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Hormel Foods Corp. (HRL)

Acquisition of Brakebush Brothers LLC by Hormel Foods Corporation Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome, everyone to the Hormel Foods Conference Call, where they will discuss their announced definitive agreement to acquire Brakebush Brothers, LLC. My name is Joel and I will be your conference operator today. At this time, all lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I will now pass the call to Jess Blomberg, Director of Investor Relations. Jess, you may now begin your conference.

Jess Blomberg

Director-Investor Relations, Hormel Foods Corp.

Good morning. Welcome to the Hormel Foods conference call regarding today's announcement of our agreement to acquire Brakebush Brothers, LLC. Earlier this morning, we issued a press release announcing the transaction. If you did not receive a copy of the release, you can find it on our website, hormelfoods.com under the Investors section along with supplemental slide materials.

Joining me on today's call are Jeff Ettinger, Interim Chief Executive Officer; John Ghingo, President and Chief Executive Officer-Elect; and Ash Bhumbla, Chief Financial Officer. Jeff, John and Ash will discuss the strategic rationale for the acquisition, provide an overview of the transaction and review our financial expectations. We will conclude with the Q&A portion of the call and the line will be open for questions following the prepared remarks.

Before we get started today, I'd like to reference our Safe Harbor statement. Some of the comments we make today will be forward looking and actual results may differ materially from those expressed in or implied by the

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statements we will be making. Please refer to today's press release and our SEC filings, which can be accessed on our website under the Investors section.

Additionally, please note we may discuss certain non-GAAP financial measures this morning. Management believes that doing so provides investors with a better understanding of the company's underlying operating performance. Reconciliations of these measures, where applicable, can be found in the materials posted on our website.

With that, I'll turn the call over to Jeff.

Jeffrey M. Ettinger

Interim Chief Executive Officer & Director, Hormel Foods Corp.

Thank you, Jess, and good morning, everyone. Today, we are announcing an important step in the continued evolution of Hormel Foods. We have agreed to acquire Brakebush, a leading value-added chicken company with a major presence in the foodservice industry. For more than 100 years Brakebush has earned the trust of customers through innovation, quality and strong relationships.

What attracted us to Brakebush is straightforward. First, it is a highly respected company with leading positions in value-added chicken across a variety of foodservice channels. This is a $1 billion net sales business that has delivered consistent growth over time through a diverse customer base.

Second, Brakebush has a talented organization. The company's team and direct sales force have been instrumental in building and maintaining the partnerships that have supported its success.

Finally, Brakebush is truly a value-added company. It is not vertically integrated. Instead, they have built deep relationships with suppliers. Brakebush brings differentiated capabilities through five production facilities and two research and development labs. Few businesses combine this level of scale, growth, operational expertise, innovation capability and customer loyalty.

Beyond the strengths of the business itself, we believe there is meaningful cultural alignment between our organizations. Brakebush has been a family-owned business guided by a long-term perspective and a steadfast commitment to employees and communities. Those qualities resonate deeply at our 135-year old company. As we look ahead, our focus is on building upon the strong foundation the Brakebush family and team have created.

With that, I will now turn the call over to John to discuss the compelling opportunities for the future.

John Ghingo

President, Chief Executive Officer-Elect & Director, Hormel Foods Corp.

Thank you, Jeff. I am excited about the future ahead. Brakebush is exactly the type of business we have been looking to add to our portfolio. As we've discussed throughout the past year, we have taken a number of deliberate actions to sharpen our focus and direct resources toward the businesses, categories and capabilities that we believe have the greatest long-term growth potential.

This acquisition is another clear example of that strategy in action. We believe the combination of Brakebush's value-added chicken portfolio and our advantaged Hormel Foodservice business creates a compelling value creation opportunity for the future of our company.

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Protein remains one of the most attractive long-term opportunities in food, and chicken continues to grow in relevance with consumers and foodservice operators alike. Within that landscape, value-added chicken stands out as a sizable and growing category. We believe value-added chicken will benefit from favorable demand trends, menu innovation and operators' increasing need for convenient, high-quality solutions that make chicken preparation easy in the kitchen. Taken together, these dynamics create an attractive opportunity for sustained growth.

Brakebush has built a leading position in this space through deep customer relationships, category expertise, and a commitment to innovation. The company has earned the trust of operator partners by delivering solutions that help them run their businesses more effectively and better serve their guests.

Our businesses are highly complementary. Brakebush has built an outstanding position with national and regional restaurant operators, while Hormel Foods brings broad capabilities and an expansive channel presence. Together, we believe there are opportunities to broaden customer access, accelerate innovation and bring a wider range of value-added solutions to market. While the overwhelming majority of the business today resides in the food away from home channels, we also see clear opportunities to expand value-added chicken within our consumer branded portfolio in the retail space.

Another area of alignment is our shared commitment to staying close to customers. A towering strength of the Brakebush company is its direct sales organization and its operator focused approach. That solutions-based philosophy closely mirrors how we have built our Hormel Foodservice business over many years. Both organizations have earned the trust of operators by helping solve challenges in the kitchen, supporting menu innovation and delivering high quality, value-added protein solutions. We believe this common approach creates a compelling foundation for future growth.

I'd like to take a moment to add some perspective about our overall focus as an organization. We have announced four portfolio shaping actions within the last year: Justin's, whole-bird turkey's, our Brazil business and now Brakebush. We have taken deliberate actions to remove businesses from the organization that were non-strategic and creating complexity. And now we have agreed to acquire a company that doubles down on our advantaged Foodservice business, expands our presence in the on-trend, value-added chicken category, and has a strong track record of execution.

One of the things we admire most about Brakebush is what the organization has already accomplished. They have built an outstanding company, a distinctive culture and a successful business model. While there are certain areas we will look to integrate, our priority will be to remain focused on driving performance behind both Hormel Foodservice and Brakebush. With that, Brakebush will operate as a subsidiary reporting to our Foodservice segment.

When I step back and look at Hormel Foods following the completion of this transaction, I see a company that is more aligned with attractive long-term growth trends, even better positioned in foodservice and participating with more scale in one of the most compelling categories in protein. We believe those advantages will drive sustainable growth and long-term value creation, and we're optimistic about the opportunities ahead.

With that, I'd like to welcome our new Chief Financial Officer, Ash Bhumbla. I'll turn the call over to him to discuss the transaction and early financial details.

Ash Bhumbla

Chief Financial Officer & Executive Vice President, Hormel Foods Corp.

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Thank you, John, and good morning, everyone. I'm pleased to provide additional details on our early financial expectations for the transaction. My comments this morning will pertain only to the Brakebush acquisition. We will not be covering the fourth quarter or fiscal 2027 today. Rather, we'll discuss those topics on our next earnings call.

With that, as we announced this morning, we have entered into a definitive agreement to acquire Brakebush for approximately $1.055 billion in cash on a cash-free, debt-free basis and subject to customary closing adjustments. We believe this transaction represents an attractive opportunity to deploy capital in support of our long-term growth strategy.

As John has highlighted, this is a strategic combination of two highly complementary businesses. Brakebush brings proven capabilities in value-added chicken, an attractive growth profile and strong customer relationships. Hormel Foodservice brings breadth of product offering, operating expertise and a broader operator portfolio. Together, we see a compelling opportunity to accelerate profitable growth, expand margins and generate attractive long-term returns.

For calendar year 2026, Brakebush is expected to generate approximately $1.2 billion of net sales. Based on estimated adjusted EBITDA for the same period, the purchase price represents an approximately 10.7 times multiple before synergies and an 8.9 times multiple, including expected annual run rate cost synergies.

We have identified approximately $20 million of annual run rate cost synergies, which we expect to realize by the end of fiscal 2028. These opportunities are primarily concentrated in procurement and manufacturing productivity. We also see meaningful revenue opportunities from combining Hormel Foods customer relationships, foodservice reach and retail capabilities with Brakebush's value-added chicken portfolio, complementary direct selling organization and operating capabilities.

These commercial opportunities would be incremental to the cost synergy target. The transaction is expected to receive asset purchase treatment for US federal income tax purposes. As a result, Hormel Foods expects to receive an ongoing cash tax benefit from the step up in the tax basis of acquired assets.

We expect to finance the acquisition through a combination of cash on hand and new debt. The final instrument mix, maturity, profile and cost of debt will depend on market conditions at the time of issuance. We intend to maintain our strong investment grade credit profile and preserve appropriate liquidity and financial flexibility.

At closing, we expect pro forma net debt to adjusted EBITDA to be slightly above our long-term target range of 1.5 times to 2 times. Supported by the cash generation of the combined company, we expect to rapidly return net leverage to our publicly stated range within fiscal 2027 with the objective of progressing towards the lower end of that range thereafter.

Importantly, this transaction does not change our other capital allocation priorities. We recently announced our 393rd consecutive quarterly dividend and we remain committed to investing in the highest return growth and productivity opportunities across the business.

We expect the transaction to close in the first quarter of fiscal 2027, subject to regulatory approvals and customary closing conditions. When we report fourth quarter results in early December, we plan to provide fiscal 2027 guidance for the combined company, including the anticipated contribution from Brakebush. At this time, we expect the acquisition to be solidly accretive to adjusted earnings per share beginning in fiscal 2028 after taking into account financing and purchase price accounting.

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In summary, this transaction adds a profitable and growing business, strengthens our presence in value-added chicken and foodservice and creates identifiable opportunities for further growth and margin expansion. We're confident that this transaction offers attractive long-term financial returns and is consistent with our commitment to disciplined capital allocation.

With that, we would be happy to open the lines for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Rupesh Parikh with Oppenheimer. Your line is now open. Please go ahead.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Good morning and thanks for taking my question and also congrats on the acquisition. So to start, I would love to hear more, maybe just more about the strategic rationale of the acquisition. It seems to me at least you get the nice benefit of added diversification more to the more attractive Foodservice business and obviously also on the chicken category. So just overall, just more color just on the strategic rationale. Thank you.

Jeffrey M. Ettinger
Interim Chief Executive Officer & Director, Hormel Foods Corp.

A

Yeah. Thanks for the question, Rupesh. This is Jeff Ettinger. I mean, you've hit the one-two punch. It's Foodservice, where we think we already have an advantaged business, and this is a great opportunity to double down in that area and it's value-added chicken. And we've been a protein-centric company for many, many years. It's a big advantage right now. But chicken has been probably the least of the proteins for us, under 5% historically. With this acquisition, it'll now be closer to 13%, even with turkey and beef for our portfolios.

And then just the fit between the organizations. They are a direct selling organization with a strong reputation, mirrors what we have with our Hormel Foodservice group. They have very complementary operator relationships, which we have very little current overlap with, and we're looking forward to being able to understand better their expanded innovation and manufacturing capabilities. They have the five value-added plants and the two R&D centers.

And then importantly from our perspective, they don't have any harvest. That was not a part of the business we were looking to invest further in. So, the value-added emphasis is important. Ultimately, we think there's a great fit between the organizations. Frankly, we're both from small Midwest towns. We're over here in Minnesota and they're in Wisconsin. A group of us will be heading over tomorrow actually to introduce ourselves more broadly to their team, and we're very excited about the transaction.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Great. And then maybe one quick follow-up question for Ash. In terms of financing the acquisition, in terms of the mix of debt and cash, is that something we'll just hear more color about later next year in terms of how you guys will – or in next year in terms of how you guys approach that?

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Ash Bhumbla A
Chief Financial Officer & Executive Vice President, Hormel Foods Corp.

Yeah, thanks for the question, Rupesh. We've noted that we expect to finance the acquisition through a combination of cash on hand and new debt. Our strong investment grade credit profile does provide meaningful flexibility for us regarding the timing, maturity and structure of that financing. And so you're exactly right. I think we'll have more to say on kind of the upcoming calls around the final financing mix and costs, which will be dependent on conditions at time of issuance. But we feel comfortable that this is the right allocation of capital for our long-term strategy and our long-term return generation.

Rupesh Parikh Q
Analyst, Oppenheimer & Co., Inc.

Great. Thank you. I'll pass along.

Operator: Your next question is from Heather Jones with Heather Jones Research. Your line is now open. Please go ahead.

Heather Jones Q
Analyst, Heather Jones Research, LLC

Good morning. Thanks for the question. I guess I have a two-part question. Was just wondering, so you mentioned that you're not acquiring any slaughter facilities. So, wondering how you procure the raw materials. Is that on a cost plus basis, spot basis? And then wondering, because a lot of times foodservice business tends to be cost pass through, so I was just wondering if you could give us a sense of how much of this business has like programmatic cost pass through mechanisms in place. Thank you.

Ash Bhumbla A
Chief Financial Officer & Executive Vice President, Hormel Foods Corp.

Yeah. Good morning, Heather. Thanks for the question. So, Brakebush does purchase chicken inputs, and so overall, the business is not immune to changes in chicken costs or supply availability. But the financial performance over time has been very, very consistent. And that's really because of the array of pricing mechanisms that that business has in place. There are portions of that business that are effectively more on a long-term fixed price basis, and there are several portions that are really more in a stable margin type portfolio, whether that's cost plus or some sort of market minus.

So, overall, when we look at the business, it's very consistent with the value-added orientation that we see in our own core Foodservice business, and we think we're in a good position to drive value there.

John Ghingo A
President, Chief Executive Officer-Elect & Director, Hormel Foods Corp.

And then, Heather, this is John. Just to add one comment to that from a commercial perspective in terms of pricing. I would say broadly speaking, Brakebush utilizes pass through pricing mechanisms that are similar to our Hormel Foodservice segment that we've discussed before, which helps with movements up and down in the chicken markets. The timing of those pass through mechanisms can vary by contract, but that's the general approach.

Heather Jones Q
Analyst, Heather Jones Research, LLC

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Okay. Thank you for that. And a follow up is just wanted to – have missed part of the comment on expecting accretion in fiscal 2028. Is that – did I hear you all say that's going to be adjusted for increased amortization or – I wasn't sure if I understood that correctly.

Ash Bhumbla
Chief Financial Officer & Executive Vice President, Hormel Foods Corp.

A

Great question, Heather. So big picture, no, that's just an adjusted earnings basis, but not necessarily adjusted for specifically for amortization there. I should note we fully expect Brakebush to contribute substantially for fiscal 2027. But the first year in particular does reflect financing cost associated with the transaction, some of the purchase price accounting effects and the limited realizations of those cost synergies. And so, we think, take those factors into account, we fully expect the acquisition becomes solidly accretive to adjusted EPS beginning in fiscal 2028.

Heather Jones
Analyst, Heather Jones Research, LLC

Q

Okay. Thank you so much.

Operator: Your next question is from Peter Galbo with Bank of America. Your line is now open. Please go ahead.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Great. Thanks. Good morning, everybody. Ash, welcome. I guess as hard as you tried to run away from chicken, it found you again. So there's that. Jeff, I was wondering if you could start off. This deal is, I think, consistent with the successful deals that Hormel has done in the past from a foodservice perspective. It's a little bit larger, I think, than what you would have done historically in that segment.

So, maybe you could just compare and contrast it against some of the more recent foodservice deals that you all have done, that you were there for, at least were privy to on Fontanini and Sadler's and how we might think about it in that context?

Jeffrey M. Ettinger
Interim Chief Executive Officer & Director, Hormel Foods Corp.

A

Yeah. Thanks for the question, Peter. It has been about five years since the company's last major acquisition, and we obviously take a disciplined approach to M&A. We really saw Brakebush as the right target, the right price at the right time. It does remind us of certain past acquisitions, some of the more successful ones we've had.

First, I'll start with some in the Foodservice segment, as you referenced, I mean, we had Fontanini, we've had Sadler. Even before that, there was Burke. So, these are brand names within the foodservice world and create – had a reputation coming in that we've been able to really build on. They're not known as consumer brands, but they're important differentiated points within the business. And they each came with new capabilities and capacity and operator-first solutions, and in each case, we were very careful to be respectful of what the team had built up. In many cases, we blended our team with their team over time. So our foodservice team definitely has a history of successfully delivering on M&A acquisition.

I also see some similarities with our Applegate acquisition. To me, when I think about that one, 11 years ago, we kind of looked strategically at the category and said, hey, look, this organic, natural, antibiotic-free area is

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important, it's growing, it's not a fad. We really ought to be getting into that. But you then make sort of the build versus buy decision. And in that case, we thought we were the wrong brand. I mean, when you look at a company like Applegate, they had over 150 relationships with farms and other suppliers key to that area. So, it just was very much moved the needle toward, hey, if we could find the right partner, that's the way we go. And we did with Applegate, and we've done really wonderfully with that business, and we see Brakebush in the same way.

In terms of size, I mean, I guess to me, I think historically some of our better acquisitions have been in sort of the high hundreds of millions. This one presses slightly over $1 billion, but I think it's in that same network, whether it's Skippy or Applegate, Fontanini et cetera. So, I mean, I think we're comfortable with this level. It's big enough to move the needle, but not so big that we think it adds more risk.

Peter T. Galbo Q
Analyst, BofA Securities, Inc.

Okay, great. Thanks for that, Jeff. John, I was hoping to get a little bit more color on just the overall customer mix for Brakebush. I'm understanding it's 90% foodservice. But if I think about the historical Hormel Foodservice model, it's super diversified. It's in a lot of channels that I guess qualifies foodservice, but we may not traditionally think of. So, maybe you can just help us think about the customers that Brakebush is currently serving and whether or not that has a material change in terms of your overall Foodservice portfolio going forward. Thanks very much.

John Ghingo A
President, Chief Executive Officer-Elect & Director, Hormel Foods Corp.

Yeah. Thank you, Peter. So, I would say that Brakebush has a pretty diverse and really strong balance across their current business in terms of channel and customer profile. If you're thinking about strength within national and regional accounts, think about areas like restaurants, certainly some healthcare. There is some retail business within Brakebush today. So very, I would say, deep, strong customer relationships across a number of different areas.

If you then step back and look at Hormel, we obviously have a very broad set of channels and customers across – broadly across away from home. That includes a lot of street business or independent regional business, as well as strong customer relationships into different areas, commercial and non-commercial. And then we obviously have a very broad retail mix of customers and channels.

So, we see a lot of opportunity putting those pieces together in terms of the growth momentum we see for value-added chicken across away from home channels as well as retail channels, frankly. So, we see a lot of opportunities to kind of take advantage of the best of both in that sense. So very complementary.

Peter T. Galbo Q
Analyst, BofA Securities, Inc.

Okay. Thanks.

Operator: Your next question is from Tom Palmer with JPMorgan. Your line is now open. Please go ahead.

Thomas Palmer Q
Analyst, JPMorgan Securities LLC

Good morning. Thanks for the question and I'll echo Pete with welcome Ash. Great to meet on the phone. I wanted to maybe just first ask on the growth of this business. It's really helpful to get sales and EBITDA

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expectations for 2026. But if we look back, I guess, in recent years, any framing of maybe how this business has grown either top line or maybe more so from a profitability standpoint? Thank you.

John Ghingo
President, Chief Executive Officer-Elect & Director, Hormel Foods Corp.
A

Good morning, Tom. It's John. I'll take that question. So, if you kind of step back on this value-added chicken segment and just look at the long-term trends, we see robust demand growth. In the foodservice space, operators increasingly are looking to add more chicken to the menus. And what we see underneath that is couple of things.

One, more interest from consumers in chicken in terms of the lean protein characteristics of chicken. But certainly, there's also been a lot of menu innovation around chicken in the foodservice space. So when you look broadly across channels, we've just seen a lot of increasing demand for chicken on the menu in foodservice.

Now, when you get to the operator side of that and you're looking to add more chicken on to the menu, certainly chicken adds complexity, takes time in the kitchen. So the desire for easy solutions in the kitchen to get high quality chicken on the menu is a robust area of growth. And if you look back over the past five plus years, we've seen mid-single digit growth for the category of value-added chicken in foodservice. And we have seen the Brakebush business outperforming that trend. So we feel very good about kind of the sustained demand and growth profile of the business. I'll let maybe Ash comment a little bit on margins.

Ash Bhumbla
Chief Financial Officer & Executive Vice President, Hormel Foods Corp.
A

Absolutely. And Tom, thank you for the warm welcome. So, we kind of referenced it a little bit earlier in the call today. We've seen that Brakebush's margins have been remarkably consistent over time, and that consistency really reflects the fact that it is a true value-added business portfolio. So a lot of the profit growth has really come from that top line growth over time.

For us, that really reinforces the fact that Brakebush is a true value-added business portfolio rather than a commodities business. And as it's been growing, it's been able to outpace category growth. So, reflecting the truly differentiated capabilities, the customer intimacy and the true on-trend value added capabilities that they bring to the marketplace.

As we look ahead, I think we see great opportunities to continue to drive both that top line and margin expansion, particularly as we think about shifting mix within our portfolio and some of the cost synergies that we referenced in today's announcement.

Thomas Palmer
Analyst, JPMorgan Securities LLC
Q

Great. Thanks for the details. Also, maybe a little bit of color on how the deal kind of came about. It does seem to be a pretty family involved business. If I – on their website, the executive team includes a lot of Brakebushes, I think. And so maybe a little color on both how the deal came about and kind of the managerial structure as we look at it on a go-forward basis, just with that family involvement.

Jeffrey M. Ettinger
Interim Chief Executive Officer & Director, Hormel Foods Corp.
A

Sure. So, this is Jeff. I'll start with that. And I can start with it because I can tell you that we've had an interest in Brakebush since way back when I was here before. We literally have talked with them for over two decades. In a

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100-year-old business, I mean, it's obviously a huge decision that they made to go the route of partnering with another company. And we're very proud that they picked us to be that partner.

We've had good experience in the past with honoring the cultures of family-owned businesses. I was years ago back when – at Jennie-O when we acquired the Turkey Store in the Jerome family and integrated with – we ended up with people from that group and senior leadership at Hormel here at the corporate office ultimately. There are people from Fontanini still with the organization. There are people from Burke still with the organization.

At Applegate, I had the chance earlier this year to go back in there and see that half of the team at Applegate was there 10 years ago. They stayed with it after Hormel. And there was folks said, oh, gee, you guys seem like you have different cultures. This could be a risk.

And so, no, that to me is a huge benefit to this. The fact that we're a 135-year-old company with a foundation behind us that keeps us in a strong, protected position with a very long-term orientation. We share that with the Brakebush family, and I think it will just be a great relationship going forward.

John Ghingo
President, Chief Executive Officer-Elect & Director, Hormel Foods Corp.
A

Yeah, and just to build on that, I would say from the standpoint of the go-forward approach is we love the company we're buying. That includes the culture, the talent, the people. Brakebush is a highly successful, well-run company. We believe our cultures, to Jeff's point, are highly aligned. If you think about our focus with our customers around quality, innovation, customer service, we see great alignment there.

But Brakebush has a proven business model that we intend to preserve. So, we talked about having Brakebush run as a subsidiary reporting into our Foodservice segment. And our intention would be to keep it moving and keep it rolling.

Thomas Palmer
Analyst, JPMorgan Securities LLC
Q

Great. Thank you.

Operator: [Operator Instructions] Your next question is from Ben Theurer from Barclays. Your line is now open. Please go ahead.

Benjamin M. Theurer
Analyst, Barclays Capital Casa de Bolsa SA de CV
Q

Yeah, good morning and thank you very much for taking my question. I'll just follow-up as well. Ash, welcome. Good luck with chicken again. It was a good one from Pete. Now, my very first question really is about obviously, as you're having experience in the chicken business, and usually most chicken companies are actually more in the vertically integrated side, so there's a lot of emphasis here on not being vertically integrated.

Where do you see the advantages of not being integrated versus maybe some of the disadvantages as it relates to the projectability and the visibility of flow? So, help us just a little bit understanding why you think there is value in being not integrated for what tends to be in the industry a more integrated approach.

Ash Bhumbla
Chief Financial Officer & Executive Vice President, Hormel Foods Corp.
A

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Understood. Ben, thank you for the kind welcome as well. So, you've hit kind of the key point here, which as we look at Brakebush, it is not vertically integrated. And we see that primarily as a feature and something that we're excited to be adding to our portfolio. Really allows this team to focus on further processing, product development and innovation and really insulates it from some of the volatility that we see in upstream poultry production. It's also very, very well aligned to our own value-added protein network and our own approach to offering protein solutions to the marketplace.

So, when we looked at Brakebush, and to your point in the chicken industry, this is truly a unique asset. Opportunities to acquire scaled, non-vertically integrated value-added chicken platforms come about rarely. And so as Jeff noted, this acquisition has been on our watch list for more than two decades. So, I kind of look at this ultimately as not just an opportunity to increase our exposure to chicken. It gives us a scaled operating platform in a highly attractive category. It strengthens our already differentiated Foodservice business and puts us in a spot to win for years to come.

Benjamin M. Theurer
Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Perfect. And then just my follow-up question. I mean, obviously, it's – it is going to be a broadening of your just exposure within foodservice, new categories, et cetera. Just wondering, there's still a little bit of retail left. What is your thought on that? Are you just going to keep that going and actually recognize it as foodservice? Is that going to be thrown over into the retail business? I mean, we're talking just about maybe $10 million of EBITDA, but was just wondering, what are your plans as it relates to the retail portion of the business that comes in?

John Ghingo
President, Chief Executive Officer-Elect & Director, Hormel Foods Corp.

A

Yeah, Ben. Good morning. It's John. I'll start us off on that one. So, if I just step back and look at the business, to your point it is vast majority foodservice today. The vast majority of what we see as the go-forward approach is to really run the business and drive growth and expansion through our Foodservice segment, and that will be our focus. Certainly, if you look at the channel profile of the business and compare it to some of the channel opportunities we have on Hormel Foodservice, we see a lot of opportunity and potential.

That being said, you also know we have a very broad set of customers on the retail side. There's a lot of consumer momentum for poultry and for chicken in particular on the retail side. So, we are going to look at both pieces of the business and look for expansion opportunities. But in the near term, the business will report into our Foodservice segment.

Benjamin M. Theurer
Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Perfect. Thanks, John.

Operator: Your next question is from Pooran Sharma with Stephens. Your line is now open. Please go ahead. Pooran, just letting you know that your line is now open, so you can go ahead with your question.

Pooran Sharma
Analyst, Stephens, Inc.

Q

Sorry about that. Good morning. Thanks for the question. Just wanted to start off understanding the profitability structure with a bit more granularity. Understand from your prior comments that you're pretty stable and you're seeing expansion from the top line. But as we're thinking about modeling this into our numbers, would you expect

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the profitability profile of Brakebush to be accretive relative to your existing foodservice EBIT margins, or should we think of them as being dilutive? And how does that evolve as synergies are realized?

Ash Bhumbla
Chief Financial Officer & Executive Vice President, Hormel Foods Corp.

A

Good morning, Pooran. Thanks for the question. So, when you look at the overall EBITDA margins of this business, while they remain solid over time, we recognize that they are ultimately – and they've ultimately been very stable, as you referenced, which reflects the value-added nature of that portfolio. They are still at a discount to our very healthy margins within our core Foodservice business. So, as we think about kind of that overall portfolio, we expect that it will have an impact in terms of merging those pieces together.

What we're excited about, though, is less about the margin focus and more about our ability to unlock value over time. So, we've talked about the cost synergies that we're seeking to pursue, which we feel very confident in and have been conservative around our publicly stated targets. John has also referenced how we're thinking about upgrading the mix over time. And really by putting these two companies together, we feel comfortable that we'll be able to get Brakebush acquisition to a margin profile that continues to look closer and closer to our core Foodservice portfolio as well.

Pooran Sharma
Analyst, Stephens, Inc.

Q

Appreciate the color there, Ash. And I guess on that, the potential commercial opportunity, the synergy opportunity from operational and commercial, it sounds like you have little overlap. Is it fair to characterize that bucket as potentially being greater than the cost realization itself?

John Ghingo
President, Chief Executive Officer-Elect & Director, Hormel Foods Corp.

A

Yeah, I mean, I would say that we are very focused on unlocking the commercial opportunities around the business. That is definitely the case. That being said, I mean, Brakebush is a company with a lot of momentum. I mean, they've demonstrated consistent growth over time, separate and apart from any involvement with Hormel Foods. So, number one is keep that execution going, keep that growth profile going. Number two is we're going to learn from each other. We're going to look for opportunities to open up additional growth that neither company would have been able to access alone. So, that'll be something we work on together as we go forward.

And then I think on top of that, there are synergies out there. If you think about manufacturing, if you think about procurement, we do see some clear opportunities for us to get more efficient on the business as well. But that's how I would think about the structure of it.

Pooran Sharma
Analyst, Stephens, Inc.

Q

Great. Thank you very much.

Operator: There are no further questions at this time. I will now turn the call back over to John for closing remarks.

John Ghingo
President, Chief Executive Officer-Elect & Director, Hormel Foods Corp.

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Well, thank you. I just wanted to take a moment to close this out. I want to thank everyone for their interest for joining this morning on this very exciting day for Hormel Foods and for the Brakebush company, and we appreciate the interest in the story. Thank you.

Operator: This concludes today's conference call. You may now disconnect.

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