



J.M. Smucker (SJM)

Updated September 6th, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	\$140	5 Year CAGR Estimate:	3.3%	Market Cap:	\$14.9 B
Fair Value Price:	\$110	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/9/22 ¹
% Fair Value:	127%	5 Year Valuation Multiple Estimate:	-4.6%	Dividend Payment Date:	11/30/22
Dividend Yield:	2.9%	5 Year Price Target	\$141	Years Of Dividend Growth:	26
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Sell

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 \$14.9 billion and generated \$8 billion in sales last year.

On July 15th, 2022, Smucker's raised its quarterly dividend by 3%, from \$0.99 to \$1.02.

In late August, Smucker's reported (8/23/22) financial results for the first quarter of fiscal 2023, which ends on April 30th, 2023. Sales grew 1% and organic sales grew 4% over the prior year's quarter thanks to material price hikes, which more than offset a -9% decrease in volumes caused by manufacturing shutdown due to the recall of Jif peanut butter. Adjusted earnings-per-share decreased -12%, from \$1.90 to \$1.67, due to the recall of the product and higher costs of commodities, ingredients, manufacturing, and packaging costs, but exceeded the analysts' estimates by \$0.40.

Thanks to better-than-expected results in the first quarter and positive business trends, Smucker's improved its outlook for fiscal 2023. The company now expects sales growth of 4.0%-5.0% (vs. 3.5%-4.5% previously) and adjusted earnings-per-share of \$8.20-\$8.60 (vs. \$7.85-\$8.25 previously). 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 and have raised our forecast for the full year from \$6.50 to \$6.90, in line with the revised guidance of the company.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$5.37	\$5.64	\$5.35	\$5.89	\$6.49	\$6.97	\$6.66	\$6.84	\$7.79	\$7.34	\$6.90	\$8.81
DPS	\$2.08	\$2.32	\$2.56	\$2.68	\$3.00	\$3.12	\$3.40	\$3.52	\$3.58	\$3.87	\$4.08	\$5.21
Shares²	106	102	120	116	113	114	114	114	112	108	105	100

The share count increase of Smucker's in 2015 was the result of the acquisition of Big Heart Pet Brands.

Since 2009, 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, such as 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 earnings-per-share 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.0	18.3	19.6	20.1	21.0	17.0	16.2	16.3	14.8	17.9	20.3	16.0
Avg. Yld.	2.4%	2.2%	2.4%	2.3%	2.2%	2.6%	3.2%	3.2%	3.1%	2.4%	2.9%	3.7%

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 20.3. If it trades at our assumed fair valuation level in five years, it will incur a -4.6% annualized valuation headwind in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	39%	41%	48%	46%	46%	45%	51%	51%	46%	53%	59%	59%

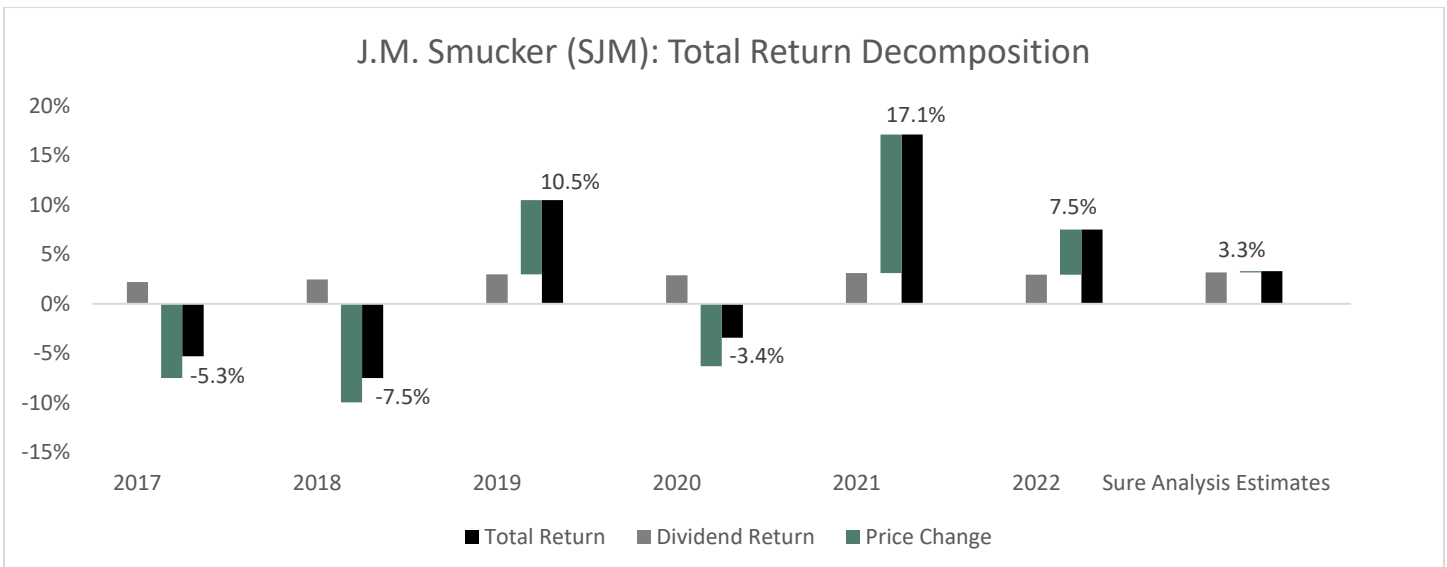
Smucker's iconic brands continue to enjoy recognition, but this moat is eroding somewhat as consumers look for fresher and healthier alternatives. During the last recession, Smucker's held up exceptionally well, growing both earnings and dividends during this time. Our apprehension is not with the next 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 \$7.4 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 2.9% dividend is safe, given the decent payout ratio of 59% and the resilience of the company to recessions.

Final Thoughts & Recommendation

The stock of Smucker's has rallied 15% in less than three months thanks to the ongoing business recovery. As a result, it has become less attractive. We expect the stock to offer a 3.3% average annual return over the next five years thanks to 5% growth and a 2.9% dividend yield, partly offset by a -4.6% 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 receive a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5611	5693	7811	7392	7357	7838	7801	8003	7999
Gross Profit	2031	1969	2968	2835	2836	2916	3002	3139	2701
Gross Margin	36.2%	34.6%	38.0%	38.4%	38.5%	37.2%	38.5%	39.2%	33.8%
SG&A Exp.	989	1031	1510	1380	1363	1509	1474	1523	1360
D&A Exp.	256	267	430	419	413	446	447	453	459
Operating Profit	945	830	1281	1253	1266	1198	1292	1411	1182
Operating Margin	17%	15%	16%	17%	17%	15%	16.6%	17.6%	14.8%
Net Profit	565	345	689	592	1339	514	780	876	632
Net Margin	10.1%	6.1%	8.8%	8.0%	18.2%	6.6%	10.0%	10.9%	7.9%
Free Cash Flow	577	491	1260	867	896	781	986	1258	719
Income Tax	285	178	289	286	-478	187	247	296	212

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	9060	16806	15984	15640	15301	16711	16970	16280	16055
Cash & Equivalents	154	126	110	167	193	101	391	334	170
Accounts Receivable	309	430	450	439	386	504	551	534	525
Inventories	931	1164	899	906	854	910	895	960	1089
Goodwill & Int. Ass.	6123	12962	12586	12227	11859	13030	12734	12060	11668
Total Liabilities	4031	9719	8976	8790	7410	8741	8780	8159	7915
Accounts Payable	289	403	459	477	512	591	782	1034	1193
Long-Term Debt	2216	6171	5430	5399	4832	5911	5621	4752	4491
Shareholder's Equity	5030	7087	7009	6850	7891	7971	8191	8125	8140
LTD/E Ratio	0.44	0.87	0.77	0.79	0.61	0.74	0.69	0.58	0.55

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.2%	2.7%	4.2%	3.7%	8.7%	3.2%	4.6%	5.3%	3.9%
Return on Equity	11.1%	5.7%	9.8%	8.5%	18.2%	6.5%	9.6%	10.7%	7.8%
ROIC	7.8%	3.4%	5.4%	4.8%	10.7%	3.9%	5.6%	6.6%	5.0%
Shares Out.	102	120	116	113	114	114	113	112	108
Revenue/Share	54.20	55.25	65.64	63.95	65.11	69.30	68.79	71.45	74.13
FCF/Share	5.57	4.77	10.58	7.50	7.93	6.91	8.69	11.23	6.66

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

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