



J.M. Smucker (SJM)

Updated February 26th, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$114	5 Year CAGR Estimate:	7.3%	Market Cap:	\$13 B
Fair Value Price:	\$116	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	02/11/21
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.4%	Dividend Payment Date:	03/01/21
Dividend Yield:	3.2%	5 Year Price Target	\$141	Years Of Dividend Growth:	23
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	2.3%

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 and Folgers, along with pet food brands like Milk Bone, Meow Mix, Kibbles 'n Bits and 9Lives. The company has a market capitalization of \$13 billion and generated nearly \$8 billion in sales last year.

On July 21st, 2020 Smucker's announced a 2.3% quarterly dividend increase from \$0.88 to \$0.90.

On October 26th, 2020 Smucker's announced that it had entered into an agreement to sell its Crisco oils and shortening business to B&G Foods for approximately \$550 million. Smucker's continues to focus on pet food, coffee and snacking.

On February 25th, 2021 Smucker's reported Q3 fiscal year 2021 results for the period ending January 31st, 2021. (Smucker's fiscal year ends April 30th.) For the quarter sales equaled \$2.077 billion, a 5.3% increase compared to Q3 2020, driven by a 6% gain in U.S. Retail Pet Foods, a 12% gain in U.S. Retail Coffee and a 6% gain in U.S. Retail Consumer Foods, partially offset by a -13% decline in the International and Away From Home segment. Adjusted operating income equaled \$403.9 million compared to \$395.8 million in the year ago quarter, while adjusted earnings-per-share equaled \$2.45 versus \$2.35 previously.

Smucker's also updated its fiscal 2021 guidance. Sales are expected to increase 2% (from 0% to 1%), free cash flow is expected to be \$1.1 billion (from \$975 million to \$1.025 billion) and adjusted earnings-per-share are anticipated to be in the \$8.70 to \$8.90 range (from \$8.35 to \$8.65). However, keep in mind that this guidance is uniquely adjusted. It includes the expectation of \$7.28 to \$7.48 in earnings-per-share with \$1.54 added back in for amortization (among other adjustments). We include the impact of amortization expense in our earnings expectations, so this guidance implies underlying earnings power of ~\$7.16 to ~7.36. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$4.79	\$4.73	\$5.37	\$5.64	\$5.35	\$5.89	\$6.49	\$6.97	\$6.66	\$6.84	\$7.25	\$8.82
DPS	\$1.68	\$1.92	\$2.08	\$2.32	\$2.56	\$2.68	\$3.00	\$3.12	\$3.40	\$3.52	\$3.60	\$4.38
Shares¹	114	110	106	102	120	116	113	114	114	114	113	113

Note that while Smucker's has already completed its 2020 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 over 5% annually. Previously the company 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

¹ In millions.

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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. The ongoing pandemic has spurred demand in the short-term, but we do not see this as a long-term tailwind. We are forecasting \$7.25 in EPS for 2021 and a 4% annual growth rate.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Avg. P/E	13.2	16.2	16.0	18.3	19.6	20.1	21.0	17.0	16.2	16.3	15.7	16.0
Avg. Yld.	2.7%	2.5%	2.4%	2.2%	2.4%	2.3%	2.2%	2.6%	3.2%	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 stall. We 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 near 16 times expected earnings, this implies little change from the valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	35%	41%	39%	41%	48%	46%	46%	45%	51%	53%	50%	50%

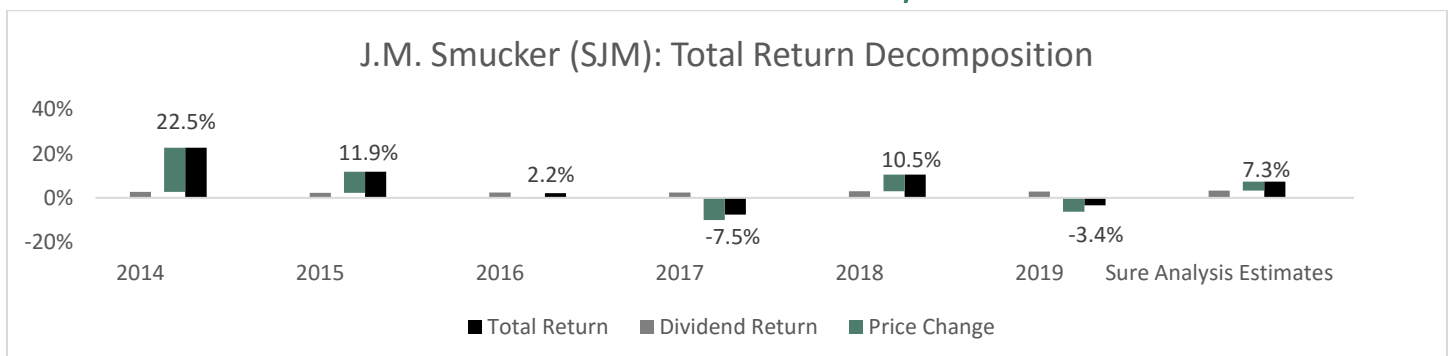
Smucker's iconic brands continue to enjoy recognition, but this moat is eroding somewhat as consumers look for fresher and healthier alternatives. During the last recession Smucker's held up exceptionally well, growing both earnings and dividends during this time. Our apprehension is not with the next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

The company has been working towards growth, 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 \$3.9 billion in debt against an underlying earnings machine of ~\$820 million per year (4.8x) with interest payments near \$200 million annually. However, this is down from ~7x just last year. 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 down slightly since our last report, while earnings expectations have improved. We are forecasting total return potential of 7.3% per annum, stemming from 4% growth and a 3.2% starting yield. While the company has a strong history with a solid dividend and iconic brands, growth prospects are not robust from this point. Moreover, the industry as a whole appears to be facing long-term headwinds, the current boost from the pandemic notwithstanding. Overall, we rate the security as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	4826	5526	5898	5611	5693	7811	7392	7357	7838	7801
Gross Profit	1799	1845	2028	2031	1969	2968	2835	2836	2916	3002
Gross Margin	37.3%	33.4%	34.4%	36.2%	34.6%	38.0%	38.4%	38.5%	37.2%	38.5%
SG&A Exp.	863	893	974	989	1031	1510	1380	1363	1509	1474
D&A Exp.	186	209	251	256	267	430	419	413	446	447
Operating Profit	861	867	960	945	830	1281	1253	1266	1198	1292
Operating Margin	18%	16%	16%	17%	15%	16%	17%	17%	15%	16.6%
Net Profit	480	460	544	565	345	689	592	1339	514	780
Net Margin	9.9%	8.3%	9.2%	10.1%	6.1%	8.8%	8.0%	18.2%	6.6%	10.0%
Free Cash Flow	212	457	649	577	491	1260	867	896	781	986
Income Tax	238	242	273	285	178	289	286	-478	187	247

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	8325	9115	9032	9060	16806	15984	15640	15301	16711	16970
Cash & Equivalents	320	230	256	154	126	110	167	193	101	391
Accounts Receivable	344	348	314	309	430	450	439	386	504	551
Inventories	864	962	946	931	1164	899	906	854	910	895
Goodwill & Int. Ass.	5753	6242	6142	6123	12962	12586	12227	11859	13030	12734
Total Liabilities	3032	3952	3883	4031	9719	8976	8790	7410	8741	8780
Accounts Payable	235	275	286	289	403	459	477	512	591	782
Long-Term Debt	1304	2071	2018	2216	6171	5430	5399	4832	5911	5621
Shareholder's Equity	5292	5163	5149	5030	7087	7009	6850	7891	7971	8191
D/E Ratio	0.25	0.40	0.39	0.44	0.87	0.77	0.79	0.61	0.74	0.69

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	5.9%	5.3%	6.0%	6.2%	2.7%	4.2%	3.7%	8.7%	3.2%	4.6%
Return on Equity	9.0%	8.8%	10.6%	11.1%	5.7%	9.8%	8.5%	18.2%	6.5%	9.6%
ROIC	7.5%	6.6%	7.6%	7.8%	3.4%	5.4%	4.8%	10.7%	3.9%	5.6%
Shares Out.	114	110	106	102	120	116	113	114	114	113
Revenue/Share	41.20	49.22	54.18	54.20	55.25	65.64	63.95	65.11	69.30	68.79
FCF/Share	1.81	4.07	5.97	5.57	4.77	10.58	7.50	7.93	6.91	8.69

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

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