



THE J.M. SMUCKER Co

Fiscal Year 2025 Second Quarter Earnings Prepared Management Remarks

November 26, 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 and Financial Planning and Analysis for The J. M. Smucker Company. Thank you for listening to our prepared remarks on our fiscal 2025 second 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 Standard Time today for a live question-and-answer session with management to further discuss our second 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.

Our business momentum continued into the second quarter, building on our positive start to the fiscal year. We delivered results that exceeded our expectations, which allows us to increase our full-year adjusted earnings per share guidance. Our strong comparable net sales and earnings growth were driven by sustained consumer demand for our iconic brands, combined with our continued focus on superior execution and disciplined cost management. While we continue to operate in a dynamic consumer environment, our business remains resilient. And as industry volume growth has remained uncertain, our focused portfolio continues to deliver volume/mix growth, driven by our key growth platforms.

We continue to prioritize resources towards these key platforms which are our largest growth opportunities:

- Starting with *Uncrustables*[®] sandwiches, which grew net sales by 16% at the total company level. This growth 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. To fuel continued growth and meet demand for the *Uncrustables*[®] brand, we successfully started production at our third plant in McCalla, Alabama. The 900,000-square-foot facility is the Company's largest *Uncrustables*[®] sandwiches manufacturing site. This new capacity also enables us to go beyond \$1 billion in net sales and to deliver innovation through flavor extensions and seasonal offerings. For example, in September, we launched a Peanut Butter and Raspberry spread *Uncrustables*[®] sandwich and results are already exceeding our expectations. Although early, this new offering is quickly becoming a top variety for the *Uncrustables*[®] brand. We also launched peanut butter-only sandwiches in limited distribution that we will begin to distribute nationally next fiscal year. And our Halloween-themed Chocolate Flavored Hazelnut Spread *Uncrustables*[®] sandwiches inspired trial and more eating occasions. We look forward to driving more seasonal activations. With this incredible momentum fueling the *Uncrustables*[®] brand, we now anticipate full-year net sales for the brand to be over \$900 million in fiscal 2025, exceeding our initial expectation of \$100 million of net sales growth.
- In Pet Foods, the *Milk-Bone*[®] and *Meow Mix*[®] brands contributed positive volume/mix in the quarter. The *Milk-Bone*[®] brand demonstrated mid-single-digit volume/mix growth led by Soft and Chewy and Biscuits. Strong net sales growth in soft and chewy snacks of double digits versus the prior year was aided by innovation, namely *Milk-Bone*[®] Peanut Butter Bites made with *Jif*[®] peanut butter. This launch continues to exceed our expectations, and we are excited to launch this product nationally this coming January. We continue to drive the humanization trend in the category. As one of the few companies with both iconic human and pet food brands, we are able to create a unique consumer experience of consumers sharing foods they love with their pets. In cat food, the *Meow Mix*[®] brand continued its momentum with high-single-digit volume/mix growth in the quarter. The *Meow Mix*[®] brand has the number one volume share position in the dry cat food category, and we are fueling further growth by refreshing the brand with new packaging launching in January. This new packaging design showcases consumer-desired claims in a fresh, new way with elevated product benefits and a more modern design. We are also launching innovation at the same time that will bring the indulgence and dual texture experience out of the wet aisle and into the convenience of the dry aisle to elevate the mealtime experience for both the cat and pet parent.
- And in Coffee, the *Café Bustelo*[®] brand was the fastest growing leading brand in the mainstream, one cup, and instant categories in the latest 13-week period. In the quarter, the *Café Bustelo*[®] brand grew net sales by 20%, continuing its momentum of double-digit net sales growth. We continue to focus on expanding the *Café Bustelo*[®] brand nationally and broadening the consumer audience, and we have exciting plans to fuel additional growth, including innovation launching next calendar year.

Turning to our final key growth platform, the *Hostess*[®] brand. We are not satisfied with the current results of the *Hostess*[®] brand and are taking the necessary actions to return the brand to growth. Net sales continue to be below our expectations driven by two primary factors.

First, consumers continue to be selective in their spending, largely driven by inflationary pressures and diminished discretionary income, causing the sweet baked goods category to recover slower than we have anticipated. These trends are causing a reduction in all channels, inclusive of convenience.

Second, we are not performing with excellence from a distribution, merchandising, and competitive standpoint. We have underperformed in the channels where the consumer is shopping, resulting in lost share. With the integration now complete and synergies being realized, we are focusing our plans on ensuring execution in support of growing the *Hostess*[®] brand.

These plans include delivering the base portfolio, expanding distribution, driving innovation, continuing our portfolio evolution, and establishing revenue synergies. Each of these pillars represents a key strategy to grow the *Hostess*[®] brand.

When it comes to driving the base, we're focusing on multiple levers. First, we are re-focusing on driving displays, which remain a key element of our strategy due to the impulse nature of the snacking category. We have commercialized several new display vehicles, and are starting to gain traction in this important tool for driving consumption. Second, we are launching a bold, new marketing campaign, leveraging our proven marketing model at Smucker. This campaign will be aimed at building cultural relevance, particularly among millennials and Gen Z, who represent a tremendous opportunity for growth. Third, as part of the brand modernization, we're refreshing the *Hostess*[®] brand packaging to make it more appealing, accessible, and impactful in stores, which will increase impulse purchases, and reinforce the brand's distinctiveness in the marketplace. Each of these initiatives has been accelerated to begin in the first quarter of calendar 2025.

Expanding distribution also remains critical, and with the Company's advanced capabilities, we're unlocking new channels and opportunities for the *Hostess*[®] brand products, particularly in Away From Home markets. Our focus on distribution includes both closing gaps of our core items in our existing channels and critically entering new channels leveraging the Company's strong Away From Home sales force. By dedicating a new sales force and exploring optimal packaging formats, we're well-positioned to serve the evolving needs of consumers who are increasingly on the go.

We will continue to deliver innovative products that resonate with consumers, introducing flavors, formats, and limited-time offerings that keep the *Hostess*[®] brand exciting and top of mind. As part of our wide range of innovation, we are focused on delivering value to consumers by launching new sharing sizes of our *Donettes*[®] branded products, and also launching \$1 packs of our core donut and cake products that will be sold on display.

And, we are committed to transforming our portfolio for sustained growth. The recently announced divestiture of the *Voortman*[®] business underscores our strategy of focusing resources on our largest growth opportunities. Further, we are ensuring our network is fully optimized to unlock costs, reduce complexity, and drive quality.

And finally, we are beginning to establish revenue synergies, a key fundamental of the acquisition. This includes expanding *Uncrustables*[®] sandwiches into C-store using our new capabilities of the convenience channel, representing a large whitespace opportunity for the Company. Additionally, we plan to expand cross-promotional events between the *Hostess* brand and legacy Smucker brands, where early reads are very positive. One example of how we have started to see the potential benefit of cross-promotion is through a recent execution between the *Hostess*[®] brand with *Jif*[®] Peanut Butter and *Smucker's*[®] Fruit

Spreads which yielded strong results. We will accelerate these cross-brand revenue synergies and are excited about the potential in co-promoting multiple iconic brands, including combining impulse purchases with non-discretionary products, for example, *Donettes*[®] and a leading coffee brand. The strategic rationale for the acquisition remains strong, and we continue to be excited about the long-term outlook for the *Hostess*[®] brand, and its leadership position in the sweet baked goods category. The decisive actions we are taking reinforces our confidence in 4% net sales growth for the *Hostess*[®] brand over the long-term.

We look forward to expanding on each of these pillars at our Investor Day in December and sharing further details about our strategy and the progress we are making across all our key growth platforms, including new marketing campaigns, exciting innovation, and future growth opportunities.

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

In Coffee, net sales increased 3% versus the prior year, driven by higher net price realization. In response to higher green coffee costs and the pass-through nature of the coffee category, we took our first price increase earlier this year in June, across parts of our portfolio, which is now being reflected in our results. Price elasticity trends were favorable in the second quarter compared to our expectations and historical levels, demonstrated by the neutral impact from volume/mix.

In October, we successfully took a second price increase across our portfolio, as the coffee category continues to experience meaningful commodity volatility and inflation. We continue to anticipate historical elasticity demand assumptions, which are reflected in our outlook for the back half of the fiscal year. As always, we will manage our coffee business through a strategy that demonstrates a balance between recovering inflationary input costs, while providing consumers with options across the value spectrum.

In Frozen Handheld and Spreads, comparable net sales grew 6%, primarily driven by the *Uncrustables*[®] and *Jif*[®] brands. Growth for the *Uncrustables*[®] brand increased double digits versus the prior year. The *Jif*[®] brand demonstrated net sales growth of 5%, reflecting a strong response to our recent launch of *Jif*[®] Peanut Butter & Chocolate Flavored Spread, which is exceeding our expectations.

In Pet Foods, reported net sales decreased 4% versus the prior year, primarily due to a reduction in contract manufacturing sales related to the divested pet food brands. When excluding these contract manufacturing sales, net sales increased 1%, primarily driven by the *Meow Mix*[®] and *Milk-Bone*[®] brands.

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, with its strong leadership position in the category. We continue to see near-term challenges for the *Pup-Peroni*[®] brand and we are taking action to address this.

Profit margins in the quarter were strong for our pet portfolio driven by operational improvements from our transformation office and the winding down of our contract manufacturing agreement. Our transformed portfolio continues to highlight the benefits of focusing on brands and categories where we have a leading market share position as these brands continue to deliver net sales and margin growth.

In our Away From Home business, comparable net sales grew 8%, driven by *Uncrustables*[®] sandwiches and portion control products. Our Away From Home business continues to have a competitive advantage as it leverages our leading national brands and key growth platforms to deliver results and drive future growth in Away From Home channels.

In closing, I would like to highlight a few key points:

- Our momentum continued into the second quarter and our legacy business, which accounts for approximately 85% of our total company net sales, is delivering strong growth. This is a direct result of our portfolio optimization;
- We have confidence in the *Hostess*[®] brand and our strategic rationale for the acquisition remains strong. While the near-term performance has not met our expectations, we are taking decisive actions to return the brand to net sales growth; and
- Our strategy is working, and we remain confident in our ability to deliver long-term sustainable growth and generate over \$1 billion in free cash flow annually.

As always, I would like to thank our dedicated employees for their exceptional contributions to provide the products and brands that consumers love. I'll now turn it over to Tucker to go over our quarterly financial results and our 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 second quarter results, then I'll provide additional details on our financial outlook for fiscal year 2025.

In the quarter, net sales increased 17%, which exceeded our expectations. Comparable net sales increased 2%, which excludes the current year sales for the Hostess Brands acquisition, prior year sales related to the divested businesses, and foreign currency exchange. When further excluding contract manufacturing sales related to the divested pet food brands, net sales increased 4% versus the prior year.

The increase in comparable net sales reflects a 2 percentage point increase from volume/mix, primarily driven by increases for the *Uncrustables*[®], *Meow Mix*[®], *Café Bustelo*[®], and *Jif*[®] 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 1% headwind from lower contract manufacturing sales related to the divested pet food brands.

Comparable net sales growth also reflects a 1 percentage point increase from net price realization, primarily driven by higher net pricing for the *Folgers*[®] brand, partially offset by lower net pricing for the *Meow Mix*[®] brand. Higher net price realization for the *Folgers*[®] brand reflects the first price increase implemented in June of this fiscal year, in response to higher green coffee costs and the pass-through nature of the coffee category. The lower net price realization for the *Meow Mix*[®] brand reflects the restoration of trade support for this brand.

Adjusted gross profit increased \$129 million, or 17%, compared to the prior year. The increase primarily reflects a favorable impact from the acquisition of Hostess Brands, favorable volume/mix, and higher net price realization, partially offset by higher costs and the impact of divestitures.

Adjusted operating income increased \$105 million, or 27%, reflecting the increased adjusted gross profit and the lapping of a \$39 million charge in the prior year related to the termination of a supplier

agreement, partially offset by higher SD&A expenses. The increase in SD&A was primarily driven by the acquisition of Hostess Brands and pre-production expenses related to the recently opened *Uncrustables*[®] sandwiches manufacturing facility, partially offset by the impact of divestitures.

Below operating income, net interest expense increased \$64 million, primarily due to an increase in interest expense related to the Senior Notes issued to partially finance the acquisition of Hostess Brands.

The adjusted effective income tax rate was 24.1%, compared to 24.3% in the prior year.

Factoring in all these considerations, along with weighted-average shares outstanding of 106.7 million, second quarter adjusted earnings per share was \$2.76, an increase of 7% versus the prior year.

Adjusted earnings per share exceeded our expectations in the quarter driven by better than anticipated adjusted gross margin and timing of SD&A expenses, primarily marketing.

Turning to our segment results, in the U.S. Retail Coffee segment, net sales increased 3% versus the prior year. Net price realization increased net sales by 3 percentage points, primarily reflecting list price increases in mainstream roast and ground and instant coffee to recover higher commodity costs. Volume/mix was neutral to net sales, reflecting a decline for the *Dunkin*[®] brand, mostly offset by a double-digit increase for the *Café Bustelo*[®] brand and an increase for the *Folgers*[®] brand.

Net sales growth was led by the *Folgers*[®] and *Café Bustelo*[®] brands, which grew 5% and 20%, respectively, partially offset by an 8% decline for the *Dunkin*[®] brand.

U.S. Retail Coffee segment profit increased 19%, primarily reflecting lapping the \$39 million charge in the prior year related to the termination of a supplier agreement and higher net price realization, partially offset by higher commodity costs.

In U.S. Retail Frozen Handheld and Spreads, net sales increased 5%. Excluding noncomparable sales in the prior year related to the divested *Sahale Snacks*[®] business, net sales increased 6%. Volume/mix increased net sales by 8 percentage points, primarily driven by increases for *Uncrustables*[®] sandwiches and *Jif*[®] peanut butter. Net price realization decreased net sales by 2 percentage points, primarily driven by higher trade spend for *Uncrustables*[®] sandwiches, reflecting our investments in promotion and merchandising.

U.S. Retail Frozen Handheld and Spreads segment profit decreased by 10%, primarily driven by higher costs, lower net price realization, pre-production expenses related to the new *Uncrustables*[®] sandwiches manufacturing facility, and increased marketing spend, partially offset by favorable volume/mix.

In U.S. Retail Pet Foods, reported net sales decreased 4% versus the prior year. Volume/mix decreased net sales by 2 percentage points, primarily driven by a \$23 million decrease in contract manufacturing sales related to the divested pet food brands and decreases for the *Canine Carry Outs*[®] and *Pup-Peroni*[®] brands, partially offset by increases for the *Meow Mix*[®] and *Milk-Bone*[®] brands. Lower net price realization decreased net sales by 2 percentage points, primarily reflecting higher trade spend for cat food and dog snacks.

U.S. Retail Pet Foods segment profit increased 25%, primarily driven by lower costs, favorable volume/mix, and lower distribution and marketing expenses, partially offset by lower net price realization.

In the Sweet Baked Snacks segment, which reflects the acquired Hostess Brands business, net sales was \$316 million and segment profit was \$71 million. The segment delivered net sales and segment profit below our expectations.

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

6%. Net price realization contributed 4 percentage points to net sales, primarily driven by list price increases across the majority of the portfolio, partially offset by increased trade spend. Volume/mix increased net sales by 2 percentage points, primarily driven by increases for peanut butter and portion control products and *Uncrustables*[®] sandwiches, partially offset by a decrease for coffee products.

Net sales for the Away From Home business increased 8% on a comparable basis primarily driven by *Uncrustables*[®] sandwiches and portion control products. Net sales for the International business increased 3% on a comparable basis, primarily reflecting favorable volume/mix.

International and Away From Home segment profit increased 13%, primarily reflecting higher net price realization and favorable volume/mix, partially offset by higher costs, the impact of noncomparable segment profit in the prior year related to the divested businesses, and pre-production expenses related to the new *Uncrustables*[®] sandwiches manufacturing facility.

Second quarter cash flow provided by operating activities was \$404 million, compared to \$177 million in the prior year, primarily reflecting higher net income adjusted for noncash items, timing of income tax payments, and less cash required to fund working capital. Free cash flow was \$317 million, compared to \$28 million in the prior year, driven by the increase in cash provided by operating activities and a decrease in capital expenditures.

We finished the quarter with a cash and cash equivalent balance of \$49 million and a total net debt balance of \$8.2 billion. Our trailing twelve-month adjusted EBITDA is approximately \$2.0 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 3.9x.

We plan to prioritize debt reduction by paying down approximately \$500 million of debt annually in each of the next three years, before factoring in any use of transaction proceeds from the *Voortman*[®] divestiture. We plan to use the proceeds from the *Voortman*[®] divestiture to pay down debt once the transaction is complete, which we anticipate will close during the third quarter of our fiscal year. With this anticipated deleveraging, achievement of cost synergies, and overall business growth, we anticipate a leverage ratio of at or below 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, which does not reflect any impact related to the Company's previously announced agreement to divest the *Voortman*[®] business.

We continue to 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 now anticipated to increase to approximately 1.5% at the mid-point of our guidance range of 1% to 2%, 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 guidance range reflects higher net price realization, primarily driven by the pricing actions recently implemented 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*[®], *Café Bustelo*[®], *Milk-Bone*[®], and the Away From Home business for the full fiscal year.

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

- Better than anticipated second quarter results, driven by each of our U.S. retail segments, partially offset by the Sweet Baked Snacks segment;
- Reduced expectations for our Sweet Baked Snacks segment of approximately \$60 million versus our previous expectations, of which \$30 million occurred in the second quarter. We now anticipate full-year net sales for the business to be approximately \$1.3 billion;
- Increased expectations for the *Uncrustables*[®] brand, including surpassing \$900 million in net sales this fiscal year, or over \$100 million growth versus the prior year.

The full-year net sales guidance does not reflect any impact related to the Company's previously announced agreement to divest the *Voortman*[®] business, which is expected to impact the current fiscal year by approximately \$65 million.

We now anticipate full-year adjusted gross profit margin in the range of 37.5% to 38.0%, reflecting favorable costs in our second quarter.

We continue to expect SD&A expenses to increase by approximately 9% versus the prior year, primarily reflecting a full year of operating expenses from the Hostess acquisition. Total marketing expense is 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 106.7 million.

Taking all these factors into consideration, we now anticipate full-year adjusted earnings per share to be in the range of \$9.70 to \$10.10, which reflects a \$0.10 increase at the mid-point of the guidance range relative to our previous guidance.

The full-year adjusted earnings per share guidance does not reflect any impact related to the Company's previously announced agreement to divest the *Voortman*[®] business, which is expected to be approximately \$0.10. We anticipate the earnings impact will be immaterial to the adjusted earnings per share guidance range when considering the use of proceeds to pay down debt.

We anticipate third quarter net sales to be flat versus the prior year. Third quarter adjusted earnings per share is anticipated to decline mid-single-digits, primarily driven by higher SD&A expenses versus the prior year. Higher SD&A expenses is driven primarily by marketing, due to a shift in timing from the second quarter.

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 \$90 million.

In closing, we delivered positive results in a 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.