J M SMUCKER Co
Form 10-Q
November 28, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 31, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 1-5111

THE J. M. SMUCKER COMPANY
(Exact name of registrant as specified in its charter)

Ohio	34-0538550
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Strawberry Lane	
Orrville, Ohio	44667-0280
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code:
(330) 682-3000

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	o
Non-accelerated filer	o	Smaller Reporting Company	o

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The Company had 113,758,133 common shares outstanding on November 20, 2018.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.
THE J. M. SMUCKER COMPANY
CONDENSED STATEMENTS OF CONSOLIDATED INCOME
(Unaudited)

	Three Months Ended October 31,		Six Months Ended October 31,	
Dollars in millions, except per share data	2018	2017	2018	2017
Net sales	$2,021.5	$1,923.6	$3,924.0	$3,672.5
Cost of products sold	1,250.2	1,168.6	2,474.5	2,255.4
Gross Profit	771.3	755.0	1,449.5	1,417.1
Selling, distribution, and administrative expenses	382.4	359.5	765.7	708.3
Amortization	59.7	51.6	120.2	103.1
Other special project costs (A)	25.4	9.7	33.1	36.8
Other operating expense (income) – net	(26.7)	2.1	(26.9)	1.6
Operating Income	330.5	332.1	557.4	567.3
Interest expense – net	(53.6)	(41.6)	(107.2)	(83.6)
Other income (expense) – net	(7.5)	1.3	(7.7)	(2.9)
Income Before Income Taxes	269.4	291.8	442.5	480.8
Income tax expense (benefit)	80.9	97.2	121.0	159.4
Net Income	$188.5	$194.6	$321.5	$321.4
Earnings per common share:				
Net Income	$1.66	$1.71	$2.83	$2.83
Net Income – Assuming Dilution	$1.66	$1.71	$2.83	$2.83
Dividends Declared per Common Share	$0.85	$0.78	$1.70	$1.56

(A) Other special project costs includes integration and restructuring costs. For more information, see Note 5: Integration and Restructuring Costs.

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY
CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended October 31,		Six Months Ended October 31,	
Dollars in millions	2018	2017	2018	2017
Net income	$188.5	$194.6	$321.5	$321.4
Other comprehensive income (loss):				
Foreign currency translation adjustments	(5.6)	(13.1)	(11.7)	21.9
Cash flow hedging derivative activity, net of tax	6.1	0.8	8.2	2.4
Pension and other postretirement benefit plans activity, net of tax	1.6	5.9	3.2	5.7
Available-for-sale securities activity, net of tax	0.3	(0.6)	0.6	(0.3)
Total Other Comprehensive Income (Loss)	2.4	(7.0)	0.3	29.7
Comprehensive Income	$190.9	$187.6	$321.8	$351.1

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

Dollars in millions	October 31, 2018	April 30, 2018
ASSETS		
Current Assets		
Cash and cash equivalents	$171.2	$192.6
Trade receivables, less allowance for doubtful accounts	561.9	385.6
Inventories:		
Finished products	635.4	542.1
Raw materials	330.8	312.3
Total Inventory	966.2	854.4
Other current assets	87.9	122.4
Total Current Assets	1,787.2	1,555.0
Property, Plant, and Equipment		
Land and land improvements	117.2	120.1
Buildings and fixtures	818.9	812.6
Machinery and equipment	2,122.0	2,111.5
Construction in progress	284.9	212.1
Gross Property, Plant, and Equipment	3,343.0	3,256.3
Accumulated depreciation	(1,524.3)	(1,527.2)
Total Property, Plant, and Equipment	1,818.7	1,729.1
Other Noncurrent Assets		
Goodwill	6,474.7	5,942.2
Other intangible assets – net	6,925.5	5,916.5
Other noncurrent assets	168.1	158.4
Total Other Noncurrent Assets	13,568.3	12,017.1
Total Assets	$17,174.2	$15,301.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$552.4	$512.1
Accrued trade marketing and merchandising	119.2	101.6
Short-term borrowings	390.0	144.0
Other current liabilities	372.9	276.1
Total Current Liabilities	1,434.5	1,033.8
Noncurrent Liabilities		
Long-term debt	5,885.1	4,688.0
Deferred income taxes	1,525.3	1,377.2
Other noncurrent liabilities	299.3	311.1
Total Noncurrent Liabilities	7,709.7	6,376.3
Total Liabilities	9,144.2	7,410.1
Shareholders' Equity		
Common shares	28.9	28.9
Additional capital	5,749.9	5,739.7
Retained income	2,367.6	2,239.2
Accumulated other comprehensive income (loss)	(116.4)	(116.7)

Total Shareholders’ Equity	8,030.0	7,891.1
Total Liabilities and Shareholders’ Equity	$17,174.2	$15,301.2

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)

	Six Months Ended October 31,	
Dollars in millions	2018	2017
Operating Activities		
Net income	$321.5	$321.4
Adjustments to reconcile net income to net cash provided by (used for) operations:		
Depreciation	102.9	105.1
Amortization	120.2	103.1
Share-based compensation expense	10.5	12.7
Gain on divestiture	(26.6)	—
Other noncash adjustments – net	3.0	2.3
Defined benefit pension contributions	—	(0.8)
Changes in assets and liabilities, net of effect from acquisition and divestiture:		
Trade receivables	(111.2)	(41.5)
Inventories	(60.4)	(103.6)
Other current assets	17.6	19.4
Accounts payable	15.2	54.7
Accrued liabilities	60.4	3.3
Income and other taxes	18.5	(46.8)
Other – net	(25.7)	5.3
Net Cash Provided by (Used for) Operating Activities	445.9	434.6
Investing Activities		
Business acquired, net of cash acquired	(1,903.0)	—
Additions to property, plant, and equipment	(179.1)	(130.0)
Proceeds from divestiture	372.1	—
Other – net	(8.9)	23.7
Net Cash Provided by (Used for) Investing Activities	(1,718.9)	(106.3)
Financing Activities		
Short-term borrowings (repayments) – net	246.0	10.0
Proceeds from long-term debt	1,500.0	—
Repayments of long-term debt	(300.0)	(150.0)
Quarterly dividends paid	(184.9)	(173.4)
Purchase of treasury shares	(5.0)	(6.7)
Other – net	0.1	(1.1)
Net Cash Provided by (Used for) Financing Activities	1,256.2	(321.2)
Effect of exchange rate changes on cash	(4.6)	6.4
Net increase (decrease) in cash and cash equivalents	(21.4)	13.5
Cash and cash equivalents at beginning of period	192.6	166.8
Cash and Cash Equivalents at End of Period	$171.2	$180.3

( ) Denotes use of cash
See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars and shares in millions, unless otherwise noted, except per share data)

Note 1: Basis of Presentation

The unaudited interim condensed consolidated financial statements of The J. M. Smucker Company (“Company,” “we,” “us,” or “our”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. Certain items previously reported in the financial statements have been reclassified to conform with the current year presentation.

Operating results for the six months ended October 31, 2018, are not necessarily indicative of the results that may be expected for the year ending April 30, 2019. For further information, reference is made to the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended April 30, 2018.

Note 2: Revenue Recognition

The majority of our revenue is derived from the sale of food and beverage products to food retailers and foodservice distributors and operators. We recognize revenue when obligations under the terms of a contract with a customer have been satisfied. This occurs when control of our products transfers, which typically takes place upon delivery to or pick up by the customer. Amounts due from our customers are classified as trade receivables in the Condensed Consolidated Balance Sheets and require payment on a short-term basis.

Transaction price is based on the list price included in our published price list, which is then reduced by the estimated impact of trade marketing and merchandising programs, discounts, unsaleable product allowances, returns, and similar items in the same period that the revenue is recognized. To estimate the impact of these costs, we consider customer contract provisions, historical data, and our current expectations.

Our trade marketing and merchandising programs consist of various promotional activities conducted through retail trade, distributors, or directly with consumers, including in-store display and product placement programs, feature price discounts, coupons, and other similar activities. We regularly review and revise, when we deem necessary, estimates of costs for these promotional programs based on estimates of what will be redeemed by retail trade, distributors, or consumers. These estimates are made using various techniques, including historical data on performance of similar promotional programs. Differences between estimated expenditures and actual performance are recognized as a change in estimate in a subsequent period.

For revenue disaggregated by reportable segment, geographical region, and product category, see Note 7: Reportable Segments.

Note 3: Recently Issued Accounting Standards

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. It will be effective for us on May 1, 2020, with the option to early adopt at any time prior to the effective date, and it will require adoption on either a retrospective or prospective basis for all implementation costs incurred after the date of adoption. We are currently evaluating the impact the application of ASU 2018-15 will have on our financial statements and disclosures.

In August 2018, the FASB also issued ASU 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20) Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement benefit plans. The guidance removes disclosures that are no longer considered cost beneficial, and adds new and clarifies certain other disclosure requirements. ASU 2018-14 will be effective for us on May 1, 2020, with the option to early adopt at any time prior to the

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effective date, and it will require adoption on a retrospective basis. We are currently evaluating the impact the application of ASU 2018-14 will have on our disclosures.

In August 2018, the U.S. Securities and Exchange Commission ("SEC") adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, to eliminate or modify certain disclosure rules that are redundant, outdated, or duplicative of U.S. GAAP or other regulatory requirements. Among other changes, the amendments remove the requirement to provide the ratio of earnings to fixed charges exhibit and reduce the requirements for supplemental pro forma information related to business combinations. The annual requirement to disclose the high and low trading prices of our common stock is also removed. In addition, the disclosure requirements related to the analysis of shareholders' equity are expanded for interim financial statements. An analysis of the changes in each caption of shareholders' equity presented in the balance sheet must be provided in a note or separate statement, as well as the amount of dividends per share for each class of shares. Although this rule was effective on November 5, 2018, the SEC is allowing an extended transition period to implement the expanded shareholders' equity disclosure requirements, which will be effective for us on May 1, 2019. We are continuing to evaluate the impact the application of this rule will have on our future financial statements and disclosures.

In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires the service cost component of the net periodic pension cost to be presented separately from the other components of the net periodic pension cost in the income statement. Additionally, only the service cost component of the net periodic pension cost is eligible for capitalization. ASU 2017-07 was effective for us on May 1, 2018. The change in presentation of service cost was applied retrospectively, while the capitalization of service cost will be applied on a prospective basis. The adoption of this ASU did not have a material impact on our financial statements and disclosures.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) Intra-Entity Transfers of Assets Other Than Inventory, which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs rather than deferring such recognition until the asset is sold to an outside party. ASU 2016-16 was effective for us on May 1, 2018, and required adoption on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The adoption of this ASU did not have an impact on our financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments, which makes changes to how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 was effective for us on May 1, 2018, and required adoption on a retrospective basis. The adoption of this ASU did not impact the presentation of our financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize a right-of-use asset and lease liability for all leases with a term of more than 12 months. ASU 2016-02 will be effective for us on May 1, 2019, and requires a modified retrospective application. However, in July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) Targeted Improvements, which provides an additional transition method that allows entities to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without restating prior periods. We expect to utilize this transition method upon a