</b>	8.6%	<b>Volatility Percentile:</b>	46.0%
<b>Fair Value Price:</b>	\$107	<b>5 Year Growth Estimate:</b>	5.0%	<b>Momentum Percentile:</b>	25.4%
<b>% Fair Value:</b>	98%	<b>5 Year Valuation Multiple Estimate:</b>	0.4%	<b>Growth Percentile:</b>	31.1%
<b>Dividend Yield:</b>	3.2%	<b>5 Year Price Target</b>	\$137	<b>Valuation Percentile:</b>	59.8%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	50.4%

## Overview & Current Events

In 1897 Jerome Monroe Smucker founded a small cider mill in Orrville, Ohio. He used surplus apples, said to be cultivated by Johnny Appleseed, to make cider and apple butter. Since then the J.M. Smucker company has grown into an international powerhouse of packaged food and beverage products including iconic names like Smucker's, Jif, Crisco and Folgers, along with pet food brands like Milk Bone, Meow Mix, Kibbles 'n Bits and 9Lives. The company has a market capitalization of \$12 billion and is on pace to generate ~\$7.9 billion in sales and earn ~\$750 million this year.

On November 28<sup>th</sup>, 2018 Smucker's reported Q2 fiscal 2019 (ending in April) results. For the quarter net sales increased by 5% to \$2.02 billion and earnings-per-share came in at \$1.66, a 3% decline from the year ago mark of \$1.71. On an adjusted basis, earnings-per-share totaled \$2.17 against \$2.02 in the prior period. The large drivers for the quarter were a 15% jump in the Coffee segment's profit driven by lower input costs, and a 32% increase in the Pet Foods segment, driven by the Ainsworth acquisition.

Smucker's also provided updated guidance for the remainder of the year. Sales are anticipated to come in at \$7.9 billion (against \$8 billion for the previous guidance), free cash flow is expected to be in the \$700 to \$750 million range (\$770 to \$820 previous) and adjusted earnings-per-share are anticipated to be in the \$8.00 to \$8.20 range as compared to \$8.40 to \$8.65 previously. Keep in mind that this guidance is uniquely adjusted. It includes the expectation of \$5.94 to \$6.14 in earnings-per-share, with \$0.40 added back in for special project costs and \$1.66 added back in for amortization. We include the impact of amortization expense in our earnings expectations, so this guidance implies underlying earnings power of ~\$6.34 to ~\$6.54 this fiscal year.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$3.77	\$4.37	\$4.79	\$4.73	\$5.37	\$5.64	\$5.35	\$5.89	\$6.49	\$6.97	<b>\$6.45</b>	<b>\$8.25</b>
<b>DPS</b>	\$1.31	\$1.45	\$1.68	\$1.92	\$2.08	\$2.32	\$2.56	\$2.68	\$3.00	\$3.12	<b>\$3.40</b>	<b>\$4.12</b>
<b>Shares</b>	118	119	114	110	106	102	120	116	113	114	<b>114</b>	<b>114</b>

Note that the increase in share count for fiscal year 2015 was a result of the acquisition of Big Heart Pet Brands.

Since fiscal year 2009 Smucker's has increased earnings-per-share by about 7% annually. Moving forward the company has provided long-term guidance of 2% to 3% sales growth, 5% operating income growth, 6% pre-tax income growth and 8% annual earnings-per-share growth. While we believe this is great goal, we are hesitant to extrapolate that sort of growth over the intermediate-term. The company has a collection of iconic brands, but many of them are center-isle staples that have been losing popularity as consumers look for fresher, healthier options. Increased advertising spending and moving toward consumer preferences will require significant capital outlays in the years to come. On the positive side, coffee is a strong, sticky segment for the business and Smucker's is working to expand the current iconic lines (think Jif) to more on-trend products like granola bars and on-the-go snacks.



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## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Avg. P/E	12.0	12.5	13.2	16.2	16.0	18.3	19.6	20.1	21.0	17.0	16.3	16.6
Avg. Yld.	2.9%	2.7%	2.7%	2.5%	2.4%	2.2%	2.4%	2.3%	2.2%	2.6%	3.2%	3.0%

Smucker's share price has declined substantially in the last two years, dropping from a peak of \$157 in the middle of 2016 down to \$105 as we write this; a 33% decline. Yet at the same time earnings have held up and the dividend continues to grow, meaning the valuation has gotten a bit more interesting. Indeed, we believe shares are now offering a reasonable valuation in relation to the company's overall brand strength and historical levels.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	34%	32%	34%	40%	38%	40%	46%	45%	45%	44%	53%	50%

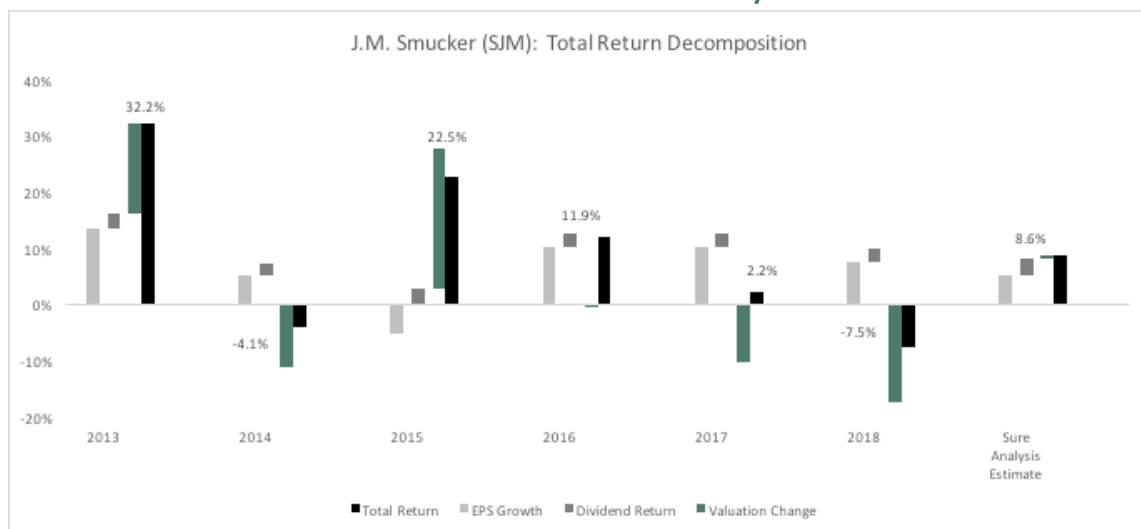
Smucker's iconic brands continue to enjoy recognition, but this moat is eroding somewhat as consumers look for fresher and healthier alternatives. During the last recession Smucker's held up exceptionally well, growing both earnings and dividends during this time. Our apprehension is not with the next recession, but instead whether or not the company can meaningfully grow.

The company has been diligent in working towards this, mostly via acquisitions. Of course, this has levered up the balance sheet as well. Smucker's held ~\$900 million in long-term debt back in 2009 against ~\$320 million in net profit (2.8x). Today the number is closer to \$5.9 billion in debt against an underlying earnings machine of ~\$750 million per year (7.9x) with interest payments of over \$200 million annually. Additionally, \$13.4 billion of the company's \$17.1 billion in total assets are held as goodwill and other intangible assets. The leverage continues to be serviceable, the payout ratio is reasonable and profits are recession resistant, but the safety of the firm is not top-notch in our view.

## Final Thoughts & Recommendation

We believe Smucker's to be trading very close to fair value. Valuation multiple gains are not likely to add significant to total returns. Smucker's is a reasonably safe stock trading around fair value with mediocre growth prospects. We rate it as a hold at current prices.

## Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	3758	4605	4826	5526	5898	5611	5693	7811	7392	7357
<b>Gross Profit</b>	1251	1787	1799	1845	2028	2031	1969	2968	2835	2836
<b>Gross Margin</b>	33.3%	38.8%	37.3%	33.4%	34.4%	36.2%	34.6%	38.0%	38.4%	38.5%
<b>SG&amp;A Exp.</b>	674	878	863	893	974	989	1031	1510	1391	1371
<b>D&amp;A Exp.</b>	118	182	186	209	251	256	267	430	419	413
<b>Operating Profit</b>	539	824	861	867	960	945	830	1281	1242	1258
<b>Operating Margin</b>	14.3%	17.9%	17.8%	15.7%	16.3%	16.8%	14.6%	16.4%	16.8%	17.1%
<b>Net Profit</b>	266	494	480	460	544	565	345	689	592	1339
<b>Net Margin</b>	7.1%	10.7%	9.9%	8.3%	9.2%	10.1%	6.1%	8.8%	8.0%	18.2%
<b>Free Cash Flow</b>	338	576	212	457	649	577	491	1260	867	896
<b>Income Tax</b>	130	237	238	242	273	285	178	289	286	-478

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	8192	7975	8325	9115	9032	9060	16806	15984	15640	15301
<b>Cash &amp; Equivalents</b>	457	284	320	230	256	154	126	110	167	193
<b>Accounts Receivable</b>	266	239	344	348	314	309	430	450	439	386
<b>Inventories</b>	604	655	864	962	946	931	1164	899	906	854
<b>Goodwill &amp; Int. Ass.</b>	5890	5834	5753	6242	6142	6123	12962	12586	12227	11859
<b>Total Liabilities</b>	3252	2649	3032	3952	3883	4031	9719	8976	8790	7410
<b>Accounts Payable</b>	199	180	235	275	286	289	403	459	477	512
<b>Long-Term Debt</b>	1537	910	1304	2071	2018	2216	6171	5430	5399	4832
<b>Shareholder's Equity</b>	4940	5326	5292	5163	5149	5030	7087	7009	6850	7891
<b>D/E Ratio</b>	0.31	0.17	0.25	0.40	0.39	0.44	0.87	0.77	0.79	0.61

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	4.7%	6.1%	5.9%	5.3%	6.0%	6.2%	2.7%	4.2%	3.7%	8.7%
<b>Return on Equity</b>	7.9%	9.6%	9.0%	8.8%	10.6%	11.1%	5.7%	9.8%	8.5%	18.2%
<b>ROIC</b>	5.9%	7.8%	7.5%	6.6%	7.6%	7.8%	3.4%	5.4%	4.8%	10.7%
<b>Shares Out.</b>	118	119	114	110	106	102	120	116	113	114
<b>Revenue/Share</b>	43.93	39.01	41.20	49.22	54.18	54.20	55.25	65.64	63.95	65.11
<b>FCF/Share</b>	3.95	4.88	1.81	4.07	5.97	5.57	4.77	10.58	7.50	7.93

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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