



J.M. Smucker (SJM)

Updated August 26th, 2021, by Eli Inkrot

Key Metrics

Current Price:	\$124	5 Year CAGR Estimate:	5.7%	Market Cap:	\$13 B
Fair Value Price:	\$110	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	08/12/21
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.3%	Dividend Payment Date:	09/01/21
Dividend Yield:	3.2%	5 Year Price Target	\$141	Years Of Dividend Growth:	24
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	10.0%

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 \$8 billion in sales last year.

On December 1st, 2020, Smucker's sold its Crisco oils and shortening business to B&G Foods.

On July 8th, 2021, Smucker's increased its quarterly dividend to \$0.99, marking a 10.0% increase.

On August 26th, 2021, Smucker's reported Q1 fiscal year 2022 results for the period ending July 31st, 2021. For the quarter sales equaled \$1.86 billion, a -5.8% decline compared to Q1 2021. Excluding divestitures and foreign currency exchange, sales would have increased 1%. Adjusted operating income equaled \$323.4 million compared to \$404.5 million in the year ago quarter, while adjusted earnings-per-share \$1.90 versus \$2.37 in Q1 2021.

Smucker's also updated its fiscal 2022 guidance. The company anticipates a -2.5% to -1.5% decline in sales (-3% to -2% prior) and \$8.25 to \$8.65 in adjusted earnings-per-share (from \$8.70 to \$9.10). However, keep in mind that this guidance is uniquely adjusted as it adds back in amortization (\$1.54 per share). We include the impact of amortization expense in our earnings expectations, so this guidance implies underlying earnings power of ~\$6.71 to ~\$7.11 for this year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.73	\$5.37	\$5.64	\$5.35	\$5.89	\$6.49	\$6.97	\$6.66	\$6.84	\$7.79	\$6.90	\$8.81
DPS	\$1.92	\$2.08	\$2.32	\$2.56	\$2.68	\$3.00	\$3.12	\$3.40	\$3.52	\$3.58	\$3.96	\$4.82
Shares¹	110	106	102	120	116	113	114	114	114	112	108	105

Note that while Smucker's has already completed its 2021 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 6% annually. Previously the company provided long-term guidance 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.

The ongoing pandemic has spurred demand in the short-term, but we do not see this as a long-term tailwind. We are forecasting \$6.90 in EPS for fiscal 2022 and a 5% annual growth rate.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	16.2	16.0	18.3	19.6	20.1	21.0	17.0	16.2	16.3	14.8	18.0	16.0
Avg. Yld.	2.5%	2.4%	2.2%	2.4%	2.3%	2.2%	2.6%	3.2%	3.2%	3.1%	3.2%	3.4%

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 at 18 times expected earnings, this implies the possibility of a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	41%	39%	41%	48%	46%	46%	45%	51%	51%	46%	57%	55%

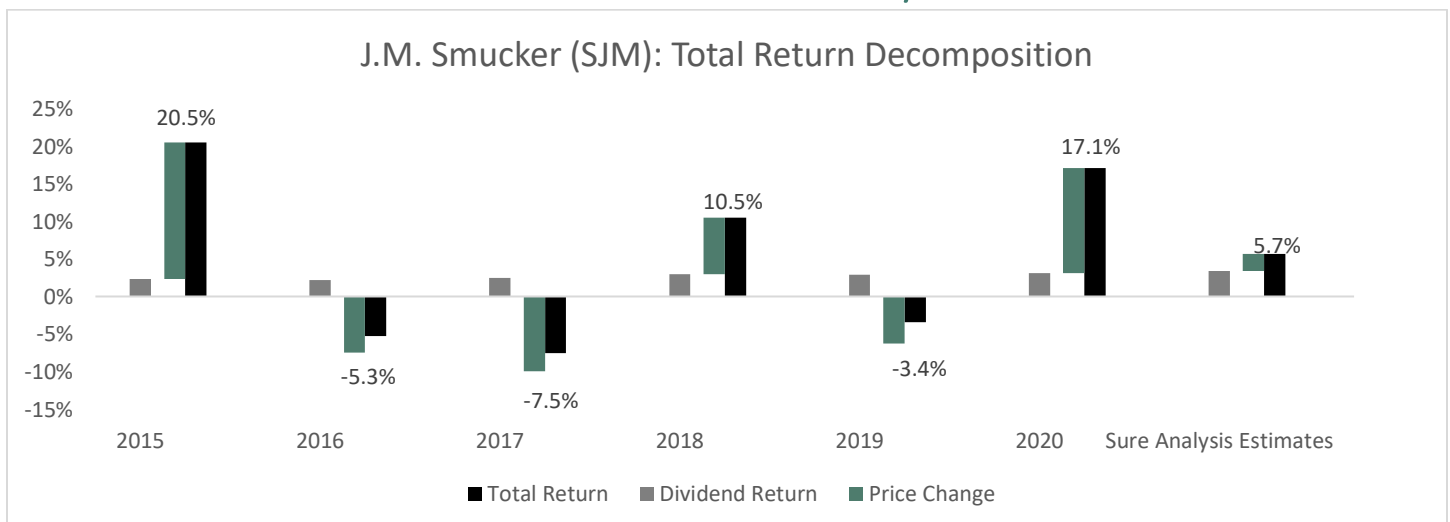
Smucker's iconic brands continue to enjoy recognition, but this moat is eroding somewhat as consumers look for fresher and healthier alternatives. During the last recession Smucker's held up exceptionally well, growing both earnings and dividends during this time. Our apprehension is not with the next 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 \$3.5 billion in debt against an underlying earnings machine of ~\$750 million per year (4.7x) with interest payments near \$200 million annually. However, this is down from ~7x two years ago. 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 marginally since our August 2020 report. We are forecasting total return potential of 5.7% per annum, stemming from 5% growth and a 3.2% starting yield, offset by a valuation headwind. While the company has a strong history with a solid dividend and iconic brands, growth prospects are not robust. Moreover, the industry appears to be facing long-term headwinds, the current boost from the pandemic notwithstanding. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	5526	5898	5611	5693	7811	7392	7357	7838	7801	8003
Gross Profit	1845	2028	2031	1969	2968	2835	2836	2916	3002	3139
Gross Margin	33.4%	34.4%	36.2%	34.6%	38.0%	38.4%	38.5%	37.2%	38.5%	39.2%
SG&A Exp.	893	974	989	1031	1510	1380	1363	1509	1474	1523
D&A Exp.	209	251	256	267	430	419	413	446	447	453
Operating Profit	867	960	945	830	1281	1253	1266	1198	1292	1411
Operating Margin	16%	16%	17%	15%	16%	17%	17%	15%	16.6%	17.6%
Net Profit	460	544	565	345	689	592	1339	514	780	876
Net Margin	8.3%	9.2%	10.1%	6.1%	8.8%	8.0%	18.2%	6.6%	10.0%	10.9%
Free Cash Flow	457	649	577	491	1260	867	896	781	986	1258
Income Tax	242	273	285	178	289	286	-478	187	247	296

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	9115	9032	9060	16806	15984	15640	15301	16711	16970	16280
Cash & Equivalents	230	256	154	126	110	167	193	101	391	334
Accounts Receivable	348	314	309	430	450	439	386	504	551	534
Inventories	962	946	931	1164	899	906	854	910	895	960
Goodwill & Int. Ass.	6242	6142	6123	12962	12586	12227	11859	13030	12734	12060
Total Liabilities	3952	3883	4031	9719	8976	8790	7410	8741	8780	8159
Accounts Payable	275	286	289	403	459	477	512	591	782	1034
Long-Term Debt	2071	2018	2216	6171	5430	5399	4832	5911	5621	4752
Shareholder's Equity	5163	5149	5030	7087	7009	6850	7891	7971	8191	8125
D/E Ratio	0.40	0.39	0.44	0.87	0.77	0.79	0.61	0.74	0.69	0.58

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.3%	6.0%	6.2%	2.7%	4.2%	3.7%	8.7%	3.2%	4.6%	5.3%
Return on Equity	8.8%	10.6%	11.1%	5.7%	9.8%	8.5%	18.2%	6.5%	9.6%	10.7%
ROIC	6.6%	7.6%	7.8%	3.4%	5.4%	4.8%	10.7%	3.9%	5.6%	6.6%
Shares Out.	110	106	102	120	116	113	114	114	113	112
Revenue/Share	49.22	54.18	54.20	55.25	65.64	63.95	65.11	69.30	68.79	71.45
FCF/Share	4.07	5.97	5.57	4.77	10.58	7.50	7.93	6.91	8.69	11.23

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

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