

J. M. Smucker(SJM)

\$110.26 (As of 02/11/20)

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

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

Summary

Smucker's shares have lagged the industry in the past six months. The company has been struggling with lower net price realization and impacts of the U.S. baking business divestiture. These factors hurt the company's second-quarter fiscal 2020 sales, which declined year over year and lagged the Zacks Consensus Estimate. Also, management lowered its outlook for fiscal 2020. Results were hurt by persistent softness in premium dog food offerings. Adverse currency movements have also been a persistent headwind. Nonetheless, Smucker gained respite from continued contributions from the Ainsworth buyout and strength of its brands. This, along with focus on innovation, e-commerce growth and cost-savings bode well for the company. Markedly, SD&A costs are expected to decline in fiscal 2020.

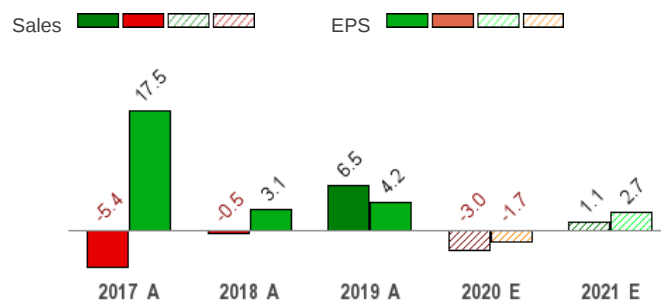
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$128.43 - \$99.54
20 Day Average Volume (sh)	799,781
Market Cap	\$12.6 B
YTD Price Change	5.9%
Beta	0.42
Dividend / Div Yld	\$3.52 / 3.2%
Industry	Food - Miscellaneous
Zacks Industry Rank	Bottom 29% (180 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.1%
Last Sales Surprise	-1.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/26/2020
Earnings ESP	0.4%
P/E TTM	13.5
P/E F1	13.5
PEG F1	3.4
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,812 E	1,971 E	1,982 E	1,918 E	7,684 E
2020	1,779 A	1,958 A	1,973 E	1,902 E	7,602 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	\$1.62 E	\$2.26 E	\$2.31 E	\$2.19 E	\$8.37 E
2020	\$1.58 A	\$2.26 A	\$2.22 E	\$2.10 E	\$8.15 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 02/11/2020. The reports text is as of 02/12/2020.

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.

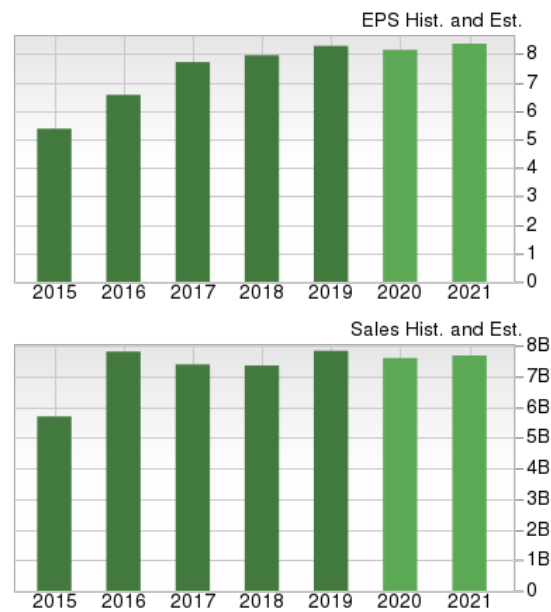
The company boasts a strong portfolio of iconic food and beverages. It mainly caters in the areas of coffee, pet food, peanut butter, fruit spreads, baking products, ready-to-spread frostings, frozen sandwiches, flour, juices and beverages as well as portion control products.

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:

▲ **Strategic Partnerships & Acquisitions:** Smucker actively pursues strategic acquisitions both in the U.S. as well as overseas. We note that the buyout of Ainsworth has been bolstering performance of the U.S. Retail Pet Foods category as well as the company's top line. During the first six months of fiscal 2020, net sales were driven by the Ainsworth buyout and gains from the company's growth brands. Notably, the Ainsworth acquisition contributed an additional \$25.4 million to Smucker's top line during the same period. 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.

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.

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. The company has been consistently extending partnership with KGM to augment K-Cup business opportunities. Notably, the company saw double-digit sales growth for all K-Cup brands in second-quarter fiscal 2020.

▲ **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. To this end, Smucker is on track to launch an advertising campaign for ten brands in fiscal 2020.

▲ **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% 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 second-quarter fiscal 2020, e-commerce sales improved double-digits, contributing nearly 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:

▼ **Dismal Sales & Lowered View Hurt Stock:** Smucker has been witnessing drab sales for a while. In second-quarter fiscal 2020, net sales of the company amounted to \$1,957.8 million that missed the consensus mark of \$1,987 million. Moreover, the top line dropped 3.2% year over year thanks to the divestiture of the U.S. baking business and currency headwinds. Excluding these factors, the top line declined 1% due to lower net price realization. Volume/mix was flat year over year.

Divestiture of U.S. Baking business, lower net price realization and competitive activity are headwinds.

Moreover, Smucker curtailed its sales and earnings guidance for fiscal 2020. Management now expects net sales to fall 3% compared with the previous guidance of flat to 1% growth. On a comparable basis, sales are now projected to decline 2% compared with flat to up 1% expected earlier.

Adjusted earnings per share are now anticipated in the range of \$8.10-\$8.30, down from \$8.35-\$8.55 projected earlier. The bottom line is likely to be affected by reduced contributions from sales, while a 2% anticipated decline in SD&A costs is likely to offer some respite. These downsides along with management's lowered outlook have been exerting pressure on investors' sentiments. Shares of the company have lost 3.3% in the past six months against the industry's growth of 2.4%.

▼ **Lower Net Price Realization:** Smucker's top line has been hurt by lower net price realization for the past few quarters. During the second quarter of fiscal 2020, the company's top line (excluding items that impact comparability) was affected by 1 percentage point, stemming from reduced net price realization. The same also put pressure on the company's U.S. Retail Coffee and U.S. Retail Consumer Foods. Persistence of such headwinds is concerning.

▼ **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. We note that during the second quarter of fiscal 2020, the top line dropped 3.2% year over year mainly due to the divestiture of the U.S. baking business. Also, the same had a negative impact on the performance of International, Away from Home and U.S. Retail Consumer Foods performance. We witnessed similar trends in the first quarter of fiscal 2020, wherein the top line declined roughly 6% year over year for the same reason.

Unfavorable comparisons, stemming from the U.S. baking business divestiture, are expected to put pressure on the company's performance in fiscal 2020. This is evident from management's drab sales outlook, which includes loss of \$105.9 million, stemming from the divestiture of the U.S. baking business and non-comparable sales associated with Ainsworth.

▼ **Currency Headwinds:** Unfavorable currency fluctuations lower revenue growth prospects and therefore remain a considerable headwind for Smucker. During the second quarter, adverse impacts of foreign exchange amounted to nearly \$1.8 million in the International Away From Home segment. Volatility in exchange rates pose formidable risks for the periods ahead, owing to the company's significant exposure to international markets.

Last Earnings Report

Smucker Q2 Earnings Beat Estimates, Revenues Miss

The J. M. Smucker Company posted second-quarter fiscal 2020 results, wherein the bottom line grew year over year and beat the Zacks Consensus Estimate but sales were soft. Results were hurt by persistent softness in premium dog food offerings and the divestiture of the U.S. baking business, among other factors. To top it, management slashed sales and earnings guidance for fiscal 2020.

Quarter Ending **10/2019**

Report Date	Nov 22, 2019
Sales Surprise	-1.47%
EPS Surprise	6.10%
Quarterly EPS	2.26
Annual EPS (TTM)	8.18

Quarter in Detail

Adjusted earnings of \$2.26 per share rose 4% year over year and comfortably beat the Zacks Consensus Estimate of \$2.13. The year-over-year increase can be attributable to lower interest expenses and a reduced tax rate.

Net sales of the company amounted to \$1,957.8 million, which missed the consensus mark of \$1,987 million. Moreover, the top line dropped 3.2% year over year, mainly due to the divestiture of the U.S. baking business and currency headwinds. Excluding these factors, the top line declined 1% due to lower net price realization. Volume/mix was flat year over year.

Although Smucker's sales were affected by persistent softness in premium dog food offerings, management is pleased with the performance of the rest of the portfolio. Notably, Smucker maintained solid momentum at its cat food and pet snacks businesses and the Uncrustables brand. Also, the company saw improved market share for its high-growth coffee brands.

Adjusted gross profit fell 2.4% to \$753.1 million, while the adjusted gross margin expanded 30 basis points to 38.5%. Adjusted operating income decreased 5.9% to \$391 million and the adjusted operating margin contracted 60 basis points to 20%.

Segment Performance

U.S. Retail Pet Foods: Segment sales came in at \$709.9 million, which dropped 2% from the prior-year quarter's figure owing to lower private-label sales and reduced volume/mix. Private label sales were hurt by planned exits as well as weakness at various retailers. However, improved net price realization offered some respite.

U.S. Retail Consumer Foods: Net sales declined 8% to \$426.1 million, due to the divestiture of the baking business. Excluding the non-comparable results, sales in the segment fell 1% on reduced net pricing, somewhat compensated by improved volume/mix.

U.S. Retail Coffee Market: Sales in the segment were flat at \$543.4 million, as lower net price realization was offset by favorable volume/mix.

International and Away From Home: Net sales decreased 3% from the prior-year quarter to \$278.4 million, thanks to adverse volume/mix, impacts from the divestiture of the U.S. baking business and currency headwinds. Net price realization was neutral in the quarter.

Financials

Smucker exited the quarter with cash and cash equivalents of \$48.8 million, long-term debt (less current portion) of \$4,584.5 million and total shareholders' equity of \$8,095.3 million. Cash flow from operations amounted to \$224 million in the second quarter and free cash flow totaled \$160.6 million.

Fiscal 2020 Outlook

Smucker lowered its sales guidance for fiscal 2020, expecting soft second-quarter sales and weak sales in the second half of the fiscal, mainly due to various brands in the U.S. Retail Pet Foods segment. This also led to a lowered earnings view.

Smucker now expects net sales to be down 3% compared with the previous guidance of flat to 1% growth. The revised 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, sales are now projected to decline 2% compared with flat to up 1% expected earlier.

Adjusted earnings per share are now anticipated to be \$8.10-\$8.30, down from \$8.35-\$8.55 projected earlier. 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, while a 2% anticipated decline in SD&A costs is likely to offer some cushion. Gross margin is anticipated to be roughly 38.5% in fiscal 2020.

Free cash flow is now projected to be roughly \$850 million, down from the prior guidance of \$875-\$925 million.

Valuation

Smucker shares are up 5.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 1.1% and 0.5%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry and the sector is up 8.8% and 9.2%, respectively.

The S&P 500 index is up 4% in the year-to-date period and 20.8% in the past year.

The stock is currently trading at 13.25X forward 12-month earnings, which compares to 18.27X for the Zacks sub-industry, 19.55X for the Zacks sector and 19.27X 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 15.12X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$116 price target reflects 13.94X 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	13.25	18.27	19.55	19.27
	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	15.12	19.19	19.71	17.47
P/S F12M	Current	1.64	1.73	9.98	3.55
	5-Year High	2.53	2.05	11.13	3.55
	5-Year Low	1.35	1.44	8.09	2.54
	5-Year Median	1.78	1.81	9.88	3
EV/EBITDA F12M	Current	10.84	14.08	34.39	12.66
	5-Year High	13.66	16.59	37.23	12.66
	5-Year Low	8.66	11.67	29.38	9.08
	5-Year Median	11.22	13.27	33.58	10.79

As of 02/11/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (180 out of 254)



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	-	-	B	C	B
Market Cap	12.58 B	4.24 B	24.31 B	903.03 M	15.96 B	31.91 B
# of Analysts	7	3	13	2	8	8
Dividend Yield	3.19%	0.12%	1.78%	13.48%	2.59%	3.71%
Value Score	B	-	-	A	B	B
Cash/Price	0.00	0.04	0.04	0.29	0.01	0.02
EV/EBITDA	11.85	13.17	13.97	7.20	16.20	13.12
PEG Ratio	3.36	2.28	2.06	NA	2.21	2.22
Price/Book (P/B)	1.55	2.71	3.24	1.09	2.08	3.98
Price/Cash Flow (P/CF)	8.43	13.40	13.65	5.13	12.99	12.37
P/E (F1)	13.52	17.60	19.12	8.29	15.45	15.56
Price/Sales (P/S)	1.64	1.31	2.67	0.55	1.52	1.90
Earnings Yield	7.39%	5.61%	5.23%	12.06%	6.46%	6.43%
Debt/Equity	0.58	0.62	0.70	2.57	1.21	1.37
Cash Flow (\$/share)	13.07	2.72	6.94	2.75	2.52	4.26
Growth Score	C	-	-	F	D	C
Hist. EPS Growth (3-5 yrs)	10.38%	5.29%	10.85%	4.47%	-2.47%	2.82%
Proj. EPS Growth (F1/F0)	-1.64%	7.32%	7.30%	1.80%	5.60%	5.32%
Curr. Cash Flow Growth	1.65%	1.85%	8.92%	-7.27%	10.04%	5.47%
Hist. Cash Flow Growth (3-5 yrs)	11.97%	7.12%	8.36%	11.59%	-0.87%	1.32%
Current Ratio	0.72	1.57	1.22	3.47	0.88	0.61
Debt/Capital	36.74%	38.38%	42.90%	71.99%	54.72%	57.73%
Net Margin	7.30%	2.56%	11.81%	10.80%	7.62%	12.62%
Return on Equity	11.60%	10.86%	16.98%	12.70%	12.50%	27.33%
Sales/Assets	0.46	1.16	0.54	0.51	0.47	0.55
Proj. Sales Growth (F1/F0)	-3.01%	2.60%	3.90%	0.91%	12.59%	2.23%
Momentum Score	C	-	-	A	D	F
Daily Price Chg	0.34%	0.04%	0.65%	1.95%	1.74%	0.76%
1 Week Price Chg	4.46%	0.47%	2.47%	-10.27%	-2.95%	-0.61%
4 Week Price Chg	5.61%	-1.40%	1.35%	-13.97%	2.02%	-0.45%
12 Week Price Chg	5.87%	-0.58%	5.63%	-11.60%	11.87%	-0.28%
52 Week Price Chg	5.65%	12.62%	16.19%	-46.22%	38.22%	17.66%
20 Day Average Volume	799,781	135,351	1,995,746	1,436,662	3,739,905	3,219,568
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.07%
(F1) EPS Est 4 week change	0.03%	0.00%	0.00%	-5.56%	-0.15%	-0.09%
(F1) EPS Est 12 week change	-1.68%	0.00%	-0.19%	-5.56%	0.31%	0.83%
(Q1) EPS Est Mthly Chg	-0.19%	0.00%	0.00%	-1.06%	0.00%	-0.56%

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.

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.

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

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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