Aug 26, 2020

J. M. Smucker(SJM)

$120.75 (As of 08/25/20)

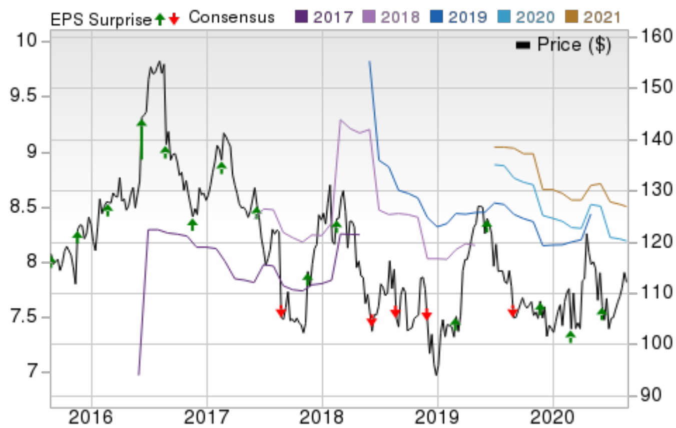
Price Target (6-12 Months): **$127.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/07/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: A | Momentum: C	

Summary

Smucker's shares have outperformed the industry on a year-to-date basis. It has been benefiting from increased demand stemming from coronavirus-led higher at-home consumption trends. This boosted the company's first-quarter fiscal 2021 performance, with earnings and sales increasing year over year and beating the Zacks Consensus Estimate. Notably, volume/mix improved in U.S. Retail Coffee, U.S. Retail Pet Foods and U.S. Retail Consumer Foods segments. Also, management raised its fiscal 2021 outlook. Apart from this, Smucker is benefiting from its brand-enhancement efforts. However, higher stay-at home trends have been marring the company's away from home business. Also, the company expects to see escalated SD&A costs in fiscal 2021. Moreover, adverse impact of unfavorable foreign currency translations cannot be ignored.

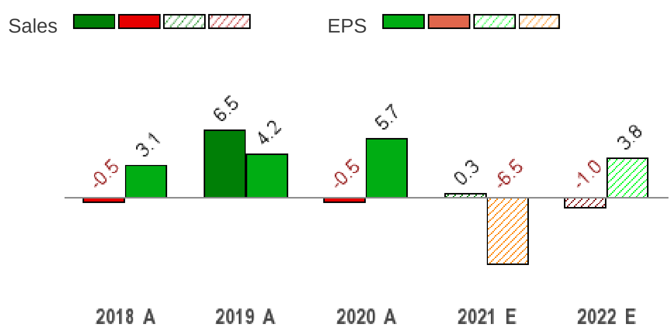
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$125.62 - $91.88**
20 Day Average Volume (sh)	**951,296**
Market Cap	**$13.8 B**
YTD Price Change	**16.0%**
Beta	**0.13**
Dividend / Div Yld	**$3.60 / 3.0%**
Industry	**Food - Miscellaneous**
Zacks Industry Rank	**Bottom 35% (163 out of 252)**
Last EPS Surprise	**41.1%**
Last Sales Surprise	**8.5%**
EPS F1 Est- 4 week change	**0.2%**
Expected Report Date	**11/27/2020**
Earnings ESP	**0.0%**
P/E TTM	**12.6**
P/E F1	**14.7**
PEG F1	**3.7**
P/S TTM	**1.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	1,819 E	2,000 E	2,010 E	1,920 E	7,746 E
2021	1,972 A	1,965 E	1,975 E	1,911 E	7,822 E
2020	1,779 A	1,958 A	1,972 A	2,092 A	7,801 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	$1.73 E	$2.36 E	$2.42 E	$2.08 E	$8.50 E
2021	$2.37 A	$2.22 E	$2.28 E	$2.02 E	$8.19 E
2020	$1.58 A	$2.26 A	$2.35 A	$2.57 A	$8.76 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 08/25/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/26/2020.

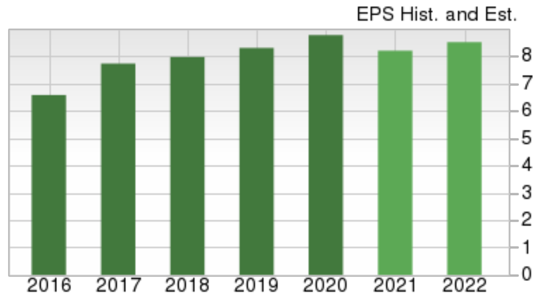
Overview

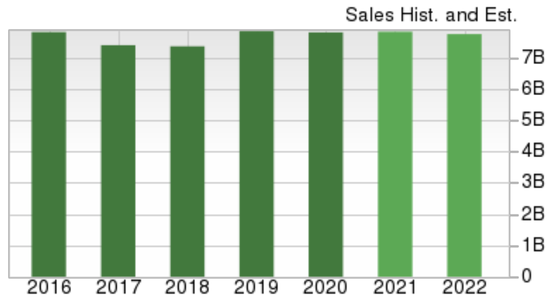
Headquartered in Orrville, OH, the J.M. Smucker Company is a leading marketer and manufacturer of consumer food and beverage products and pet food and pet snacks in North America. Although majority of the company's operations are concentrated in the United States, it also operates on an international 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 (27.6% of FY20 sales), U.S. Retail Consumer Foods (22.2% of FY20 sales), U.S. Retail Pet Foods (36.8% of FY20 sales) as well as International and Foodservice (13.4% of FY20 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.

▲ **Coronavirus-Led Demand Aids Q1 Results, Impressive Outlook**: Shares of Smucker have gained 18.7% year to date compared with the industry's growth of 0.2%. The company posted robust first-quarter fiscal 2021 results, with the top and bottom line surpassing the Zacks Consensus Estimate. Moreover, the metrics increased year over year. Notably, adjusted earnings of $2.37 per share surged 50% driven by higher sales volumes, increased profit margins as well as reduced SD&A expenses in the quarter. Sales rose almost 11% on the back of favorable volume/mix in all retail businesses stemming from higher at-home consumption amid COVID-19.

Impressed with fiscal first-quarter results, management raised its fiscal 2021 net sales, adjusted earnings per share (EPS) and free cash flow outlook. Smucker now expects net sales to range from flat to 1% growth. Earlier it anticipated the metric to decline 1-2% year over year. The top-line view reflects escalated at-home consumption as well as re-stocking of retailer inventory in the fiscal first quarter. Adjusted EPS for fiscal 2021 are now anticipated in the range of $8.20-$8.60. Prior to this, management expected adjusted EPS in the band of $7.90-$8.30. Free cash flow is expected in the range of $925-$975 million. Earlier, the company envisioned the metric in the band of $900-$950 million.

▲ **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. Also, the company has been consistently extending partnership with KGM to augment K-Cup business opportunities.

▲ **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 like Folgers. Notably, the brand increased 13% in the US Retail Coffee segment in the fiscal first quarter. Also, Smucker has effectively launched advertising campaign for ten of its biggest brands in fiscal 2020. Further, the company is on track with making expansions for one of its fastest growing brand Uncrustables.

▲ **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, pet business has been steadily expanding. During first-quarter fiscal 2021, overall e-commerce sales have surged 70%. Management expects witnessing continued strength in the e-commerce channel in the forthcoming periods as consumers adapt to online shopping amid the pandemic. Moreover, the company is utilizing the digital platform to enhance consumer engagement.

▲ **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.

In the first quarter of fiscal 2021, adjusted gross profit increased 13% year over year to $759.2 million and adjusted gross margin expanded 80 basis points (bps) to 38.5%. Adjusted operating income increased 39% year over year to $404.5 million and adjusted operating margin expanded 420 bps to 20.5%.

▲ **Dividend Hike**: At a juncture where companies are suspending dividends to preserve financial flexibility, Smucker recently announced a 2.3% hike from previous dividend taking it to 90 cents per share. We note that the company's current annualized dividend rate of $3.58 a share reflects a 2.6% increase from the year-ago period's figure. Notably, Smucker has a dividend payout of 37.5%, dividend yield of 3% and free cash flow yield of 9.5%. Also, Smucker's long-term debt (less current portion) of $4,672.8 million as of Jul 31, 2020 reflected a decline of 13% on a sequential basis.

Reasons To Sell:

> The International and Away From Home business suffered a 9% sales decline in the fiscal first quarter thanks to the coronavirus outbreak.

- **Softness in International and Away From Home Unit**: While coronavirus-led increased stay-at-home trends boosted Smucker's retail business, the same dealt a blow to its International and Away From Home. Segmental net sales decreased 9% from the prior-year quarter's level to $219.1 million led by unfavorable volume/mix to the tune of 8 percentage points in the first quarter of fiscal 2021. Notably, the away-from-home business declined 33% in the quarter, thanks to major fall in demand for coffee and portion control products due to coronavirus outbreak. Further, segment profit fell 4% caused by increased costs stemming from deleverage of fixed costs in the away from home business as well as unfavorable lower volume/mix. We believe that, persistence of this trend is likely to remain a concern for the company.

- **Lower Net Price Realization**: Smucker's performance has been hurt by lower net price realization for the past few quarters. During the first quarter of fiscal 2021, revenues in U.S. Retail Pet Foods unit was affected by 2 percentage point due to reduced net price realization. The downside can be attributed to higher trade spend for dog as well as cat food. Persistence of such headwinds is a concern for the company's performance.

- **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. During the first quarter of fiscal 2021, unfavorable foreign currency exchange lowered net sales by 1 percentage point in the International and Away From Home business. Therefore, volatility in exchange rates pose formidable risks for the periods ahead.

- **Escalated Cost Concerns**: Although Smucker's selling, distribution and administrative (SD&A) expenses decline year over year in the fiscal first quarter, management expects the metric to increase 1-2% in fiscal 2021. Clearly, escalated SD&A expenses remain a threat to the company's performance.

- **Intense Competition**: Smucker operates in the highly competitive food industry. The company competes with other major players on grounds of pricing, product innovation, brand recognition and loyalty, product quality, effectiveness of marketing and promotional activity and responsiveness to consumers' changing preferences. Such competitive pressures may compel the company to lower prices, which is a threat to its profits.

Last Earnings Report

Smucker Q1 Earnings Surpass Estimates, Sales Up Y/Y

Quarter Ending	07/2020
Report Date	Aug 25, 2020
Sales Surprise	8.54%
EPS Surprise	41.07%
Quarterly EPS	2.37
Annual EPS (TTM)	9.55

Smucker posted first-quarter fiscal 2021 results, with the top and the bottom line surpassing the Zacks Consensus Estimate. Moreover, sales and earnings increased year over year. The company raised its fiscal 2021 net sales, adjusted earnings per share and free cash flow outlook.

Quarter in Detail

Adjusted earnings of $2.37 per share rose 50% year over year and beat the Zacks Consensus Estimate of $1.68. The year-over-year increase can be attributed to higher sales in the quarter.

Net sales amounted to $1,971.8 million, which beat the consensus mark of $1,816.7 million. Moreover, the top line increased almost 11% year over year on the back of favorable volume/mix in all retail businesses stemming from higher at-home consumption for the U.S. Retail Coffee and U.S. Retail Consumer Foods units. However, lower volume/mix for the Away From Home business was a drag.

Adjusted gross profit increased 13% year over year to $759.2 million and adjusted gross margin expanded 80 basis points (bps) to 38.5%. Adjusted operating income increased 39% year over year to $404.5 million and adjusted operating margin expanded 420 bps to 20.5%.

Segment Performance

U.S. Retail Pet Foods: Segment sales came in at $692.6 million, up 3% from the prior-year quarter's figure. Volume/mix increased 5 percentage points led by growth in Lives and Meow Mix cat food as well as Milk-Bone dog snacks. However, net price realization was lower in the quarter.

U.S. Retail Consumer Foods: Net sales rose 22% from the year-ago quarter's levels to $489.2 million. Volume/mix improved 19 percentage points driven by higherat-home consumption and re-stocking of retailer inventory amid the COVID-19 outbreak. Moreover, favorable net pricing mostly driven by lower promotions for Jif peanut butter and Smucker's fruit spreads contributed to sales.

U.S. Retail Coffee Market: Sales in the segment increased 23% from the prior-year quarter's figure to $570.9 million. The figure was driven by higher at-home coffee consumption and retailer inventory re-stocking amid the pandemic. While volume/mix increased 23 percentage points, net price realization was neutral.

International and Away From Home: Net sales decreased 9% from the prior-year quarter's level to $219.1 million, thanks to unfavorable volume/mix to the tune of 8 percentage points. Also, unfavorable foreign currency exchange was a drag.

Financials

Smucker exited the quarter with cash and cash equivalents of $396.6 million, long-term debt (less current portion) of $4,672.8 million and total shareholders' equity of $8,345.2 million. Cash flow from operations amounted to $409 million in the fiscal first quarter and free cash flow totaled $332.4 million.

Fiscal 2021 Outlook

Smucker now expects net sales to range from flat to 1% growth. Earlier it anticipated the metric to decline 1-2% year over year. The top-line view reflects escalated at-home consumption as well as re-stocking of retailer inventory in the fiscal first quarter. However, the view includes a decline of $185 million stemming from incremental net sales in the fourth quarter of fiscal 2020 as well as coronavirus-induced decline in the Away From Home segment.

Adjusted earnings per share for fiscal 2021 are now anticipated in the range of $8.20-$8.60. Prior to this, management expected adjusted earnings per share in the band of $7.90-$8.30. Smucker's adjusted earnings came in at $8.76 per share in fiscal 2020. Gross margin is anticipated in the range of 37.5%-38%. SD&A costs are projected to increase 1-2% year over year. Free cash flow is expected in the range of $925-$975 million. Earlier, the company envisioned the metric in the band of $900-$950 million.

Recent News

Smucker Hikes Dividend – Jul 21, 2020

Smucker announced a quarterly dividend of 90 cents per share, reflecting a 2.3% hike year over year. This is payable on Sep 1, 2020, to shareholders of record as on Aug 14.

Valuation

Smucker shares are up 18.7% in the year-to-date period and 20.3% in the trailing 12-month period. Stocks in the Zacks sub-industry are up 0.2% and the Zacks Consumer Staples sector are down 4.3% in the year-to-date period. In the past year, the Zacks sub-industry is up 10.8%, while the sector gained 0.6%.

The S&P 500 index is up 18.7% in the year-to-date period and 22.1% in the past year.

The stock is currently trading at 14.57X forward 12-month earnings compared with19.43X for the Zacks sub-industry, 20.29X for the Zacks sector and 23.04X 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 14.13X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $127 price target reflects 15.32X forward 12-month earnings.

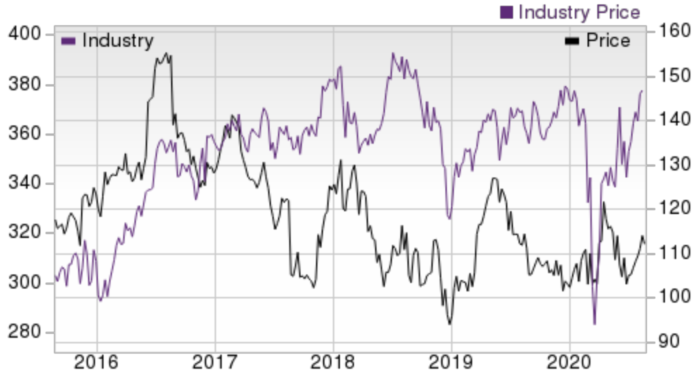
The table below shows summary valuation data for SJM

Valuation Multiples - SJM

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.57	19.43	20.29	23.04
	5-Year High	22.25	22.9	22.37	23.04
	5-Year Low	10.88	14.82	16.63	15.25
	5-Year Median	14.13	18.57	19.58	17.58
P/S F12M	Current	1.79	1.74	9.61	3.76
	5-Year High	2.35	2.05	11.15	3.76
	5-Year Low	1.35	1.41	8.1	2.53
	5-Year Median	1.74	1.75	9.89	3.05
EV/EBITDA F12M	Current	11.27	13.63	34.88	13.55
	5-Year High	13.66	14.68	37.28	14.19
	5-Year Low	9.13	10.95	25.88	9.1
	5-Year Median	11.05	13.17	33.7	11.04

As of 08/25/2020

Industry Analysis **Zacks Industry Rank:** Bottom 35% (163 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
BG Foods, Inc. **(BGS)**	Neutral	2
BRF S.A. **(BRFS)**	Neutral	3
Conagra Brands Inc. **(CAG)**	Neutral	3
Campbell Soup Company **(CPB)**	Neutral	2
General Mills, Inc. **(GIS)**	Neutral	3
Hormel Foods Corporation **(HRL)**	Neutral	3
Ingredion Incorporated **(INGR)**	Neutral	4
Post Holdings, Inc. **(POST)**	Underperform	5

Industry Comparison Industry: Food - Miscellaneous

	SJM	X Industry	S&P 500	BGS	CAG	GIS
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	B	-	-	A	A	A
Market Cap	13.78 B	3.69 B	23.77 B	2.00 B	18.92 B	39.04 B
# of Analysts	7	3	14	3	8	8
Dividend Yield	2.98%	0.00%	1.65%	6.11%	2.19%	3.07%
Value Score	C	-	-	B	C	C
Cash/Price	0.03	0.08	0.07	0.09	0.03	0.04
EV/EBITDA	10.86	13.29	13.35	13.40	14.77	13.19
PEG Ratio	3.65	4.14	3.03	NA	2.31	2.42
Price/Book (P/B)	1.65	2.35	3.17	2.44	2.37	4.67
Price/Cash Flow (P/CF)	9.53	12.54	12.81	11.06	12.54	13.92
P/E (F1)	14.71	18.90	21.72	14.04	16.18	18.12
Price/Sales (P/S)	1.72	1.40	2.47	1.09	1.71	2.21
Earnings Yield	6.78%	4.90%	4.45%	7.13%	6.17%	5.52%
Debt/Equity	0.56	0.56	0.75	2.33	1.12	1.31
Cash Flow ($/share)	12.68	2.81	6.93	2.81	3.09	4.59
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	8.82%	5.50%	10.41%	-0.35%	-2.26%	3.19%
Proj. EPS Growth (F1/F0)	-6.52%	3.22%	-4.92%	35.16%	4.99%	-2.32%
Curr. Cash Flow Growth	-2.78%	4.39%	5.20%	-0.56%	22.57%	9.11%
Hist. Cash Flow Growth (3-5 yrs)	11.88%	6.08%	8.50%	4.81%	4.34%	3.48%
Current Ratio	0.96	1.62	1.33	3.12	0.88	0.68
Debt/Capital	35.90%	36.13%	44.20%	69.95%	52.82%	56.69%
Net Margin	10.78%	3.49%	10.25%	6.22%	7.60%	12.37%
Return on Equity	13.28%	9.81%	14.66%	15.65%	14.38%	27.66%
Sales/Assets	0.48	1.02	0.51	0.55	0.49	0.58
Proj. Sales Growth (F1/F0)	-1.93%	0.00%	-1.45%	16.17%	-2.92%	-2.81%
Momentum Score	C	-	-	F	C	C
Daily Price Chg	6.87%	0.00%	-0.03%	2.03%	1.25%	-0.36%
1 Week Price Chg	-1.65%	0.00%	-1.45%	3.05%	0.11%	1.19%
4 Week Price Chg	10.51%	3.61%	3.76%	14.88%	3.89%	-0.99%
12 Week Price Chg	4.85%	5.99%	5.99%	29.34%	12.39%	0.76%
52 Week Price Chg	16.45%	3.85%	4.07%	74.73%	38.80%	23.10%
20 Day Average Volume	951,296	165,868	1,880,903	1,154,183	2,271,156	2,415,582
(F1) EPS Est 1 week change	0.23%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.23%	0.00%	1.03%	0.76%	0.00%	0.07%
(F1) EPS Est 12 week change	-3.27%	1.78%	3.40%	3.10%	3.91%	1.15%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-6.37%	0.00%	0.16%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	A
Momentum Score	C
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.

Disclosures

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