J. M. Smucker(SJM)

$110.75 (As of 03/05/20)

Price Target (6-12 Months): **$116.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/29/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: B | Growth: C | Momentum: D	

Summary

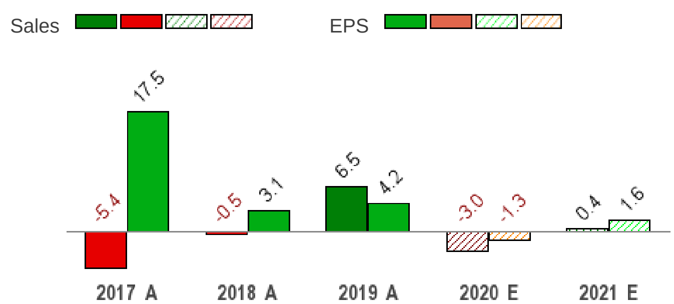
Smucker's shares have outperformed the industry in the past six months. The company has been gaining from continued contributions from strategic buyouts and partnerships as well as strength of its brands. This, along with focus on innovation, e-commerce growth and cost-savings bodes well for the company. Evidently, SD&A costs are expected to decline by nearly 2.5% in fiscal 2020. However, Smucker has been struggling with lower net price realization. This factor hurt the company's third-quarter fiscal 2020 sales, which declined year over year and lagged the Zacks Consensus Estimate. Also, results were hurt by reduced volume/mix in the U.S. Retail Pet Foods segment. Further, impact of the U.S. baking business divestiture has been a deterrent. Moreover, adverse currency movements are headwinds for the company.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$128.43 - $100.14**
20 Day Average Volume (sh)	**927,844**
Market Cap	**$12.6 B**
YTD Price Change	**6.4%**
Beta	**0.31**
Dividend / Div Yld	**$3.52 / 3.2%**
Industry	**Food - Miscellaneous**
Zacks Industry Rank	**Bottom 32% (174 out of 255)**
Last EPS Surprise	**5.9%**
Last Sales Surprise	**-0.1%**
EPS F1 Est- 4 week change	**0.3%**
Expected Report Date	**06/04/2020**
Earnings ESP	**-0.2%**
P/E TTM	**13.4**
P/E F1	**13.5**
PEG F1	**3.4**
P/S TTM	**1.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,788 E	1,955 E	1,973 E	1,902 E	7,633 E
2020	1,779 A	1,958 A	1,972 A	1,901 E	7,600 E
2019	1,903 A	2,022 A	2,012 A	1,902 A	7,838 A

EPS Estimates

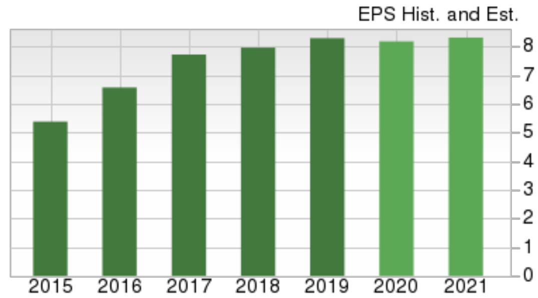
	Q1	Q2	Q3	Q4	Annual*
2021	$1.63 E	$2.27 E	$2.33 E	$2.07 E	$8.31 E
2020	$1.58 A	$2.26 A	$2.35 A	$2.01 E	$8.18 E
2019	$1.78 A	$2.17 A	$2.26 A	$2.08 A	$8.29 A

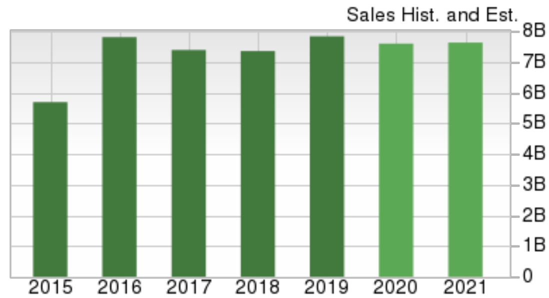
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/05/2020. The reports text is as of 03/06/2020.

Overview

Headquartered in Orrville, OH, the J.M. Smucker Company is a leading marketer and manufacturer of consumer food and beverage products and pet food and pet snacks in North America. Although majority of the company's operations are concentrated in the United States, it also operates on an international basis.





The company boasts a strong portfolio of iconic food and beverages. It mainly caters in the areas of coffee, pet food, peanut butter, fruit spreads, baking products, ready-to-spread frostings, frozen sandwiches, flour, juices and beverages as well as portion control products.

In consumer foods and beverages, some of the renowned brands include Smucker's, Folgers, Jif, Dunkin' Donuts, Crisco, Pillsbury, R.W. Knudsen Family, Hungry Jack, Café Bustelo, Martha White, truRoots, Sahale Snacks, Robin Hood, and Bick's. In pet food and pet snacks, its brands include Meow Mix, Milk-Bone, Kibbles 'n Bits, Natural Balance, and 9Lives. We note that the acquisitions of Big Heart Pet Brands (in March 2015) and Ainsworth Pet Nutrition, LLC (in May 2018) have strengthened the company's portfolio.

The company's operations are dependent on the effective sourcing of raw materials, which are largely agriculture-based. Some of the primary input materials are green coffee, peanuts, oils and fats, protein meals, sweeteners, grains and fruits among others.

Products of the company are sold to customers through direct sales, brokers to food retailers and wholesalers. Moreover, it also sells products through club stores, pet specialty stores, discount stores, drug stores, natural foods stores, military commissaries, mass merchandisers, online retailers as well as foodservice distributors and operators.

The company has four reportable segments including: U.S. Retail Coffee Market (27% of FY19 sales), U.S. Retail Consumer Foods (22.5% of FY19 sales), U.S. Retail Pet Foods (36.7% of FY19 sales) as well as International and Foodservice (13.7% of FY19 sales).

Reasons To Buy:

> Smucker gains from the popularity of its brands and augments its portfolio through product launches and acquisitions. It is also on track with savings initiatives.

▲ **Strategic Partnerships & Acquisitions**: Smucker actively pursues strategic acquisitions both in the U.S. as well as overseas. We note that the company's acquisition of Ainsworth (completed in May 2018) has been aiding performance in the U.S. Retail Pet Foods category. Other noteworthy acquisitions of the company include; Big Heart Pet Brand (pet food maker), Sahale Snacks (branded nut and fruit snacks maker), Enray Inc. (manufacturer of organic, gluten-free ancient grain products) and coffee brands and business operations of Rowland Coffee, among others. These acquisitions have added iconic brands to the company's portfolio and strengthened its presence in the United States.

Additionally, Smucker has formed key partnerships with quite a few coffee companies. Smucker's agreement with Keurig Green Mountain (KGM) and Dunkin' Brands Group, Inc, to manufacture and sell the K-Cup category of products, has been yielding positive results since fiscal 2016. Evidently, Dunkin' Brand increased 4% in third-quarter fiscal 2020. Also, the company has been consistently extending partnership with KGM to augment K-Cup business opportunities. Notably, the company recorded 7% sales growth for all K-Cup brands in the third quarter. Shares of the company have gained 7.1% in the past six months against the industry's decline of 1.4%.

▲ **Strong Brands & Innovation Boosting Portfolio**: Smucker offers moderately priced, exclusive quality products and has a strong brand portfolio with popular brands like Smucker's, Nature's Recipe, Dunkin' Donuts, 1850 coffee, Uncrustables, Jif and Meow Mix among others. The company is also accelerating marketing support for growth brands. Notably, marketing spend for the third quarter was 6.1% of net sales. Also, Smucker has effectively launched advertising campaign for ten brands in fiscal 2020. Further, the company is on track with building a new production facility and undertaking phase two expansion for one of its fastest growing brand Uncrustables.

▲ **Focus on Cost-Savings Bodes Well**: Smucker resorts to cost savings in order to fuel investments and enhance operating performance. Earlier in fiscal 2018, the company generated synergies of nearly $200 million from its pet food synergy program. In fiscal 2019, the company delivered savings of nearly $30 million through the right-spend program.

Going ahead, management is focused on cost reduction and optimization efforts to ensure greater profitability. Markedly, SD&A costs are expected to decline nearly 2.5% year over year in fiscal 2020.

▲ **Digital Platform to Boost Sales**: Growing trend of online customers has urged Smucker to take notice of its e-commerce channel to boost sales. In fact, e-commerce is a fast-growing retail channel of the company. In the digital realm, the coffee and pet food categories have been steadily expanding. We note that during third-quarter fiscal 2020, e-commerce sales improved double-digits and contributed 5% to total U.S. retail sales.

Management expects to continue gaining from increasing online sales in the forthcoming periods. Moreover, the company is utilizing the digital platform to enhance consumer engagement.

Reasons To Sell:

> Divestiture of U.S. Baking business, lower net price realization and currency fluctuations are headwinds.

▼ **Dismal Sales Trend**: Smucker has been witnessing drab sales for a while. In third-quarter fiscal 2020, net sales amounted to $1,972.3 million that missed the consensus mark of $1,973 million. Moreover, the top line dropped 2% year over year mainly due to lower volume/mix in the U.S. Retail Pet Foods segment. Further, reduced net price realization in other segments is a deterrent.

Prior to this, the company witnessed year-on-year revenue decline of 3.2% in fiscal second quarter and 6% in fiscal third quarter. We believe that, persistence of such trend is a threat to Smucker's performance in the future.

▼ **Lower Net Price Realization**: Smucker's performance has been hurt by lower net price realization for the past few quarters. During fiscal third quarter, revenues in U.S. Retail Coffee Market unit was affected by 5 percentage point due to reduced net price realization. The same also put pressure on the company's International and Away From Home segment. Persistence of such headwinds is a concern for the company's performance.

▼ **U.S. Baking Business Divestiture to Hurt Top Line**: The divestiture of the U.S. baking business has been leading to unfavorable year-over-year comparisons on Smucker's top line. Moreover, this unfavorable comparisons stemming from the divestiture is expected to put pressure on the company's performance in fiscal 2020. This is evident from management's drab sales outlook. The company expects net sales to decline 3% year over year. The top-line view includes a loss of $105.9 million stemming from the divestiture of the U.S. baking business and $25.4 million from non-comparable sales associated with Ainsworth. On a comparable basis, the company continues to expect sales decline of 2% from the year-ago levels.

▼ **Currency Headwinds**: Smucker's is exposed to unfavorable foreign currency translations owing to the company's significant exposure to international markets. The weakening of foreign currencies against the U.S. dollar may compel the company to either raise prices or lower profit margins in locations outside the country. Therefore, volatility in exchange rates pose formidable risks for the periods ahead.

Last Earnings Report

Smucker Q3 Earnings Surpass Estimates, Sales Miss

Quarter Ending	01/2020
Report Date	Feb 26, 2020
Sales Surprise	-0.05%
EPS Surprise	5.86%
Quarterly EPS	2.35
Annual EPS (TTM)	8.27

The J. M. Smucker Company posted third-quarter fiscal 2020 results, wherein the bottom line grew year over year and beat the Zacks Consensus Estimate. However, sales were soft during the quarter. The results were hurt by softness in premium dog food offerings and decreased volume/mix in the U.S. Retail Pet Foods segment, among other factors. Management reaffirmed its sales, earnings and free cash flow guidance for fiscal 2020.

Quarter in Detail

Adjusted earnings of $2.35 per share rose 4% year over year and comfortably beat the Zacks Consensus Estimate of $2.22. The year-over-year increase can be attributable to lower SG&A costs, reduced interest expenses and a decline in tax rate.

Company Quote

Net sales amounted to $1,972.3 million, which marginally missed the consensus mark of $1,973 million. Moreover, the top line dropped 2% year over year, mainly due to decreased volume/mix in the U.S. Retail Pet Foods segment. However, improved net price realization offered some respite.

Although Smucker's sales were affected by softness in premium dog food offerings, management is pleased with the performance of the rest of the offerings in the portfolio. Notably, its top-line performance reflected solid growth for the Smucker's and Uncrustables brand. Also, the company saw improved volume fundamentals for coffee and peanut butter brands.

Adjusted gross profit fell 3% year over year to $752.3 million and adjusted gross margin contracted 50 basis points to 38.1%. Adjusted operating income decreased 2.6% year over year to $395.8 million and adjusted operating margin contracted 10 basis points to 20.1%.

Segment Performance

U.S. Retail Pet Foods: Segment sales came in at $721.9 million, which dropped 5% from the prior-year figure owing to lower Natural Balance brand and private-label sales, and reduced volume/mix. Net price realization was neutral in the quarter.

U.S. Retail Consumer Foods: Net sales rose $0.2 million from a year ago to $422.9 million, driven by increase in volume/mix on account of growth in Smucker's Uncrustables and Jif brands. However, lower net pricing — mostly due to the Jif brand — impacted sales.

U.S. Retail Coffee Market: Sales in the segment decreased $2.8 million from the prior-year quarter to $558.8 million due to lower net price realization, partially offset by favorable volume/mix.

International and Away From Home: Net sales improved $0.1 million from the prior-year quarter to $268.7 million, thanks to favorable foreign currency exchange, offset by decline in net price realization and volume/mix.

Financials

Smucker exited the quarter with cash and cash equivalents of $74.4 million, long-term debt (less current portion) of $4,583.3 million and total shareholders' equity of $8,170.4 million. Cash flow from operations amounted to $521.6 million in the fiscal third quarter and free cash flow totaled $465.1 million.

Fiscal 2020 Outlook

Smucker reiterated its net sales, adjusted earnings per share and free cash flow guidance for fiscal 2020. The company still expects net sales to be down 3% year over year. The top-line view includes a loss of $105.9 million stemming from the divestiture of the U.S. baking business and $25.4 million from non-comparable sales associated with Ainsworth. On a comparable basis, the company continues to expect sales decline of 2% from a year ago.

Adjusted earnings per share for 2020 are still anticipated within $8.10-$8.30. Smucker's adjusted earnings came in at $8.29 per share in fiscal 2019. The bottom line is likely to be affected by reduced contributions from sales. Gross margin is now anticipated to be 38.2% in fiscal 2020 compared with 38.5% projected earlier. SD&A costs are now projected to decline 2.5% compared with the previous expectation of 2% fall.

Free cash flow is still projected to be $850 million.

Recent News

Smucker Declares Dividend – Jan 17, 2020

Smucker declared quarterly dividend of 88 cents. The dividend is payable on Mar 2 to shareholders of record as on Feb 14.

Valuation

Smucker shares are up 7.3% in the year-to-date period and 11.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 5.3% in the year-to-date period, while the Zacks Consumer Staples sector is down 3.8%. Over the past year, the Zacks sub-industry is up 13.3%, while the sector gained 9.5%.

The S&P 500 index is down 2.7% in the year-to-date period and up 15% in the past year.

The stock is currently trading at 13.36X forward 12-month earnings, which compares to 17.73X for the Zacks sub-industry, 19.03X for the Zacks sector and 17.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.25X and as low as 10.88X, with a 5-year median of 15.01X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $116 price target reflects 13.99X forward 12-month earnings.

The table below shows summary valuation data for SJM

Valuation Multiples - SJM

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.36	17.73	19.03	17.88
	5-Year High	22.25	22.9	22.38	19.34
	5-Year Low	10.88	14.82	16.66	15.18
	5-Year Median	15.01	19.23	19.69	17.46
P/S F12M	Current	1.65	1.65	9.55	3.3
	5-Year High	2.53	2.05	11.13	3.43
	5-Year Low	1.35	1.44	8.09	2.54
	5-Year Median	1.77	1.81	9.88	3.01
EV/EBITDA F12M	Current	10.37	13.32	34.41	12.27
	5-Year High	13.66	16.59	37.23	14.13
	5-Year Low	8.66	11.67	29.4	9.08
	5-Year Median	11.2	13.28	33.61	10.82

As of 03/05/2020

Industry Analysis **Zacks Industry Rank:** Bottom 32% (174 out of 255)

Top Peers

BRF S.A. **(BRFS)**	Neutral
Conagra Brands Inc. **(CAG)**	Neutral
Campbell Soup Company **(CPB)**	Neutral
General Mills, Inc. **(GIS)**	Neutral
Hormel Foods Corporation **(HRL)**	Neutral
Ingredion Incorporated **(INGR)**	Neutral
Post Holdings, Inc. **(POST)**	Neutral
B&G Foods, Inc. **(BGS)**	Underperform

Industry Comparison Industry: Food - Miscellaneous

Industry Peers

	SJM Neutral	X Industry	S&P 500	BGS Underperform	CAG Neutral	GIS Neutral
VGM Score	B	-	-	C	D	B
Market Cap	12.63 B	4.06 B	21.47 B	1.05 B	13.86 B	32.84 B
# of Analysts	7	3	13	2	8	8
Dividend Yield	3.18%	0.13%	2.04%	11.58%	2.99%	3.61%
Value Score	B	-	-	A	B	B
Cash/Price	0.01	0.05	0.05	0.01	0.01	0.02
EV/EBITDA	11.88	12.40	12.81	10.62	14.83	13.41
PEG Ratio	3.28	2.41	1.88	NA	1.99	2.30
Price/Book (P/B)	1.55	2.27	2.95	1.29	1.80	4.09
Price/Cash Flow (P/CF)	8.47	12.74	11.75	5.83	11.28	12.74
P/E (F1)	13.23	16.08	17.19	9.95	13.92	16.07
Price/Sales (P/S)	1.66	1.20	2.32	0.63	1.32	1.96
Earnings Yield	7.39%	5.98%	5.81%	10.05%	7.20%	6.22%
Debt/Equity	0.58	0.62	0.70	2.35	1.21	1.37
Cash Flow ($/share)	13.07	2.75	7.01	2.81	2.52	4.26
Growth Score	C	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	9.69%	5.54%	10.85%	2.38%	-2.47%	2.82%
Proj. EPS Growth (F1/F0)	-1.33%	7.45%	6.27%	0.61%	1.74%	4.97%
Curr. Cash Flow Growth	1.65%	3.82%	6.07%	-0.56%	10.04%	5.47%
Hist. Cash Flow Growth (3-5 yrs)	11.97%	5.35%	8.52%	4.81%	-0.87%	1.32%
Current Ratio	0.77	1.58	1.23	3.05	0.88	0.61
Debt/Capital	36.60%	38.43%	42.57%	70.11%	54.72%	57.73%
Net Margin	8.21%	3.90%	11.69%	4.60%	7.62%	12.62%
Return on Equity	11.70%	11.54%	16.66%	12.50%	12.50%	27.33%
Sales/Assets	0.45	1.15	0.54	0.51	0.47	0.55
Proj. Sales Growth (F1/F0)	-3.03%	1.63%	3.90%	0.68%	10.37%	2.03%
Momentum Score	D	-	-	F	F	B
Daily Price Chg	-0.85%	-1.33%	-3.79%	-2.09%	-1.11%	0.24%
1 Week Price Chg	-7.11%	-9.59%	-12.06%	7.95%	-9.80%	-9.12%
4 Week Price Chg	2.77%	-7.30%	-10.92%	13.56%	-11.28%	5.01%
12 Week Price Chg	8.08%	-6.71%	-8.10%	-4.43%	0.85%	5.11%
52 Week Price Chg	7.91%	3.69%	4.09%	-32.53%	27.27%	17.03%
20 Day Average Volume	927,844	148,196	2,483,920	2,218,256	4,780,282	4,204,465
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.13%
(F1) EPS Est 4 week change	0.32%	-0.35%	-0.06%	-2.94%	-4.29%	-0.65%
(F1) EPS Est 12 week change	0.42%	-0.35%	-0.42%	-8.33%	-3.72%	0.00%
(Q1) EPS Est Mthly Chg	-4.35%	-1.98%	-0.29%	-11.83%	-8.25%	0.76%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Value Score	B
Growth Score	C
Momentum Score	D
VGM Score	B

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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