



J.M. Smucker (SJM)

Updated June 11th, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$123	5 Year CAGR Estimate:	5.9%	Volatility Percentile:	52.0%
Fair Value Price:	\$112	5 Year Growth Estimate:	5.0%	Momentum Percentile:	78.1%
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.9%	Growth Percentile:	35.7%
Dividend Yield:	2.8%	5 Year Price Target	\$143	Valuation Percentile:	35.5%
Dividend Risk Score:	B	Retirement Suitability Score:	C	Total Return Percentile:	26.7%

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 \$14 billion and is on pace to generate ~\$8 billion in sales and earn ~\$800 million this year.

On June 6th, 2019 Smucker's reported Q4 and full year fiscal 2019 results for the period ending April 30th, 2019. These results include the Ainsworth acquisition (acquired May 14th, 2018) along with divestiture of the Company's U.S. baking business on August 31st, 2018. For the quarter sales came in at \$1.90 billion, compared to \$1.78 billion in Q4 of fiscal year 2018. Adjusted earnings-per-share totaled \$2.08, marking an 8% improvement over the \$1.93 posted in the prior period. For the year sales came in at \$7.84 billion, a 7% increase compared to fiscal year 2018. The results were helped by a slight uptick in Retail Coffee and a significant jump in the Pet Foods segment, due to the Ainsworth acquisition, and offset somewhat by a decline in the Retail Consumer Foods segment. Adjusted earnings-per-share came in at \$8.29 for the year compared to \$7.96 previously. However, this excludes amortization expenses, which would imply adjusted earnings-per-share of \$6.18 for this last fiscal year and only marginal bottom line improvement.

Smucker's also provided guidance for fiscal year 2020. Sales are anticipated to increase 1% to 2%, free cash flow is expected to be in the \$875 to \$925 million range and adjusted earnings-per-share is expected to be in the \$8.45 to \$8.65 range. However, keep in mind that this guidance is uniquely adjusted. It includes the expectation of \$7.12 to \$7.31 in earnings-per-share, with -\$0.35 taken away as unallocated losses or gains, \$0.13 added back in for special project costs, and \$1.55 to \$1.56 for amortization charges. We include the impact of amortization in our earnings expectations, so this guidance implies underlying earnings power of ~\$6.90 to ~\$7.09 this fiscal year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$4.37	\$4.79	\$4.73	\$5.37	\$5.64	\$5.35	\$5.89	\$6.49	\$6.97	\$6.18	\$7.00	\$8.94
DPS	\$1.45	\$1.68	\$1.92	\$2.08	\$2.32	\$2.56	\$2.68	\$3.00	\$3.12	\$3.40	\$3.60	\$4.47
Shares	119	114	110	106	102	120	116	113	114	114	114	114

Note that while Smucker's has already completed its 2019 fiscal year, we have elected to present the data above closest to the actual calendar year. Also, the share count increase for 2014 was a result of the Big Heart Pet Brands acquisition.

In the 2008 through 2017 stretch, Smucker's 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 and 8% annual earnings-per-share growth. While we believe this is a great goal, we are hesitant to extrapolate that sort of growth over the intermediate-term and have tempered it slightly to 5% annually. 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



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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.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.5	13.2	16.2	16.0	18.3	19.6	20.1	21.0	17.0	18.2	17.6	16.0
Avg. Yld.	2.7%	2.7%	2.5%	2.4%	2.2%	2.4%	2.3%	2.2%	2.6%	3.0%	2.9%	3.1%

Over the past decade shares of Smucker's have traded at an average P/E ratio of about 17 times earnings. While we believe this mark is more or less fair, we do caution that it could be overstated should earnings growth continue to stall and have baked in a bit of caution in our estimate as a result.

After Smucker's share price declined substantially in the last two years, it has since begun to rebound in the last quarter. We currently view shares as being on the high side of fair value, implying moderate potential for a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	32%	34%	40%	38%	40%	46%	45%	45%	44%	55%	51%	50%

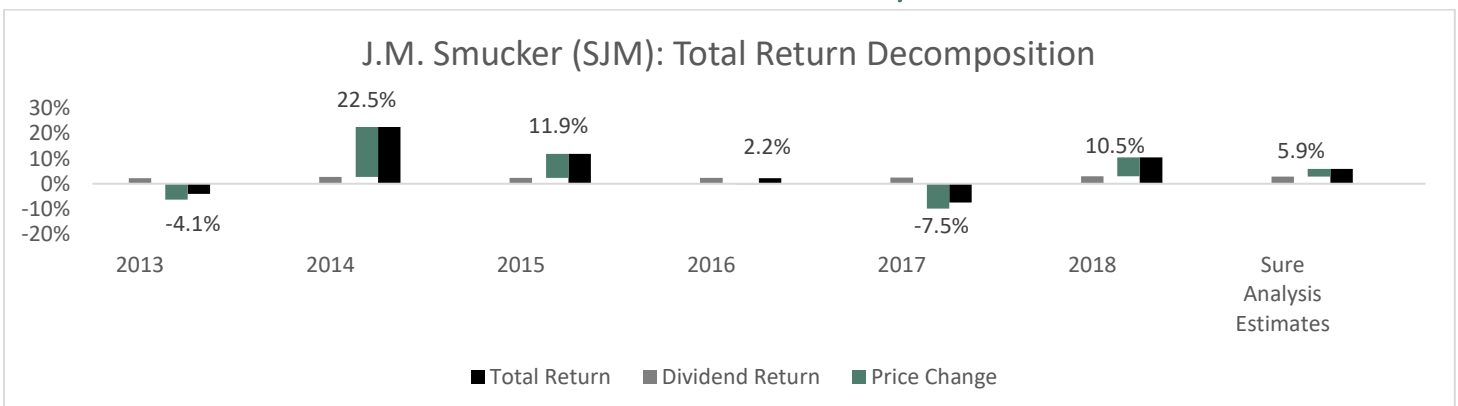
Smucker's iconic brands continue to enjoy recognition, but this competitive position is eroding as consumers look for fresher and healthier alternatives. During the last recession Smucker's held up exceptionally well, growing both earnings and dividends. Our apprehension is not with the next recession, but instead if the company can grow its core brands.

Smucker's acquisitions have levered up the balance sheet. 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 \$5.5 billion in debt against underlying earnings of ~\$800 million per year (6.9x) with interest payments of over \$200 million annually. Additionally, \$13.0 billion of the company's \$16.7 billion in total assets are held as goodwill and other intangible assets. The debt is 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

Shares are up 13% since our last update, but the company's earnings outlook has improved as well. We are forecasting total return potential of 5.9% per annum, stemming from 5% growth and a 2.8% starting yield offset by a 1.9% valuation headwind. While the company has a strong history with a solid dividend and iconic brands, growth prospects are not robust from this point and the company needs to get a better handle on the balance sheet. Moreover, the industry as a whole appears to be facing increasing headwinds. Overall we rate the security as a hold.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3758	4605	4826	5526	5898	5611	5693	7811	7392	7357
Gross Profit	1251	1787	1799	1845	2028	2031	1969	2968	2835	2836
Gross Margin	33.3%	38.8%	37.3%	33.4%	34.4%	36.2%	34.6%	38.0%	38.4%	38.5%
SG&A Exp.	674	878	863	893	974	989	1031	1510	1391	1371
D&A Exp.	118	182	186	209	251	256	267	430	419	413
Operating Profit	539	824	861	867	960	945	830	1281	1242	1258
Operating Margin	14.3%	17.9%	17.8%	15.7%	16.3%	16.8%	14.6%	16.4%	16.8%	17.1%
Net Profit	266	494	480	460	544	565	345	689	592	1339
Net Margin	7.1%	10.7%	9.9%	8.3%	9.2%	10.1%	6.1%	8.8%	8.0%	18.2%
Free Cash Flow	338	576	212	457	649	577	491	1260	867	896
Income Tax	130	237	238	242	273	285	178	289	286	-478

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	8192	7975	8325	9115	9032	9060	16806	15984	15640	15301
Cash & Equivalents	457	284	320	230	256	154	126	110	167	193
Accounts Receivable	266	239	344	348	314	309	430	450	439	386
Inventories	604	655	864	962	946	931	1164	899	906	854
Goodwill & Int. Ass.	5890	5834	5753	6242	6142	6123	12962	12586	12227	11859
Total Liabilities	3252	2649	3032	3952	3883	4031	9719	8976	8790	7410
Accounts Payable	199	180	235	275	286	289	403	459	477	512
Long-Term Debt	1537	910	1304	2071	2018	2216	6171	5430	5399	4832
Shareholder's Equity	4940	5326	5292	5163	5149	5030	7087	7009	6850	7891
D/E Ratio	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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	4.7%	6.1%	5.9%	5.3%	6.0%	6.2%	2.7%	4.2%	3.7%	8.7%
Return on Equity	7.9%	9.6%	9.0%	8.8%	10.6%	11.1%	5.7%	9.8%	8.5%	18.2%
ROIC	5.9%	7.8%	7.5%	6.6%	7.6%	7.8%	3.4%	5.4%	4.8%	10.7%
Shares Out.	85.55	118.04	117.12	112.26	108.85	103.52	103.04	119.00	115.60	113.00
Revenue/Share	43.93	39.01	41.20	49.22	54.18	54.20	55.25	65.64	63.95	65.11
FCF/Share	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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