



J.M. Smucker (SJM)

Updated June 7th, 2022, by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|----------------------------------|----------------------|
| Current Price: | \$120 | 5 Year CAGR Estimate: | 5.3% | Market Cap: | \$13.0 B |
| Fair Value Price: | \$104 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date: | 8/11/22 ¹ |
| % Fair Value: | 115% | 5 Year Valuation Multiple Estimate: | -2.8% | Dividend Payment Date: | 8/31/22 |
| Dividend Yield: | 3.3% | 5 Year Price Target | \$133 | Years Of Dividend Growth: | 25 |
| Dividend Risk Score: | B | Retirement Suitability Score: | B | Rating: | Hold |

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 \$13.0 billion and generated \$8 billion in sales last year.

On July 8th, 2021, Smucker's raised its quarterly dividend by 10.0%, from \$0.90 to \$0.99.

In early June, Smucker's reported (6/7/22) financial results for the fourth quarter of fiscal 2022, which ended on April 30th, 2022. Sales grew 6% and organic sales grew 9% over the prior year's quarter. The company raised its prices by 10% to offset the impact of inflation and its volumes edged down only -1%. As a result, its adjusted earnings-per-share grew 18%, from \$1.89 to \$2.23, and exceeded the analysts' estimates by \$0.34, despite higher costs of commodities, ingredients, manufacturing, and packaging costs.

However, due to the headwind from inflation and the risk of supply chain disruptions amid the pandemic, Smucker's provided disappointing guidance for fiscal 2023. The company expects sales growth of 3.5% to 4.5% and adjusted earnings-per-share of \$7.85-\$8.25. 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 \$6.31-\$6.71 for this year.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$5.37 | \$5.64 | \$5.35 | \$5.89 | \$6.49 | \$6.97 | \$6.66 | \$6.84 | \$7.79 | \$7.34 | \$6.50 | \$8.30 |
| DPS | \$2.08 | \$2.32 | \$2.56 | \$2.68 | \$3.00 | \$3.12 | \$3.40 | \$3.52 | \$3.58 | \$3.87 | \$3.96 | \$5.05 |
| Shares² | 106 | 102 | 120 | 116 | 113 | 114 | 114 | 114 | 112 | 108 | 107 | 105 |

While Smucker's has already completed its 2022 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 grown its earnings-per-share by over 6% annually. Previously the company provided long-term guidance for 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. 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 \$6.50 in EPS for this year and a 5% average annual growth rate.

¹ Estimated date.

² 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 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 16.0 | 18.3 | 19.6 | 20.1 | 21.0 | 17.0 | 16.2 | 16.3 | 14.8 | 17.9 | 18.5 | 16.0 |
| Avg. Yld. | 2.4% | 2.2% | 2.4% | 2.3% | 2.2% | 2.6% | 3.2% | 3.2% | 3.1% | 2.4% | 3.3% | 3.8% |

The stock of Smucker's has traded at an average P/E ratio of 17.7 over the last decade. While we believe this mark is more or less fair, we do caution that it could be overstated should earnings growth stall. We have thus assumed a fair P/E ratio of 16.0 for the stock. Smucker's is currently trading at a P/E ratio of 18.5. If it trades at our assumed fair valuation level in five years, it will incur a -2.8% annualized valuation headwind in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 39% | 41% | 48% | 46% | 46% | 45% | 51% | 51% | 46% | 53% | 61% | 61% |

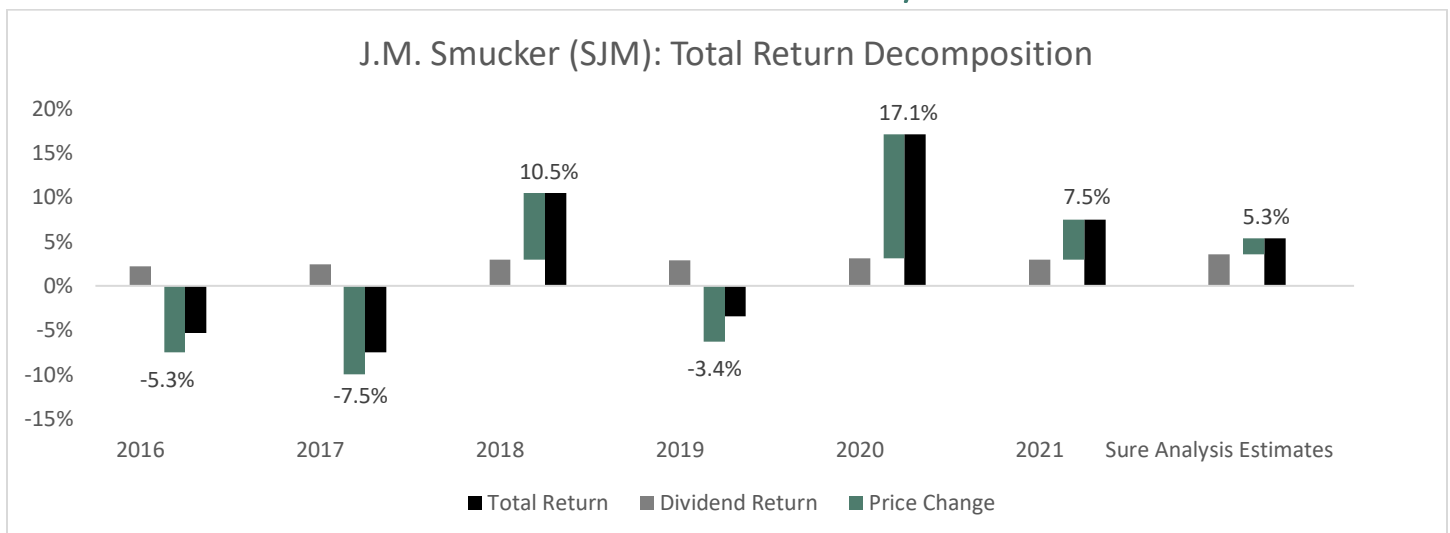
Smucker's iconic brands continue to enjoy recognition, but this moat is eroding somewhat as consumers look for fresher and healthier alternatives. During the last recession, Smucker's held up exceptionally well, growing both earnings and dividends during this time. Our apprehension is not with the next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

The company has been working towards growth, mostly via acquisitions. Of course, this has levered up the balance sheet, but leverage remains under control. Smucker's has net debt of \$6.9 billion, which is about half of the market capitalization of the stock. The company also has an interest coverage ratio of 7.0, which is healthy. In addition, the 3.3% dividend is safe, given the decent payout ratio of 61% and the resilience of the company to recessions. We expect Smucker's to announce a dividend raise in July.

Final Thoughts & Recommendation

The stock of Smucker's has fallen -18% in the last month due to concerns that consumers are reducing their spending amid 40-year high inflation. We expect the stock to offer a 5.3% average annual return over the next five years thanks to 5% growth and a 3.3% starting yield, partly offset by a -2.8% 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 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 5898 | 5611 | 5693 | 7811 | 7392 | 7357 | 7838 | 7801 | 8003 |
| Gross Profit | 2028 | 2031 | 1969 | 2968 | 2835 | 2836 | 2916 | 3002 | 3139 |
| Gross Margin | 34.4% | 36.2% | 34.6% | 38.0% | 38.4% | 38.5% | 37.2% | 38.5% | 39.2% |
| SG&A Exp. | 974 | 989 | 1031 | 1510 | 1380 | 1363 | 1509 | 1474 | 1523 |
| D&A Exp. | 251 | 256 | 267 | 430 | 419 | 413 | 446 | 447 | 453 |
| Operating Profit | 960 | 945 | 830 | 1281 | 1253 | 1266 | 1198 | 1292 | 1411 |
| Operating Margin | 16% | 17% | 15% | 16% | 17% | 17% | 15% | 16.6% | 17.6% |
| Net Profit | 544 | 565 | 345 | 689 | 592 | 1339 | 514 | 780 | 876 |
| Net Margin | 9.2% | 10.1% | 6.1% | 8.8% | 8.0% | 18.2% | 6.6% | 10.0% | 10.9% |
| Free Cash Flow | 649 | 577 | 491 | 1260 | 867 | 896 | 781 | 986 | 1258 |
| Income Tax | 273 | 285 | 178 | 289 | 286 | -478 | 187 | 247 | 296 |

Balance Sheet Metrics

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

Profitability & Per Share Metrics

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