



J.M. Smucker (SJM)

Updated February 26th, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$109	5 Year CAGR Estimate:	7.3%	Market Cap:	\$12.4 B
Fair Value Price:	\$106	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	02/13/20
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.6%	Dividend Payment Date:	03/02/20
Dividend Yield:	3.2%	5 Year Price Target	\$135	Years Of Dividend Growth:	22
Dividend Risk Score:	C	Retirement Suitability Score:	C	Last Dividend Increase:	3.5%

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 over \$7 billion in sales.

On July 23rd, 2019 Smucker's announced a 3.5% quarterly dividend increase from \$0.85 to \$0.88.

On February 26th, 2020 Smucker's reported Q3 fiscal 2019 results for the period ending January 31st, 2020. (Smucker's fiscal year ends April 30th.) For the quarter net sales declined -2% to \$1.97 billion, driven by reduced volume in the U.S. Retail Pet Foods segment. Adjusted operating income equaled \$395.8 million compared to \$406.2 million previously, while adjusted earnings-per-share came in at \$2.35 compared to \$2.26 in the year ago quarter. A 3% gain in U.S. Retail Coffee was offset by declines in U.S. Retail Pet Foods, U.S. Retail Consumer Foods and the International segment.

Smucker's also reiterated its guidance for the remainder of the year. Sales are anticipated to decrease -3% for the year, free cash flow is expected to be \$850 million and adjusted earnings-per-share are anticipated to be in the \$8.10 to \$8.30 range. Keep in mind that this guidance is uniquely adjusted. It includes the expectation of \$6.32 to \$6.52 in earnings-per-share, with \$0.12 added back in for special project costs, -\$0.27 for derivative losses, \$0.35 for asset impairment charges and \$1.58 added back in for amortization. We include the impact of amortization expense in our earnings expectations, so this guidance implies underlying earnings power of ~\$6.52 to ~\$6.72 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	\$6.66	\$6.62	\$8.45
DPS	\$1.45	\$1.68	\$1.92	\$2.08	\$2.32	\$2.56	\$2.68	\$3.00	\$3.12	\$3.40	\$3.52	\$4.20
Shares¹	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.

Since 2008 Smucker's has increased earnings-per-share by about 6% 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-aisle 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. We are forecasting 5% intermediate term growth.

¹ In millions.

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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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	16.2	16.5	16.0
Avg. Yld.	2.7%	2.7%	2.5%	2.4%	2.2%	2.4%	2.3%	2.2%	2.6%	3.2%	3.2%	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, using 16 times earnings as a starting point. With shares currently trading just over 16 times expected earnings, the security appears more or less fairly valued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	33%	35%	41%	39%	41%	48%	46%	46%	45%	51%	53%	50%

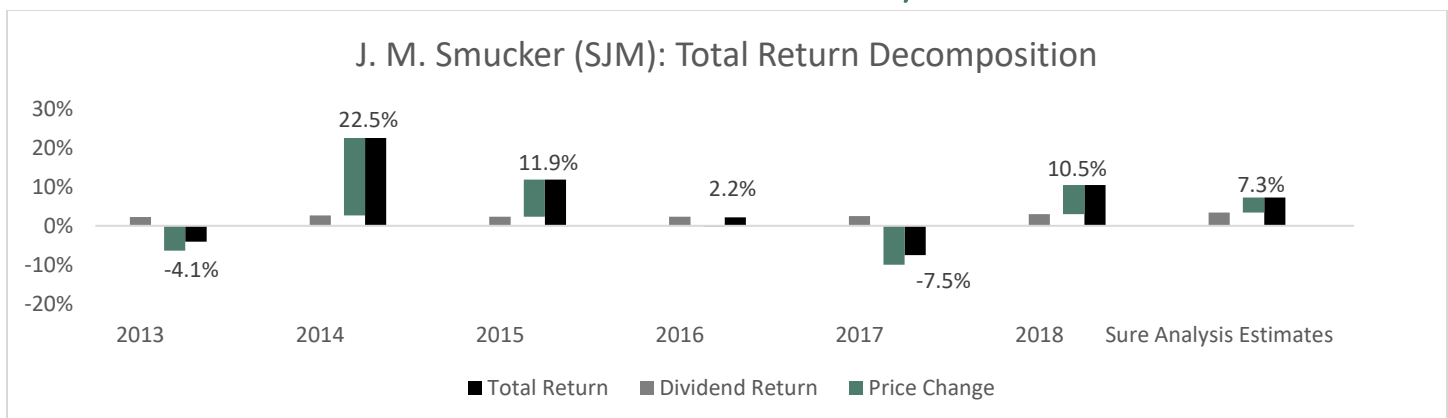
Smucker's iconic brands continue to enjoy recognition, but this moat is eroding somewhat as consumers look for fresher and healthier alternatives. During the last recession Smucker's held up exceptionally well, growing both earnings and dividends during this time. Our apprehension is not with the next 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 \$4.6 billion in debt against an underlying earnings machine of ~\$740 million per year (6.2x) with interest payments near \$200 million annually. Additionally, \$12.8 billion of the company's \$16.6 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

Shares are up 4% since our last report, while earnings expectations are down slightly. We are forecasting total return potential of 7.3% per annum, stemming from 5% growth and a 3.2% starting yield offset by a slight 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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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	4605	4826	5526	5898	5611	5693	7811	7392	7357	7838
Gross Profit	1787	1799	1845	2028	2031	1969	2968	2835	2836	2916
Gross Margin	38.8%	37.3%	33.4%	34.4%	36.2%	34.6%	38.0%	38.4%	38.5%	37.2%
SG&A Exp.	878	863	893	974	989	1031	1510	1380	1363	1509
D&A Exp.	182	186	209	251	256	267	430	419	413	446
Operating Profit	824	861	867	960	945	830	1281	1253	1266	1198
Operating Margin	18%	18%	16%	16%	17%	15%	16%	17%	17%	15%
Net Profit	494	480	460	544	565	345	689	592	1339	514
Net Margin	10.7%	9.9%	8.3%	9.2%	10.1%	6.1%	8.8%	8.0%	18.2%	6.6%
Free Cash Flow	576	212	457	649	577	491	1260	867	896	781
Income Tax	237	238	242	273	285	178	289	286	-478	187

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	7975	8325	9115	9032	9060	16806	15984	15640	15301	16711
Cash & Equivalents	284	320	230	256	154	126	110	167	193	101
Accounts Receivable	239	344	348	314	309	430	450	439	386	504
Inventories	655	864	962	946	931	1164	899	906	854	910
Goodwill & Int. Ass.	5834	5753	6242	6142	6123	12962	12586	12227	11859	13030
Total Liabilities	2649	3032	3952	3883	4031	9719	8976	8790	7410	8741
Accounts Payable	180	235	275	286	289	403	459	477	512	591
Long-Term Debt	910	1304	2071	2018	2216	6171	5430	5399	4832	5911
Shareholder's Equity	5326	5292	5163	5149	5030	7087	7009	6850	7891	7971
D/E Ratio	0.17	0.25	0.40	0.39	0.44	0.87	0.77	0.79	0.61	0.74

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.1%	5.9%	5.3%	6.0%	6.2%	2.7%	4.2%	3.7%	8.7%	3.2%
Return on Equity	9.6%	9.0%	8.8%	10.6%	11.1%	5.7%	9.8%	8.5%	18.2%	6.5%
ROIC	7.8%	7.5%	6.6%	7.6%	7.8%	3.4%	5.4%	4.8%	10.7%	3.9%
Shares Out.	119	114	110	106	102	120	116	113	114	114
Revenue/Share	39.01	41.20	49.22	54.18	54.20	55.25	65.64	63.95	65.11	69.30
FCF/Share	4.88	1.81	4.07	5.97	5.57	4.77	10.58	7.50	7.93	6.91

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

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