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Hormel Foods Corp. (HRL)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Hormel Foods Corporation Second Quarter Earnings Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Thursday, May 29, 2025.

And I would now like to turn the conference over to Ms. Jess Blomberg, Investor Relations. Please go ahead.

Jess Blomberg

Director-Investor Relations, Hormel Foods Corp.

Good morning. Welcome to the Hormel Foods Conference call for the second quarter of fiscal 2025. We released results this morning before the market opened. If you did not receive a copy of the release, you can find it on our website, hormelfoods.com under the investor section along with our supplemental slide materials. On our call today is Jim Snee, President, and Chief Executive Officer; Jacinth Smiley, Executive Vice President and Chief Financial Officer; and. John Ghingo, Executive Vice President of the Retail segment.

Jim and Jacinth will review the company's fiscal 2025 second quarter results and provide a perspective on the remainder of the year. Then John will join Jim and Jacinth for the Q&A portion of the call. The line will be open for questions following the prepared remarks. As a courtesy to the other analysts, please limit yourself to one question with one follow-up. If you have additional questions, you are welcome to get back into the queue. At the conclusion of this morning's call, the webcast replay will be posted to our investor website and archived for one year.

Before we get started this morning, I'd like to reference our Safe Harbor statements. 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 statements we will be making. Please refer to our most recent annual report on Form 10-K and quarterly reports on Form 10-Q, which can be accessed at hormelfoods.com under the Investors section. Additionally, please note we will be discussing 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. The presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Further information about our non-GAAP financial measures, including our comparability items and reconciliations, are detailed in our press release, which can be accessed from our corporate or investor website.

I will now turn the call over to Jim Snee.

James P. Snee

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

Thank you, Jess, and good morning, everyone. We achieved solid organic top line growth and delivered second quarter results in line with our expectations. We are committed to delivering profitable and predictable growth and despite a dynamic operating environment, we stayed focused on our long-term strategy, executed with discipline and delivered results consistent with our expectations.

In Retail, we continue to hold leadership positions in the marketplace across our diverse portfolio. Our success with both consumers and customers is rooted in providing a stable, reliable brand and products they can trust, while continuously evolving to meet the expectations of today's market. We continue to find ways to drive value for our consumers beyond price through quality, product differentiation, innovation, and convenience.

This quarter, I want to highlight three areas of the Retail portfolio that really brought this to life. The Applegate brand is well aligned with today's consumer demand for convenient protein solutions. The brand experienced incredible sales growth, outpacing the total edible category while also growing households. The launch of the convenience breakfast platform has been well received in the marketplace.

Building on that momentum, the brand recently introduced a new line of lightly breaded chicken products, further expanding its reach and relevance. This ongoing pipeline of innovation, combined with a compelling value proposition, reinforces our confidence in the sustained strength and growth potential of the Applegate brand.

At the same time, Jennie-O lean ground turkey continues to be a high performing and strategically important offering within our portfolio, positioned to meet today's consumer preferences. As demand for lean high protein food grows, Jennie-O is the go-to choice for consumers, demonstrated by consistent consumption gains and strong category leadership.

Through the strategic transformation of the Jennie-O business over the last few years, we are further aligned as a demand-driven portfolio. We continue to have the right strategy and structure for steady, long-term growth.

Finally, our Mexican foods portfolio delivered on the growing demand of high quality and flavorful meals solutions at home. In the second quarter, we saw continued success with our legacy Herdez salsa business, while our refrigerated guacamole portfolio experienced double-digit consumption growth driven by Herdez and Wholly brands. To provide another authentic, convenient meal solution, the team expanded our refrigerated entrees line to now include al pastor. Led by our flagship and rising brands, our broader Retail portfolio is well positioned to deliver the quality, differentiation, innovation, and convenience that consumers demand in today's market.

Turning now to Foodservice. Our Foodservice business remained resilient in the quarter, despite industry softness. Many of our branded products, such as Jennie-O, Hormel Fire Braised meat, and Café H globally inspired proteins delivered strong volume and net sales growth in the quarter. Our direct selling organization solution-based approach and a diverse channel presence has once again outperformed the broader foodservice industry.

In addition to our already diversified portfolio that provides high quality and convenient solutions, the team is motivated to deliver on flavor trends and help our operators serve their customers faster. As an example, at the International Pizza Expo in March, the team showcased our latest pizza topping creation, recognizing that hot honey has become the fastest growing pizza ingredient. Our team saw the perfect opportunity to capture that craveable sweet heat in the form of our premium quality sausage, ultimately creating Fontanini hot honey sliced sausage.

Additionally, our Flash 180 Sous Vide Chicken is designed to streamline back of the house operations. It delivers a consistent, high-quality product while significantly reducing prep time and labor, allowing more operators to serve the most in-demand menu item. The chicken sandwich. It's this kind of multifaceted food-forward thinking that keeps Hormel Foodservice a leader in the marketplace.

Rounding out our segments, our International business delivered strong top line growth in the quarter, driven by an impressive double-digit volume and net sales growth in exports and robust growth in China. Our in-country China business continued to perform well, led by customer and distribution expansions and continues to lead the company in innovative product offerings.

The recent launch of Hormel barbecue bites is just one example of the team's deep understanding of consumer trends and their ability to create meaningful innovations that address in-country market demands. These six examples demonstrate the continuous transformation of our portfolio with innovative, high-quality products that meet the evolving needs of our consumers.

This year is a story of momentum, and as we've discussed, we expect half 1 and half 2 results will look very different. What will not be different, however, is our strategy, as we have intentionally structured our business to balance changes in the marketplace. Our confidence in our brands and our team, our responsibility to our consumers, customers, and operators, and our commitment to long-term results for our shareholders remain.

We anticipate strong second half growth led by our range of consumer focused, protein-centric products. Notably, we expect meaningful contributions from our turkey portfolio, continued momentum in the Planters brand, growth from our leading positions in the marketplace, and ongoing benefits from our Transform and Modernize initiative. Jacinth will walk through turkey and our continued progress against our Transform and Modernize initiative in more detail.

But I want to take a moment to dive further into Planters and SPAM update. Our Planters snack nuts performance exceeded our second quarter expectations, and these results have paved the way for what's to come in the second half. We expect to see sequential quarter-over-quarter sales improvement and year-over-year growth. This is a legacy powerhouse brand with a loyal consumer base and a portfolio of product offerings that ranges from classic comforts to bold flavors and textures. By investing in the brand and putting our proven strategy into action, we expect the Planters brand to be a driving force in the second half.

Turning now to the SPAM brand. After an impressive first half, we expect an equally impressive second half. We continue to evolve this iconic brand while staying true to its core identity as a versatile, convenient protein solution. Its global momentum has been building, fueled by the strategic efforts to expand beyond the center store and deeper engagement with cultural trends. The rising popularity of SPAM musubi and a recent high-profile collaboration featured in a live action film set in Hawaii, has led to significant merchandising activity and reinforce the brand's authentic cultural connection. We believe the SPAM brand is a timeless classic. We are confident in our growth trajectory for the back half of the year, supported by strong execution and strategic momentum.

In the face of an evolving backdrop, we are responsibly narrowing our fiscal 2025 outlook, which remains largely unchanged. For the full year, we now expect increased net sales growth of 2% to 3%, which is being supported by our value added turkey portfolio, the Planters brand, our leading positions in the marketplace, continued growth in Foodservice, and higher commodity markets overall.

We now expect adjusted diluted earnings per share in the range of $1.58 to $1.68, which takes into account our current views on the consumer, tariffs, and lower investment income. This range implies impressive growth in the second half of the year, aided by investments across our brands and further benefits from our Transform and Modernize initiative.

While the macro environment is ever-changing, our strategy is consistent and clear. Our top line momentum is building, our diversified portfolio allows us to navigate changing preferences and trends, and we are on track to deliver the benefits of our Transform and Modernize initiative, positioning us to regain our long-term growth trajectory. Our team continues to be, in my opinion, the best in the industry, and each and every one of us is committed to the long-term success of our company.

Now before I transition the call to Jacinth, I'd like to address some of the leadership changes we announced this past quarter. Our incredibly competent management team and deep bench of talented leaders is a unique advantage for our company, and I am pleased to celebrate the advancements we have recently announced.

First, Dr. Kevin Myers was appointed to lead our supply chain efforts. A nearly 25-year employee of Hormel Foods, Kevin has led critical areas, including product development, quality control, food safety, and packaging design. Prior to joining the company, he spent a decade in the food industry, holding leadership roles in food technology and R&D. Kevin is widely respected for his expertise and insight. He is our trusted advisor and one of the most capable leaders in the organization. Candidly, he is one of the smartest people I know. With Kevin at the helm, we remain focused on transforming our supply chain, delivering for our customers and driving operational excellence.

Next, we announced that Scott Aakre, Group Vice President and Chief Marketing Officer for Retail, will retire at the end of the fiscal year after an astounding 35-year career with Hormel Foods. We are pleased to share that Scott has been appointed to the Hormel Foods board of directors, ensuring we will continue to benefit from his strategic insight and deep brand expertise.

Throughout his career, Scott has held several pivotal leadership roles from guiding our grocery products marketing to leading corporate innovation, and launching our brand fuel growth engine. On a personal note, I am grateful to have built my career alongside him. Scott's creativity, bold thinking, and thoughtful leadership have left a lasting mark, and his impact will continue to shape our future.

Finally, with Scott's impending retirement, we announced that Jeff Baker, a 35-year Hormel veteran, will lead the Retail marketing efforts with the start of fiscal 2026. He will oversee the continued evolution of our branded portfolio, driving growth in snacking and entertaining and our food forward platforms. Jeff's proven track record of growth, sharp strategic insight, and a deep understanding of our brands and consumers has been built through his leadership roles across the company. Beyond his results, Jeff is known for his commitment to our company and his ability to foster an inclusive, high trust, high performing culture. I'm fortunate to work alongside a team of such strategic senior leaders, and our recent leadership advancements give me great confidence in our company's future.

At this time, I will pass the call to Jacinth to discuss the financial details of our second quarter and provide more color on our outlook for the year.

Jacinth C. Smiley

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

Thank you, Jim, and good morning, everyone. As Jim noted, we achieved solid organic top line growth and delivered second quarter results in line with our expectations. Our results once again demonstrate the effectiveness of our diverse portfolio. Net sales for the quarter were $2.9 billion, a 1% organic increase over last year. In Retail, our flagship and rising brands maintained leadership positions in the marketplace, and the Planters brand exceeded our volume and net sales expectations.

Our Foodservice business again outperformed the broader foodservice industry, and our International business drove impressive top line growth in Q2, mainly due to double-digit volume and net sales growth in exports and strong growth in China. Our gross profit margin was 16.7%, reflecting anticipated higher commodity input costs. These known headwinds were partially offset by savings from our T&M initiative, which was on track for the second quarter.

For the second quarter, SG&A net expenses decreased 50 basis points, primarily driven by the lapping of prior year legal expenses and lower advertising as the brand teams continued to make strategic return on investment decisions. Interest and investment income for the second quarter decreased primarily due to lower cash balances and performance from the rabbi trust. All together, we reported diluted earnings per share of $0.33 for the second quarter and adjusted diluted earnings per share of $0.35 in line with expectations.

Cash flow from operations was $56 million for the quarter as we made an operational decision to build inventory for summer demand. Capital expenditures were $75 million and our largest investments were related to value-added capacity and investments in data and technology. We continue to expect to invest $275 million to $300 million in capital expenditures for fiscal 2025, with a continued focus on capacity, infrastructure investments, and new technology.

We are committed to dividend growth and remain a proud Dividend Aristocrat, having increased our dividend for over 59 years. Dividends paid to shareholders in Q2 marked the 387th consecutive quarterly dividend. We ended the quarter with $2.9 billion in debt and remain at the low end of our stated net debt to EBITDA target.

Our Transform and Modernize initiative remains a critical component of our strategy to restore historical earnings growth. The benefits realized in the first half of the year were as planned, and we remain focused and on track. While there are many milestones the team achieved for this quarter, there are three that I wanted to take a moment to highlight.

As part of our ongoing efforts to future fit our supply chain, one of our priorities has been to increase efficiencies in our production processes. After careful consideration and planning, we made the difficult but necessary decision to close one of our three dry sausage production facilities in California and transfer that production to other internal facilities.

Another visible advancement has been the successful opening of our new distribution center in the Memphis, Tennessee metro-area. This strategically located facility enhances our ability to serve customers more effectively, supporting increased demand, and expectations for timely delivery.

Finally, I am pleased by the team's success in advancing operational excellence through the Hormel production system, standardizing our ways of working across our manufacturing facilities. This transformation reflects a cultural shift that will deliver a long-lasting impact. We remain committed to delivering profitable and predictable growth, and the second quarter was another proof point of our commitment. We achieved results that met our expectations and firmly believe in our diversified portfolio, fueled by the Transform and Modernize initiative to achieve our long-term results.

Looking ahead to the second half, we expect each of our segments to deliver strong top line growth. For Retail, we expect low single-digit net sales growth. For Foodservice, we expect mid-single-digit growth in organic net sales. And for the International segment, we expect continued strong top line performance, resulting in high single-digit growth. We expect advertising investments to significantly increase in the second half, and we are reaffirming our expectation for incremental benefits from the T&M initiative of $100 million to $150 million.

Finally, we expect each segment to deliver bottom line growth in the third quarter and the second half. An important component of our guide for the year is our turkey portfolio, and I would like to provide some additional insight into our assumptions. We continue to monitor turkey supply across the industry and our value-added pricing is in the marketplace implemented to offset the turkey pressures we discussed in the first half. We are constructive on our overall turkey portfolio and are impressed by the results we are seeing from value-added turkey across both Retail and Foodservice.

Turkey remains a meaningful protein in our portfolio as the demand for lean protein continues to grow. For other commodity markets, we continue to expect markets to be above last year, mainly pork, beef, and nut input costs. Our measured pricing actions and benefits from our T&M initiatives will help to offset some of the input pressures contemplated in our guide.

The interest and investment income drag we experienced in the first half is not anticipated to be recouped. The impact for that line item alone was $0.03. Netting out our deferred compensation, the bottom line impact has been $0.02 to earnings per share.

Turning now to tariffs. The global environment remains dynamic and ever changing. Although our business has not been materially impacted by the tariff landscape to date, based on what we know today, we have assumed a range of $0.01 to $0.02 of tariff impacts in the back half of the year in our outlook. In the face of this dynamic environment, we are responsibly narrowing our full-year organic net sales growth outlook to a range of 2% to 3% and narrowing our adjusted diluted net earnings per share expectations to $1.58 to $1.68. We remain confident in our outlook for bottom line growth for each segment in the second half of the year and remain committed to delivering long-term value through strategic execution, including continued success from our Transform and Modernize initiative.

With that, I will turn the call over to the operator for the question and answer portion of the call.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Peter Galbo from Bank of America. Please go ahead.

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

Hey, good morning, guys. Thank you for the question.

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp. A

Good morning, Peter.

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

Good morning. Good morning. Jim, I think, I wanted to focus on [indiscernible] (00:27:49) the revised operating income outlook that you provided for the year and just bridging kind of the back half of the year, I think, to kind of hit the midpoint of the revised guidance, you have to deliver about $700 million of operating income that would be up versus the $575 million you did in the second half of last year. So still a pretty meaningful ramp.

So maybe, A, you can help us bridge kind of how you get there, you obviously have the increased advertising cost to come in the back half. Maybe there's some benefit from dry sausage facility closure. But any additional detail that you can provide there as we think about the ramp and maybe also just where T&M savings have kind of run year-to-date in the context of the $100 million to $150 million?

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp. A

Yeah, great. Thanks, Peter, appreciate the question. Let's start with that first part in terms of the back half of the year. And I think what's really important here is this idea that there's a lot to like about how well positioned we are for the back half of this year and our ability to deliver a strong second half. Some of the things that we've been talking about over the last number of quarters, and that is that Planters recovery is on track. What's happening with our turkey portfolio, especially value-added turkey, we're seeing really positive momentum.

And then when we get into the businesses, specifically, our value-added business in Retail continues to perform well. And it might be helpful when I wrap up here to have John give you just a little more color on that. When we get to Foodservice, we've had strong momentum on the top line and we do expect to have some favorable year-over-year comps in the second half.

We'll have International with steady, strong growth. And then just in regards to T&M overall, we've said it, it's on track, right. And so it is delivering what we expect it to deliver in fiscal year 2025. There's a lot going on in the organization. There's a lot of projects that we're working on. But again, the important thing here is when we roll up all of these drivers for our business, it's really what we expected at the beginning of the year for the back half of the year.

And so there's just really great substance in our ability and our confidence to be able to deliver this strong, achievable second half number. And John, if you want to maybe add some color on Retail?

John Ghingo
Executive Vice President-Retail, Hormel Foods Corp.
A

Yeah, thanks, Jim. I'll add a couple of comments. We do feel confident in our second half. We have a lot to be excited about for Retail elements that will help us navigate what I would call a choppy environment and a strained consumer in the backdrop. I'll comment briefly why we feel good about the relevance of our flagship and rising brands right now, and also the support plans we have in place in the back half behind those brands.

If you step back and just look at our protein-centric portfolio right now, it offers a lot of value to consumers. We know consumers are willing to pay for protein, especially with the added benefits of convenience, food, flavor experiences and generally the emotional and functional benefits of our brands continue to resonate. So when you take those protein offerings, put those added benefits on top, we know that is still equating strongly to value for the consumer. And then on top of that, we're planning double-digit advertising increases in the second half of the year, including significant investment in Planters.

So we'll be returning that flagship brand to growth in the back half. But we also have new advertising, good investment levels planned across other priority brands in the portfolio, Applegate, SPAM, Hormel pepperoni, Skippy, those investments will leave us with advertising spending planned up year-over-year for the full fiscal year basis. All-in-all, I would say for Retail, we feel confident, we have good momentum, our portfolio is strong in this environment and our plans for the back half are strong to support our brands. So we are feeling good going into the back half of the year.

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

Okay, thanks. Thanks for that. And Jim, maybe you can just help us a little bit on cadence and maybe specifically on turkey cadence in the back half. A, whether we should think about 4Q, that improvement really being probably the bigger contributor given when you ship whole bird. And in the context of turkey, just – the market has changed so dramatically, the competitive landscape is changing. Just what are you kind of seeing on the ground? Thanks very much.

Jacinth C. Smiley
Executive Vice President & Chief Financial Officer, Hormel Foods Corp.
A

Yeah.

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.
A

Yeah. Peter, I'm going to let Jacinth start off on the cadence and then I can come back to turkey.

Jacinth C. Smiley
Executive Vice President & Chief Financial Officer, Hormel Foods Corp.
A

Yeah. Good morning, Peter. So as we think about the back half and double clicking into the expectations here, so we're expecting strong top line growth in Q3 with low double-digit EPS growth. And when we tick through the segments of the business or Retail from a sales guide perspective, we're expecting low single digit, Foodservice mid-single digit and then the International business high single digit. So all-in-all, that's what really gets us to that Q3 outlook.

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.
A

Yeah. And when we think about turkey specifically, I mean, you're right, I mean the competitive landscape, we've seen a tightening supply. And so of course, we're thinking about it from our perspective and thinking about the work that we did several years ago to really make this a demand-driven business. I mean, we're really well positioned on the supply chain and we've got and are in a good supply chain or good supply position overall.

Now, again, I want to emphasize, we are focused on the value-added portion of this business. By the way, we think about lean ground turkey in our Retail segment and the great work that that team has done, right, to drive that business. The number one brand in a growing category, strong supply behind it, that's really, really important. And I mean, we're overcoming turkey markets, not all of them are in our favor, right. And so this is something that we're navigating, but it's something that we do really well. We understand how to manage through it.

There's a backdrop of whole birds and what's happening there. Those are slightly better than our original outlook. So we do expect most of the upside will be captured during the fresh season, which is closer to Thanksgiving. But again, overall, the turkey complex is doing really well and well positioned for the back half of the year.

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

Thank you.

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.
A

Yeah.

Operator: Thank you. And your next question comes from the line of Michael Lavery from Piper Sandler. Please go ahead.

Michael S. Lavery
Analyst, Piper Sandler & Co.
Q

Thank you. Good morning.

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.
A

Good morning.

Michael S. Lavery
Analyst, Piper Sandler & Co.
Q

Just wanted to drill in the second half margins a little more specifically. And I know you said that the year is kind of according to plan, but obviously first half margins were fairly weak. And there's a big step up now expected. Maybe just how much more can you unpack some of the key drivers there and what we should be looking for?

Jacinth C. Smiley
Executive Vice President & Chief Financial Officer, Hormel Foods Corp.
A

Good morning, Michael. So when we think about the margins going into the back half, we do expect expansion in the second half driven primarily by turkey, Planters, or value-added business in addition to – Jim talked about T&M and how that continues to deliver for us through the half here and that will accelerate more even into the back half of this year. So we have already actually seen sequential margin improvement, the back end of Q2 here, and that will continue into the second half.

Some of those drivers, as we said on the call last time, we expect benefit from turkey pricing in the second half going into fiscal 2026, as Jim just talked about here with this – some of it happening for Thanksgiving. And then Planters continuing to perform well. We had better-than-expected performance in Q2 and we expect that to exceed and continue into the second half as well and see strong growth in margins there for Planters as well.

And then finally, when we think about the commodity markets, I mean, those continue to be elevated for the business. And for some parts of our business, we do get that impact and translate that into pass-through pricing. And then for other parts of the business, we do take thoughtful pricing to be able to overcome that as needed. So all-in-all, we expect margin expansion in the second half and long term for our portfolio, we are well positioned to continue to drive margin growth.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Okay. Thanks for that. And just on Foodservice, the mid-single-digit growth expectations are certainly ahead of what would seem to be the industry backdrop, just given tough traffic and a stretched consumer. Can you just tell us how you're thinking about your ability to grow there and what some of the maybe specific drivers are?

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.

A

Yeah, I'll take that one, Michael. I mean, I think it starts with the comments we've made about our Foodservice business is that we, historically, outperform what is happening in the industry. So we're not immune to what's happening in the backdrop but what we are focused on is overdelivering and outperforming. We've had strong momentum on the top line in this business. And so that obviously has been a really positive signal.

As we head into the back half of the year, we do expect to be aided by the improvement in our Planters and C-store business. We've got an incredible pipeline of innovation that's coming. We had a chance to showcase a lot of that at the recent National Restaurant show. And then, of course, I think I mentioned it earlier that we will have a favorable year-over-year comp in the second half for Foodservice. And so when we put all of those things together, right, supported by the fundamentals of our business, the direct selling organization, we've talked a lot about our diverse channel presence and really underlying or underpinning all of it as a solution-based portfolio. That's what sets us up for success and ability to deliver those results in the second half of the year.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Okay, great. Thanks so much.

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.

A

Yeah.

Operator: Thank you. And your next question comes from the line of Tom Palmer from Citi. Please go ahead.

Thomas Palmer
Analyst, Citigroup Global Markets, Inc.

Q

Good morning and thanks for the question. Maybe I could just first ask on the T&M savings. Any quantification that you could give for savings in the first half of the year? And then when we're thinking about the $100 million to $150 million range, could you maybe give some examples of key initiatives progress towards them and kind of what might swing us to the high end or the low end of the range this year? Thank you.

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

A

Yeah, certainly. Good morning. So I'll start off. So just to reiterate again, the guide that we have given for the year, we continue to track well against that guide and going into the back half, we continue to be on track to meet our expectations that we have set out. There's definitely a lot that's going on in the business. For example, this quarter we executed 66 projects underneath the T&M initiative. So a lot that's going on across all of the pillars when we think about the pillars we've laid out for T&M, move by plan, make a couple of examples that we executed this quarter, some I had – couple I had given in our prepared remarks.

One is around opening of this Memphis metro-area facility, which really speaks to what we're doing in terms of ensuring we have an effective network logistically of how we really deliver to our customer in an efficient way. And so that's one of those examples.

The other one is the closing of that dry sausage facility in California. And then again, that speaks to how we're thinking about our portfolio and how we make that as efficient as possible for our business to ensure that we have a portfolio that has the margin structure that we need for the business. But then even in terms of where we're located as well, we are also being logistically efficient with our business.

So there – again, there is quite a lot going on in the business. The other one I will mention that's really driving a lot of value for the business is our end-to-end planning. And if you recall, we spent a lot of time in the past year or so talking about how we have been inefficient in how we manage our inventory. We are investing a ton in really thinking about how we plan our production, how we then get that into our plants to ensure that we have the right supply and our team is producing the right amount for our customers in the most efficient and effective way to get it to them on time.

So really a very end-to-end solution as we're thinking about the business and then underneath it, building the infrastructure from a data and analytic standpoint to do that in a great way. So overall, we're running the program in an agile manner. So when we think about the confidence we have in T&M, it gives us confidence in that way because of the approach that we're using. So to the extent that we go after a savings opportunity and it doesn't seem to be panning out in terms of the expectations on savings, then we're able to pivot in a very quick manner and then go after other projects.

So we have a very robust pipeline of projects to be able to deliver the T&M objectives and goals that we have set out.

Thomas Palmer
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thanks for that. One thing you'd mentioned in the prepared remarks was just the inventory build for summer demand. Any color on what products this is related to. And look, it has been a few years, but I think there was a time where excess inventory was a little bit of a challenge to work through for you guys. Could you maybe just note the visibility this time around in terms of visibility for the sell through of these products you've built up the inventory for? Thank you.

Jacinth C. Smiley
Executive Vice President & Chief Financial Officer, Hormel Foods Corp.
A

Yeah, certainly. Certainly. And that actually ties back into the comment I just made here around our ability to manage our inventory in a different way as part of this investment that we're making in Transform and Modernize. And so we have intentionally and strategically built inventory for our upcoming summer demands, and some of those particular areas are around Planters. We also have promotions coming up with SPAM. And then the other piece I want to just include there, if we think about elevated commodity to markets and our input cost that also have an impact on our balances that are showing in inventory.

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.
A

Yeah. And Tom, I think it – just said that last part is important because our pounds are down, our commodity prices are up. So when you see the dollars, it's one thing. But we are managing this inventory very effectively to align with the needs of the business.

Thomas Palmer
Analyst, Citigroup Global Markets, Inc.
Q

Okay. Thank you for that.

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.
A

Yeah.

Operator: Thank you. And your next question comes from the line of Ben Theurer from Barclays. Please go ahead.

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

Yeah. Good morning and thanks for taking my question. Maybe, Jim, just to come back a little bit to Planters and the cadence, you said you were basically on track, if not even slightly exceeding, what you were expecting for 2Q. So as you look into the lineup into 3Q and the back half, in general, how would you describe the situation of having regained some of that shelf space and some of those points of distribution that you lost last year after the outage at the facility? And what is your expectation as to like kind of like the growth contribution from Planters, in particular, as it relates to the second half outlook? Thank you.

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.
A

Yeah, Ben, I'm going to start, then I will let John answer most of that question. But I think the important thing here is that this recovery is on track, as we've been describing, right. And when we're looking at the charts and the graphs and everything, right, all of the trends are headed in the right direction and that's a really positive signal for us. When we think about where the brand is headed and we know, as we've said, how important this brand is to our portfolio. John, I'll let you get into maybe some of the specific actions.

John Ghingo
Executive Vice President-Retail, Hormel Foods Corp.
A

Yeah, that's great. Thanks, Jim. I think – good morning, Ben and thanks for the question. We do have a lot of enthusiasm, excitement for Planters in the growth potential there. The foundational work is in good shape. Our supply is corrected. We continue to see, as Jim said, that sequential improvement in the marketplace. And in fact, as he mentioned, the second quarter did come in a bit better than expected for Planters, which was good.

As we look forward, we expect to see the distribution continue to ramp, the overall consumption on the brand continue to ramp. We've seen that pretty clearly. And we are confident in Planters in the back half of the year that it will be a driving force for growth for us. As you look at Q3 and kind of map it out and you see that sequential progress continue, we will see year-over-year consumption turn positive in the latter part of the quarter. That's where we lap the time period in 2024 when we were impacted by those distribution losses at the shelf. And then we expect that year-over-year consumption gain to continue for the remainder of the year. And we're driving our three-part plan with Planters that we've talked about before.

So stepped up advertising, strong in-store promotions, a renewed and increased focus on our exciting innovation and if you remember, that's flavored cashews, it's flavored nut duos. Both of those innovation platforms have proven to be highly incremental, attracting new younger consumers to our brand and to the category. And so as we talked about the increased advertising spend on Planters, that's going to help us accelerate attracting consumers back, driving trial and repeat on those platforms.

And overall, Planters just continues to sit in a great spot in the macro snacking category, consumer demand for substantial snacks with protein, nourishing snacks, real food, portable real food, Planters is extremely well positioned in that space. So we are feeling very good about the sequential improvement we've seen to date, our expectations for the back half of the year and the longer term ability for us to drive this growth platform.

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

Okay, perfect. Thank you very much. And then one quick one for Jacinth, you talked about the interest in investment income and that it's basically not going to be recovered. But just to understand, I mean, obviously, there was a little bit of an income as well, if you want to put it this way in 3Q and to a lesser degree in 4Q of last year. So would you expect that to be on a year-over-year basis similar to last year? Or would you expect it to be similar to what we've seen particularly and maybe 2Q?

Jacinth C. Smiley
Executive Vice President & Chief Financial Officer, Hormel Foods Corp.
A

Yeah. No, thanks for the question. So we typically, given that we – the markets are unpredictable, we don't plan, we don't plan investment income. And so we just really see where the market plays out. And that's the impact to our business is just the actuals that come through.

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

Yeah, well take it to zero.

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.
A

Thanks Ben.

Operator: Thank you. And your next question comes from the line of Heather Jones from Heather Jones Research. Please go ahead.

Heather Jones
Analyst, Heather Jones Research, LLC

Q

Good morning. Thanks for the question.

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.

A

Yeah, good morning.

Heather Jones
Analyst, Heather Jones Research, LLC

Q

Thank you. I was just wondering on ground turkey, so I know the second half will benefit from the price increases you've taken to offset the higher input cost. I was wondering a couple of your competitors have shuttered facilities, so was wondering if you all are also seeing any share gains as yet or those anticipated on the come?

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.

A

Yeah, Heather, I'll go ahead and start. You know, what you said is exactly right is that we have seen this tightening supply across the competitive landscape. And so while the headlines are out there about what's happening, I think the full details about how it's really unfolding is TBD. I mean, at this point, the biggest facility that's been announced isn't shut down yet. And so, again, what's important here is we know the work that we're doing to drive demand, and it's well positioned in the category with the consumer. And then as those opportunities present themselves, we can rest assure that we're going to do everything we can to capitalize on them. And John and the team obviously are working hard in this space.

John Ghingo
Executive Vice President-Retail, Hormel Foods Corp.

A

Yeah. Thanks for the question, Heather. I'll just comment briefly a little bit from the consumer lens and your question to which is, I mentioned earlier delivering value for the consumer and ground turkey just continues to be a winning proposition in that sense. It's a highly versatile option for consumers, plugs in very well to everyday life, different meal occasions, food experiences, and that versatility is valuable. And then beyond that, just poultry and ground turkey right now very aligned with dietary needs from consumers who seek out lean sources of protein.

So if I kind of walk down the line, you look at the recent consumption data, Jennie-O continues to perform very well, consistent household penetration gains over the past 52 weeks, up over 4%, and dollar consumption in the latest quarter. And if you look at the demand trend, we believe those trends underneath that rising demand are longer term in nature. And we love having the number one brand in ground turkey, right. It's a great position to continue to capitalize on that consumer momentum.

Heather Jones
Analyst, Heather Jones Research, LLC

Q

Okay, perfect. Thank you for that. And then on my follow-up, I just want to stick with Retail. So looking at just – and I'm just looking at Q2, but looking at your volumes for Q2 versus [indiscernible] (00:52:23) 2025 versus 2021, you're down roughly 20% in volumes over that time. And I know a big chunk of that has been [ph] co man (00:52:32) and some of it has been – a contract manufacturer, I should say, and some of it has been Jennie-O and then obviously the Planters impact. But I was just wondering as we think about that business now and for the forward look, do you believe we're close to stabilization point and going to grow from here or how are you all thinking about that business on just pure volumes?

John Ghingo
Executive Vice President-Retail, Hormel Foods Corp.

A

Yeah. Thank you, Heather. So let me kind of click into the quarter and I'll pull back and talk a little bit about Retail in general. So you are correct, our Retail volumes did contract in the second quarter. It is important to note that two thirds of that volume decline was related to lower commodity shipments and contract manufacturing. And in fact, the contract manufacturing business, while that volume was down, it was mix favorable and provided net sales growth on the quarter.

The other significant drag to volume worth calling out here is promotional timing that we referenced in the release, and that was club channel volume specifically related to quarterly year-over-year timing differences and promotions. So that was the other bulk of the volume decline. When you look at volume year-over-year, you can see the quality, the volume for Retail, it's different in the sense that net sales was flat and we increased profitability on the quarter. So to your question of what do we expect with the outlook as we move forward into the second half of the year, we feel very good about being able to drive increased consumer demand across our flagship and rising brands.

We have good consumption momentum on those businesses. We have some strong tailwinds at our back. And on top of that, we will continue to manage strategically the commodity and less strategic elements of the business over time.

Heather Jones
Analyst, Heather Jones Research, LLC

Q

Okay. Thank you so much.

Operator: Thank you. And your next question comes from the line of Rupesh Parikh from Oppenheimer. Please go ahead.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Good morning and thanks for taking my questions. So I guess, I just have an intermediate term question. So going back to your targets for $250 million plus in operating income growth by FY 2026, just given, I guess, the tariff and consumer backdrop, is your team still confident being able to deliver on that target?

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.

A

Yeah, Rupesh, I mean, for us at this point, nothing, nothing has changed, right. I mean, we're obviously very excited about the work that's happening. Jacinth did a really nice job there elaborating on just how much work is happening across the organization. While we want to get to 2026, obviously our focus right now is on 2025 and all of the work that's happening here. And so nothing has changed in our outlook from our perspective, really excited about the benefits that T&M is bringing to the organization, not just the financial benefits, but the long-term capabilities that we've needed. So all of that is what leaves us in a really, really favorable position for this entire initiative.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Great. And then maybe my follow-up question, just on the macro, as you look at Foodservice and your Retail business, any changes in consumer behavior lately, positive or negative? So just love to hear your latest thoughts on the consumer backdrop?

John Ghingo
Executive Vice President-Retail, Hormel Foods Corp.

A

Yeah, thanks for the question. I'll comment on the consumer and kind of backdrop and a little bit of what we're seeing in the marketplace. So I would describe the consumer sentiment as not great, meaning they're feeling the cumulative effects of inflation and at the same time feeling uncertainty in the macro environment. So I would describe that as a strained consumer sentiment. And what's interesting is you do see some trading down from consumers to lower prices. Fortunately with our portfolio being so broad, we do offer products at all different pricing tiers, including more value-oriented options.

Some of our categories actually play very well for affordability, but if we pull back even from that and say, where is the growth coming from, right. In our own portfolio, we can see some very different pockets of strong growth because consumers are still looking for solutions. They're still looking for what they would classify, as I said earlier, as value. And so within our own portfolio, we see strong growth still in the premium [ph] and (00:57:03) with our Applegate brand.

So Applegate is playing in the more premium side natural organic segment, experiencing very strong growth with consumers gravitating to the brand for differentiated product quality, attaching themselves to the brand and the brand building we're doing, as well as convenient forms of product innovation. We also see strong growth in our Mexican portfolio. There we're delivering authentic Mexican food experiences with the Herdez brand, the Wholly brand, and both of those brands delivered really strong growth in the quarter and again, consumers, they are gravitating to innovation, right.

We're extending the Herdez brand into our refrigerated entrees category flavor forward, super convenient meal platform, also creating value for consumers. So paying for flavor and convenience. And then a very different example we touched on earlier is Jennie-O and ground turkey, right. And we continue to see strong demand there as consumers are willing to pay for lean sources of protein and the versatility that ground turkey provides.

So I think the answer is the consumer is feeling strain. There is some trading down, but for the most part, consumers are looking for value and protein. We feel really good about our protein-centric portfolio being able to meet their needs for the value they're looking for.

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.

A

Yeah, and Rupesh, I think when we think about Retail, as John described, I mean, we're holding our own in market share, right. We're continuing to focus on these flagship and rising brands. And there are still some clear opportunities. On the Foodservice side, we talked about what is happening in terms of the pressure on food away from home. And again, we're structured the right way. We have the right strategies to outperform what's happening in that macro environment. And so when we look at whether it's independently or together, we feel like these businesses, our portfolio have us well positioned to navigate those macro factors.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Great. Thank you for all the color. Best of luck.

Operator: Thank you. And your last question comes from the line of Pooran Sharma from Stephens. Please go ahead.

Pooran Sharma
Analyst, Stephens, Inc.

Q

Great. Thanks for the color and the question. Just wanted to ask about Foodservice here. I noted that you've talked about outperforming the general market and just your positioning there. But looking at margins here, they've kind of been at this level for the last four quarters or so. As you look out to the rest of the year, do you think margins for this business inflect upwards kind of with the rest of the back half performance you've noted or how should we think about Foodservice margins kind of in the back half of the year?

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.

A

Yeah. Pooran, I'll go ahead and take that. I mean I think for us, right, as the strong momentum on the top line that will continue to have, right. And I think when we're able to capitalize on the opportunities with the Planters, when we're able to really start selling against this great pipeline of innovation, that's what gives us the confidence in growth and broad-based growth in Foodservice. And yeah, you're right I mean, we have talked extensively about how we outperform what is happening in the Foodservice marketplace. That's something that we absolutely have to continue to do in order to be able to deliver growth. And so we do expect segment profit growth from Foodservice in the back half of the year. And it is – it's Planters, it's innovation but then again, as I said, we do have some favorable year-over-year comps in the second half.

Pooran Sharma
Analyst, Stephens, Inc.

Q

Okay. I appreciate that color. And just really quickly, just on International, wanted to kind of understand how the shift in export customer mix impacted margins. I think you mentioned that it was temporary and just wanted see if that's resolved or any ongoing headwind from that? Just in light of the strong top line growth in that segment.

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.

A

Yeah, it's a good question, Pooran, thanks. And it is, it's fixed. It really is more of a timing issue in terms of shipments and location. But as we think about the back half of the year for International right, it's steady, strong growth. Our business in China continues to perform really well and that's obviously a key driver for their ability to deliver what we need them to deliver in the back half of the year. But it really timing issue that has been resolved.

Pooran Sharma
Analyst, Stephens, Inc.

Q

Great. Appreciate the color.

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.

A

Yes.

Operator: Thank you. That end the question-and-answer session. I would now hand the call back to Mr. Jim Snee for any closing remarks.

James P. Snee
President, Chief Executive Officer & Director, Hormel Foods Corp.

Yeah, thank you. And thank, thank you all for joining us this morning. We achieved solid top line performance and delivered results in line with our expectations for the second quarter. This accomplishment leaves us incredibly well positioned to deliver a strong second half. And while there's work to do, we have the right structure, the right strategies, and the right portfolio that allows us to be confident in our ability to get this done. Thank you for joining us today and I hope you have a great rest of your day.

Operator: And this concludes today's call. Thank you for participating. You may all disconnect.