Fiscal Year 2025 First Quarter Earnings Prepared Management Remarks

August 28, 2024

CORPORATE PARTICIPANTS

Crystal Beiting, Vice President, Investor Relations & FP&A
Mark Smucker, Chair of the Board, President and Chief Executive Officer
Tucker Marshall, Chief Financial Officer

CRYSTAL BEITING, VICE PRESIDENT, INVESTOR RELATIONS & FP&A

Good morning. This is Crystal Beiting, Vice President, Investor Relations & Financial Planning & Analysis for The J. M. Smucker Company. Thank you for listening to our prepared remarks on our fiscal 2025 first quarter earnings. After this brief introduction, Mark Smucker, Chair of the Board, President and Chief Executive Officer, will give an overview of the quarter's results and an update on strategic initiatives. Tucker Marshall, Chief Financial Officer, will then provide a detailed analysis of the financial results and our updated fiscal 2025 outlook. Later this morning, we will hold a separate, live question-and-answer webcast.

During today's discussion, we will make forward-looking statements that reflect our current expectations about future plans and performance. These statements rely on assumptions and estimates, and actual results may differ materially due to risks and uncertainties. Additionally, please note we will refer to non-GAAP financial measures management uses to evaluate performance internally. I encourage you to read the full disclosure concerning forward-looking statements and details on our non-GAAP financial measures in this morning's press release.

Today's press release, a supplementary slide deck summarizing the quarterly results, management's prepared remarks, and the Q&A webcast can all be accessed on our Investor Relations website at jmsmucker.com.

We invite all interested parties to join us at 9:00 am Eastern Time today for a live question-and-answer session with management to further discuss our first quarter results and outlook for the full 2025 fiscal year.

Please contact me if you have any additional questions after today's question-and-answer session. I will now turn the discussion over to Mark Smucker.

MARK SMUCKER, CHAIR OF THE BOARD, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thank you, Crystal, and good morning, everyone.

We delivered a strong start to the fiscal year, and while we continue to operate in a dynamic consumer environment, our business remains resilient. Consumer demand for our iconic brands combined with our focus on execution, increased marketing investments, and disciplined cost management, drove double-digit sales and earnings growth in the quarter. We remain focused on executing against our three strategic priorities – deliver the business, integrate and deliver on the acquired Hostess Brands business, and achieve our transformation, cost discipline and cash generation aspirations.

Our first priority, deliver the business, which includes a focus on growing volume, was demonstrated in the first quarter. Total company comparable net sales increased 1%, and when excluding contract manufacturing sales related to the divested pet food brands, net sales increased 3% versus the prior year, reflecting 3 percentage points of volume/mix growth. While industry volume growth has been uncertain in this dynamic environment, our transformed and focused portfolio has delivered a level of volume/mix growth in every quarter this past calendar year.

Additionally, we continue to prioritize resources towards our largest growth opportunities:

- *Uncrustables®* sandwiches, which grew net sales by 24% at the total company level, was driven by our national advertising campaign, distribution gains, and new merchandising investments to drive trial and awareness. These actions delivered a record quarter for both sales and household penetration. We continue to focus on winning the "lunchbox" and are excited to launch a new Peanut Butter and Raspberry flavor next month. Additionally, operations for our third *Uncrustables®* sandwiches facility in McCalla, Alabama are set to begin in October and will continue to fuel anticipated double-digit net sales growth for the brand.
- In Pet Foods, dog snacks and cat food both contributed positive volume/mix in the quarter. In dog snacks, the *Milk-Bone®* brand demonstrated strong net sales growth in soft and chewy snacks of over 60% versus the prior year, aided by innovation, with the launch of new *Milk-Bone®* Peanut Buttery Bites featuring *Jif®* peanut butter. This launch capitalizes on the continued humanization trends in the pet category and is already exceeding our expectations. We are excited to launch the product nationally this coming January. In cat food, the *Meow-Mix®* brand continued its momentum with mid-single-digit net sales and volume/mix growth in the quarter. The brand has regained the #1 volume share position in the dry cat food category and is bringing exciting innovation to market early next calendar year. The category has lacked innovation the past few years, and with this upcoming launch, we plan to elevate the mealtime experience and deliver new unique flavors and textures.
- And in Coffee, the *Café Bustelo®* brand remains one of the fastest growing brands in the mainstream, one cup, and instant categories. In the latest 13-week period, the brand was #1 in both dollar and volume share growth amongst leading competitors in the at-home coffee category and has delivered double-digit net sales growth in 11 of the last 12 quarters. We continue to focus on expanding the *Café Bustelo®* brand including driving new distribution in traditional formats as well as expanding into cold coffee. We recently brought the brand's iconic flavor of espresso style roasts into the refrigerated aisle with new multi-serve ready-to-drink offerings and the launch is off to a strong start.

These brands, and the Hostess acquisition, remain key components to delivering on our fiscal 2025 net sales expectations. This brings me to our second priority — integrate and deliver on the acquired Hostess Brands business, including the alignment of systems and processes, achieving cost synergies and growth ambitions, and nurturing a unified culture as we expand our organization.

The integration is progressing well and remains on-track. We are beginning to realize synergies earlier than anticipated and continue to expect approximately $100 million of cost synergies to be achieved by the end of fiscal year 2026.

The Sweet Baked Snacks segment delivered net sales below our expectations in the first quarter, primarily driven by the macroeconomic environment and slowdown in the convenience channel. Consumers continue to be selective in their spending, a trend that is largely driven by inflationary pressures and diminished discretionary income. These trends have impacted the sweet baked goods category and caused a reduction in convenience store foot traffic, which disproportionately impacts the *Hostess®* brand. When considering the current environment, we now anticipate net sales to be below our initial expectations for this fiscal year, which has been reflected in our updated fiscal 2025 guidance assumptions.

Long-term, snacking trends continue to be favorable with sweet and indulgent snacks historically growing faster than overall packaged food and approximately 70% of consumers eating at least two snacks per day. The *Hostess®* brand is well positioned to capture on these trends with accessible price points, single-serve and multi-pack offerings, and relatively low private label exposure. We remain confident in the long-term potential of the business, which includes:

- Expanding distribution, leveraging our strength in retail and away from home channels, including future revenue synergies;
- A strong innovation pipeline, as the *Hostess®* brand has led the sweet baked goods category for three years in innovation, a trend we are focused on continuing; Also,
- Joint merchandising with our iconic brands, including the potential for collaborations; And,
- Increased media support leveraging our leading marketing model to drive further awareness and consumption.

We continue to manage the business for the long-term and expect the Sweet Baked Snacks segment to grow net sales approximately 4% annually, over time.

Finally, we have made positive progress on our third strategic priority to achieve our transformation, cost discipline and cash generation aspirations. This supported double-digit adjusted earnings per share growth as we demonstrated operational efficiencies and disciplined cost management from both an adjusted gross margin and SD&A perspective. Our transformation office continues to drive savings across the Company, including margin improvement across all of our U.S. retail segments and in International and Away From Home. We remain confident in our long-term objective to generate at least $1 billion in free cash flow annually.

These priorities continue to guide our business and position the Company to deliver strong results and increase shareholder value.

Turning to the dynamics in our U.S. retail segments.

In Coffee, net sales was flat versus the prior year, as lower net pricing was mostly offset by favorable volume/mix. Though we took a price increase in June, the impact to the quarter was largely offset from lapping a price decline in the prior year. The coffee category has continued to experience meaningful commodity volatility and inflation. In response to recent higher green coffee costs and the pass-through nature of the coffee category, we are taking a second list price increase across our portfolio in early October. As always, we will continue to manage our coffee business through a strategy that demonstrates a balance between recovering inflationary input costs, while providing consumers with attractive options ranging from value to premium.

We expect the coffee category to remain resilient, despite recent inflationary pressures and volume declines, given consumers' love of daily coffee rituals and continued strength in at-home consumption. 70% of all coffee drinking occasions continue to be at home. This trend largely benefits us as the #1 manufacturer in the at-home U.S. retail coffee market, with three of the top seven brands in the category.

In Frozen Handheld and Spreads, comparable net sales grew 9%, primarily driven by *Uncrustables*® sandwiches and the *Jif*® brand. Growth for *Uncrustables*® sandwiches increased over 20% versus the prior year, driven by new distribution gains, increased marketing, and strong back-to-school shipments. The *Jif*® brand demonstrated net sales growth of 4%, reflecting a strong response to our recent launch of *Jif*® Peanut Butter & Chocolate Flavored Spread which is exceeding our expectations.

In Pet Foods, net sales was flat when excluding reduced contract manufacturing sales related to the divested pet food brands, as net sales growth in *Meow Mix*® cat food was offset by declines in *Canine Carry Outs*® and *Pup-peroni*® dog snacks. The *Milk-Bone*® brand demonstrated favorable volume/mix, primarily driven by growth in soft and chewy snacks from innovation. Overall, the dog snacks category continues to be impacted by a slowdown in discretionary spending largely driven by inflationary pressures. We remain confident in our portfolio as we continue to leverage our core strengths to drive growth for the *Milk-Bone*® brand through superior execution, drive trade-up and unlock households with innovation, and demonstrate the strength of our seasonal business as the leading seasonal dog snacks manufacturer.

Profit margins in the quarter were strong for our pet portfolio driven by operational improvements from our transformation office and the wind down of our co-manufacturing agreement. Additionally, we are lapping supply chain challenges in the prior year that impacted product supply and margins across the business. Our transformed portfolio continues to highlight the benefits of focusing on brands and categories where we have a leading market share position.

In our Away From Home business, comparable net sales grew double-digits. Growth was driven by *Uncrustables*® sandwiches, portion control products, and coffee. Our Away From Home business continues to have a competitive advantage with leading national brands that has resulted in above-average industry growth rates across our categories. We will continue to leverage our key platforms to drive future growth in Away From Home channels.

Though our momentum continued into the first quarter, driven by the resilience of our business, we have decided to take a more cautious view and amend our guidance for the full year. In response to the evolving dynamic environment, we are revising our full-year net sales expectations primarily due to:

- A dynamic consumer environment driven by inflationary pressures and diminished discretionary income impacting the dog snacks and sweet baked goods categories; and,
- Elasticity of demand assumptions from additional pricing actions across our coffee portfolio in response to higher-than-anticipated green coffee costs.

Our updated guidance also reflects increased expectations for *Uncrustables*® sandwiches, demonstrating the success of our investments to continue to advance the *Uncrustables*® brand.

We now expect comparable net sales growth of 1% at the mid-point of our guidance range, inclusive of a 1 percentage point headwind from reduced contract manufacturing sales related to the divested pet food brands. Reported net sales will be up approximately 9% at the mid-point of our revised guidance range, reflecting a full year of sales from the Hostess Brands acquisition and base business growth.

Our adjusted EPS guidance reflects the impact of the revised net sales forecast and higher green coffee prices, partially offset by increased demand for *Uncrustables®* sandwiches.

We continue to focus on managing the elements we can control and remain focused on taking actions that position the Company for long-term success, which includes investing in the business, bringing meaningful innovation to our categories, pricing in a cautious and prudent way when necessary, and continuing to shift our portfolio to growth. We remain confident in our strategy of building brands consumers love and establishing leading positions in the advantaged categories of coffee, snacking, and pet foods.

In closing, I would like to extend my gratitude to all our employees for their unwavering focus, dedication, and outstanding contributions. We will continue to adapt and evolve to meet the needs of the consumer as the Company has successfully done for more than 125 years.

I'll now turn it over to Tucker to go over our quarterly financial results and our updated fiscal year 2025 outlook in more detail.

TUCKER MARSHALL, CHIEF FINANCIAL OFFICER

Thank you, Mark. Good morning, everyone.

I'll begin by giving an overview of our first quarter results, then I'll provide additional details on our financial outlook for fiscal year 2025.

In the quarter, net sales increased 18%, which was in line with our expectations. Comparable net sales increased 1%, excluding the current year sales for the Hostess Brands acquisition, prior year sales related to the divested businesses, and foreign currency exchange.

The increase in comparable net sales reflects a 1 percentage point increase from volume/mix, primarily driven by increases for the *Uncrustables®*, *Café Bustelo®*, and *Meow Mix®* brands, partially offset by lower contract manufacturing sales related to the divested pet food brands and a decrease for the *Dunkin'®* brand. Net sales growth includes a 2% headwind from lower contract manufacturing sales related to the divested pet food brands.

Net price realization was neutral to net sales as higher net pricing for International and Away From Home and the U.S. Retail Frozen Handheld and Spreads segment was offset by lower net pricing for the U.S. Retail Pet Foods and U.S. Retail Coffee segments.

Adjusted gross profit increased $188 million, or 29%, compared to the prior year. The increase primarily reflects a favorable impact from the acquisition of Hostess Brands, lower costs, and favorable volume/mix, partially offset by the impact of divestitures.

Adjusted operating income increased $116 million, or 35%, reflecting the increased adjusted gross profit, partially offset by higher SD&A expenses. The increase in SD&A was primarily driven by the acquisition of Hostess Brands, increased investments in marketing, and pre-production expenses related to the new *Uncrustables®* sandwiches manufacturing facility, partially offset by the impact of divestitures.

Below operating income, net interest expense increased $68 million, primarily due to an increase in interest expense related to the Senior Notes issued to partially finance the acquisition of Hostess Brands and an increase in short-term borrowings under the Company's commercial paper program.

The adjusted effective income tax rate was 24.6%, compared to 23.6% in the prior year. The increase in the adjusted effective income tax rate was primarily due to a discrete unfavorable impact of share-based compensation, compared to the prior year.
Factoring in all these considerations, along with weighted-average shares outstanding of 106.5 million, first quarter adjusted earnings per share was $2.44, an increase of 10% versus the prior year.

Adjusted earnings per share significantly exceeded our expectations in the quarter driven by better than anticipated adjusted gross margin, favorable SD&A expenses from disciplined cost management, and earlier than anticipated realization of synergies from the Hostess Brands acquisition.

Turning to our segment results, in the U.S. Retail Coffee segment, net sales was neutral versus the prior year. Net price realization reduced net sales by 1 percentage point, primarily driven by a net price decline for the *Dunkin'*® brand, partially offset by higher net pricing for the *Folgers*® brand. The decrease in net price realization was mostly offset by favorable volume/mix, reflecting a double-digit increase for the *Café Bustelo*® brand partially offset by a decrease for the *Dunkin'*® brand. Volume/mix was neutral for the *Folgers*® brand in the quarter.

U.S. Retail Coffee segment profit increased 1%, primarily reflecting lower marketing spend and selling expense, partially offset by lower net price realization and higher commodity costs.

In U.S. Retail Frozen Handheld and Spreads, net sales increased 7%. Excluding noncomparable sales in the prior year related to the divested *Sahale Snacks*® business, net sales increased 9%. Volume/mix increased net sales by 7 percentage points, primarily driven by a double-digit increase for *Uncrustables*® sandwiches. Higher net price realization increased net sales by 1 percentage point, primarily reflecting a list price increase for peanut butter implemented in the prior year.

U.S. Retail Frozen Handheld and Spreads segment profit increased 13%, primarily driven by lower costs, favorable volume/mix, and higher net price realization, partially offset by increased marketing investments and pre-production expenses related to the new *Uncrustables*® sandwiches manufacturing facility.

In U.S. Retail Pet Foods, reported net sales decreased 9% versus the prior year. Volume/mix decreased net sales by 6 percentage points, primarily driven by a $40 million decrease in contract manufacturing sales related to the divested pet food brands, partially offset by increases for cat food and dog snacks. Lower net price realization decreased net sales by 4 percentage points, reflecting certain channel-specific promotional timing for the *Jerky Treats*® brand and the restoration of trade support for the *Meow Mix*® brand.

U.S. Retail Pet Foods segment profit increased 42%, reflecting lower costs, favorable volume/mix, and lower distribution expense, partially offset by lower net price realization and increased marketing investments.

In the Sweet Baked Snacks segment, which reflects the acquired Hostess Brands business, net sales was $334 million and segment profit was $74 million. The segment delivered net sales slightly below our expectations, while profit was in-line.

Lastly, in International and Away From Home, net sales decreased 1%. Excluding noncomparable net sales in the prior year related to divestitures and unfavorable foreign currency exchange, net sales increased 8%. Net price realization contributed a 5 percentage point increase to net sales, primarily driven by list price increases across the majority of the portfolio to recover increased costs. Volume/mix increased net sales by 3 percentage points, primarily driven by *Uncrustables®* sandwiches, coffee, and portion control products, partially offset by a decrease for dog snacks.
Net sales for the Away From Home business increased 16% on a comparable basis primarily driven by *Uncrustables®* sandwiches, portion control products, and liquid coffee. Net sales for the International business decreased 4% on a comparable basis, primarily reflecting unfavorable volume/mix.

International and Away From Home segment profit increased 34%, primarily reflecting higher net price realization, favorable volume/mix, lower costs, and decreased marketing spend, partially offset by the impact of noncomparable segment profit in the prior year related to the divested businesses and higher pre-production expenses related to the new *Uncrustables®* sandwiches manufacturing facility.

First quarter free cash flow was $49 million, compared to $68 million in the prior year, driven by a decrease in cash provided by operating activities, partially offset by a decrease in capital expenditures as compared to the prior year.

We finished the quarter with a cash and cash equivalent balance of $40 million and a total net debt balance of $8.4 billion. Our trailing twelve-month adjusted EBITDA is approximately $1.8 billion. When accounting for acquisitions and one-time transaction and integration costs our proforma adjusted EBITDA is approximately $2.1 billion, which equates to a leverage ratio of 4.1x.

We plan to prioritize debt reduction by paying down approximately $500 million of debt annually over each of the next three years. With this anticipated deleveraging, achievement of cost synergies, and overall business growth, we anticipate a leverage ratio of approximately 3.0x net debt to EBITDA by the end of fiscal year 2027. This level of debt provides the financial flexibility for a balanced approach to capital deployment, while maintaining an investment-grade debt rating, and the flexibility to undertake strategic growth opportunities.

Let me now provide an update on our outlook for fiscal year 2025.

We now expect full-year net sales to increase 8.5% to 9.5% compared to the prior year reflecting a full-year of sales from the Hostess Brands acquisition, a 1% unfavorable impact from reduced contract manufacturing sales related to the divested pet food brands, and a 1% headwind from lapping sales of the divested Canadian condiment and *Sahale Snacks®* businesses.

On a comparable basis, net sales are anticipated to increase approximately 1% at the mid-point, including approximately $35 million of contract manufacturing sales related to the divested pet food brands versus $136 million in the prior year, or a 1% unfavorable impact. This reflects higher net price realization, primarily due to pricing actions across our coffee portfolio in response to higher green coffee costs. Comparable net sales growth also reflects volume/mix growth for the *Uncrustables®*, *Meow Mix®*, *Milk-Bone®*, *Café Bustelo®*, and *Hostess®* brands, and the Away From Home business.

The updated net sales guidance reflects the following changes from our original assumptions:

- An ongoing dynamic consumer environment driven by inflationary pressures and diminished discretionary income affecting the dog snacks and sweet baked goods categories;
- Higher net price realization, primarily due to pricing actions across our coffee portfolio in response to higher-than-anticipated green coffee costs;
- Decreased volume/mix in our coffee portfolio, primarily driven by elasticity of demand assumptions due to pricing;
- Increased volume expectations for *Uncrustables®* sandwiches;
- And, a change in our contract manufacturing sales assumptions related to the divested pet food brands, which is $15 million less than our previous estimate.

We now anticipate full-year adjusted gross profit margin of approximately 37.5%. This reflects our outlook for higher-than-anticipated green coffee costs in the second half of our fiscal year, partially offset by an improved cost outlook for the remainder of our business.

SD&A expenses are projected to be lower than originally anticipated and increase by approximately 9% versus the prior year, primarily reflecting operational efficiencies and disciplined cost management from our transformation office, including the realization of synergies earlier than anticipated. Total marketing expense is now estimated to be slightly below 5.5% of net sales.

We anticipate net interest expense of approximately $400 million and an adjusted effective income tax rate of 24.3%, along with a full-year weighted-average share count of 106.6 million.

Taking all these factors into consideration, we anticipate full-year adjusted earnings per share to be in the range of $9.60 to $10.00.

Adjusted earnings per share includes a $0.35 investment to continue to advance the *Uncrustables®* brand. Further, adjusted earnings per share includes a net $0.60 impact related to stranded overhead from the pet food divestiture, representing no impact to earnings growth versus the prior year.

In the second quarter of the fiscal year, net sales are anticipated to increase a mid-teen percentage, primarily reflecting sales from the Hostess Brands acquisition and base business growth when excluding an estimated $25 million decrease in contract manufacturing sales related to the divested pet food brands. Adjusted earnings per share is expected to decline mid-single-digits, primarily driven by higher SD&A and interest expense, partially offset by income from the Hostess acquisition.

We project free cash flow of approximately $875 million, with capital expenditures of $450 million for the year. Other key assumptions affecting cash flow include: depreciation expense of approximately $300 million, amortization expense of approximately $225 million, share-based compensation expense of $35 million, and other non-cash charges of $45 million.

In closing, we remain confident in our strategy and are encouraged by the continued momentum for our business and brands. We are taking the appropriate actions to demonstrate operational excellence, while managing through this dynamic consumer environment, and remain in a strong financial position to deliver sustainable and consistent long-term growth for our shareholders.

And, I would like to express my appreciation for our employees. They have demonstrated their commitment to executing with excellence, and their passion for our Company positions us for continued success.

Thank you.

Additional Information

The J.M. Smucker Co. is the owner of all trademarks referenced herein, except for Dunkin'®.

The *Dunkin'®* brand is trademark of DD IP Holder LLC and licensed to The J.M. Smucker Co. for packaged coffee products sold in retail channels such as grocery stores, mass merchandisers, club stores, e-commerce and drug stores, as well as in certain away from home channels. This information does not pertain to products for sale in *Dunkin'®* restaurants.