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# Hormel Foods Corp. (HRL)

Q1 2026 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, ladies and gentlemen. And welcome to the Hormel Foods Corporation First 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, February 26, 2026.

I would now like to hand the conference over to Florence Makope.

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**Florence Makope**

*Treasurer & Vice President, Hormel Foods Corp.*

Good morning. Welcome to the Hormel Foods conference call for the first quarter of fiscal 2026. 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](http://hormelfoods.com), under the Investor section, along with supplemental slide materials.

On our call today is Jeff Ettinger, Interim Chief Executive Officer; John Ghingo, President; and Paul Kuehneman, Interim Chief Financial Officer and Controller. Jeff, John and Paul will review the company's fiscal 2026 first quarter results and provide a perspective on the remainder of the year. We will conclude with a Q&A portion of the call. The line will be open for questions following the prepared remarks. As a courtesy to the other participants, 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, a webcast replay will be posted to the Investor section of our 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 on our website 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 comparability items and reconciliations, are detailed in our press release, which can be accessed on our website.

I will now turn the call over to Jeff Ettinger.

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## Jeffrey M. Ettinger

*Interim Chief Executive Officer & Director, Hormel Foods Corp.*

Thank you, Florence. And good morning, everyone. We are pleased to report solid results for the first quarter of fiscal 2026. We delivered organic net sales growth of 2%, which marks our fifth consecutive quarter of organic net sales growth. We also achieved adjusted diluted earnings per share of \$0.34. This outcome was driven by the strength of our protein-centric portfolio that continues to resonate with consumers and operators.

A highlight of the quarter was the results we delivered in both our Foodservice and International segments, both with high-single-digit organic net sales growth, coupled with impressive segment profit growth. This strong performance was partially offset by the decline in our Retail segment. We will review segment performances in greater detail shortly.

On our fourth quarter call, I outlined the key actions we are taking to strengthen our business and position Hormel Foods for both top line and bottom line growth in fiscal 2026. We have started to see the benefit of these efforts. Our protein-centric portfolio continues to demonstrate its advantage. In response to last year's persistent inflation in key commodity inputs, our pricing is now implemented as we have begun the second quarter. Our Transform and Modernize initiative remains beneficial, and our restructuring program is progressing as planned. The financial benefits from this program will start to materialize more meaningfully in the second quarter. Finally, we continue to enhance collaboration across the organization.

Overall, the solid start to fiscal 2026 gives us conviction as we look ahead. For Q2, we expect to deliver another quarter of top line growth and adjusted diluted EPS, that is in the range of flat to slightly up compared to last year. For the full year, we have also reaffirmed organic net sales and adjusted diluted earnings per share guidance. Paul will discuss our financial results and guidance in more detail. Our success will be fueled by focusing on our core strength in protein solutions while making the operational improvements necessary to drive long-term value creation.

Before I hand the call over to John, I wanted to take a moment to recap our recently announced definitive agreement to sell our whole-bird turkey business to Life-Science Innovations. This transaction supports our goal of reducing our exposure to volatile commodity driven businesses and sharpening our focus on our value-added protein portfolio.

I also want to be clear about what this transaction does and does not include. The sale involves the hen side of our turkey complex, which are the female birds that you would typically enjoy during the holidays. Included with

this transaction is our Melrose, Minnesota whole-bird production facility, our Swanville, Minnesota feed mill, and associated transportation assets. LSI will also assume supply contracts with dedicated third-party hen growers. The transaction is expected to close by the end of our fiscal Q2.

So now let me emphasize what this transaction does not include. The sale will not affect our value-added turkey products and we will continue to own and use the Jennie-O brand name. Value-added turkey will remain a strategic and important part of our growth story.

In addition, Hormel Foods will retain the right and ability to sell our Jennie-O OVEN READY whole-birds and turkey breasts. We will continue to own and operate all of our other turkey plants, feed mills, transportation assets and turkey barns associated with raising and processing the male or Tom turkeys for our Jennie-O value-added turkey products.

Another point I wanted to make clear is that the majority of Jennie-O whole-bird sales for the 2026 holiday season will remain part of our reported results in fiscal 2026. Under the agreement, LSI will provide co-manufacturing services to Hormel through the end of fiscal 2026 to ensure uninterrupted fulfillment of customer orders during the transition. This strategic move creates a more focused turkey portfolio that enables increased investment in the value-added aspects of our Jennie-O business, where we can drive substantial margin expansion. We are committed to working with LSI to ensure a smooth transition for our team members, customers, consumers and suppliers.

We began the year with strong execution from our team and I am confident in our near and long-term profitable growth opportunities. We are well-positioned to continue delivering sustainable value. At the same time, we know there is more work ahead and we are committed to executing with urgency and precision.

With that, I will turn the call over to John.

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## John Ghingo

*President & Director, Hormel Foods Corp.*

Thank you, Jeff, and good morning, everyone. We had an encouraging start to fiscal 2026 with strong performance in both our Foodservice and International segments. This demonstrates the strength of our protein-centric portfolio and our strategic positioning, both at home and away from home across all dayparts. These results were achieved in a challenging consumer environment marked by industry wide, limited retail consumption growth and notable headwinds in foodservice channels as operators and consumers remain cautious. In this backdrop, we are committed to creating and marketing compelling branded offerings for our consumers and a solutions-based portfolio that makes protein easy for our operators.

Now let me go into the details of our segment performance, starting with Retail. First quarter organic volume and organic net sales for the Retail segment declined. While our branded portfolio performed fairly well, top line was meaningfully impacted by our strategic exit from select non-core private label snack nut items. That said, Circana's latest 13-week data ending January 25 showed total Hormel dollar sales were up over 2%, indicating that our portfolio continues to resonate in today's consumer environment.

Several of our priority brands delivered year-over-year dollar sales consumption growth including Jennie-O Ground Turkey, Planters Snack Nuts, Hormel Gatherings Party Trays, Applegate Meats and Hormel Entrees, among others. This adds yet another quarter to a long-running pattern of consistent dollar consumption growth across our priority brands. However, even with this encouraging consumption data, reported top line and profitability remained challenged in Retail in the first quarter.

In addition to lower net sales, profitability was further pressured by expected increases in raw material costs and unexpected increases in logistics expenses. As a reminder, the second wave of retail pricing went into effect at the beginning of Q2, aimed at offsetting some of the cost pressures.

Revitalizing the Retail segment remains a major focus, and we have a solid foundation with leading brands and protein-centric offerings to support our plan. We have meaningful, strategic actions underway to strengthen both top line performance and profitability, including investments in a number of critical capabilities needed to win in today's retail and consumer landscape.

Our Foodservice segment performed well in the quarter and this marked the segments 10th consecutive quarter of organic net sales growth. This growth continues to be broad-based across channels and was driven by strong performance from premium prepared proteins and branded pepperoni. Our solutions-based portfolio continues to add value in a challenging overall foodservice environment, where operators need solutions that help them deliver high quality, delicious offerings with ease. It's no surprise that brands such as Austin Blues Smoked Meats, Hormel Fire Braised Meats and Hormel Natural Choice Meats delivered strong volume and net sales growth in the quarter. The segment profit growth was equally impressive as our pricing continues to align with market movements.

Our International segment benefited from all three of our go-to market models. Net sales growth in the segment was driven by our multinational businesses and branded exports led once again by Spam Luncheon Meat. We delivered strong segment profit growth for the International segment this quarter, reflecting the importance of our balanced model.

When we look beyond segment performance, the larger trends in consumer behavior and protein demand strongly affirm both where we stand today and where we're going. I spoke to this extensively at the CAGNY Conference last week. Our path forward continues to start with the consumer, and it's anchored in the unique position we've built in the protein space over the years. As we highlighted at CAGNY, protein isn't a passing trend, it's an enduring long-term movement.

As we follow the consumer and sharpen our focus on protein-led growth, our strategy must also evolve. We are refreshing our purpose and mission to better reflect our direction and ambition. We have also rolled out seven strategic priorities that are guiding our work. And I'd like to take a few minutes to tell you how each of these tie to our first quarter results.

As we look at strengthening our protein-powered brands, the Planters brand delivered both consumption and net sales growth in the first quarter. We are leaning into the inherent power of nuts with sharper positioning and a stronger media campaign. Coupled with a steady stream of new and exciting varieties for consumers in search of flavorful satiating snacks, Planters is back on offense.

A second brand to highlight is the Spam brand. Our China-based innovation team continued to set the pace with the launch of Spam Chicken in the first quarter. This is an important evolution for this iconic brand. We launched both the canned and single-serve pouch in the Philippines, providing the familiar value and convenience of Spam now in a highly penetrated protein format, chicken.

We are also building enterprise-wide growth platforms that leverage our scale across markets and channels. Our Here For The Snacks campaign is a great example of this type of enterprise thinking. Now in its second year, this retail portfolio event brought together snacking solutions from priority brands, including Herdez, Hormel Chili,

Hormel Gatherings, Hormel Pepperoni, Planters and WHOLLY Guacamole all ahead of the big game. These efforts create meaningful lift. Hormel Gatherings, for example, delivered double-digit volume and dollar consumption growth in the latest four-week period.

Our renewed commitment to origination is equally important. Innovation allows us to solve real pain points and extend it to new categories and eating occasions. A strong example is our Flash 180 chicken platform. After the strong performance of Flash 180 chicken breast, operators signaled demand for a high quality crispy chicken solution. And with chicken tenders appearing on roughly 40% of menus, there was a clear opportunity to broaden our lineup. Flash 180 tenders launched late last fiscal year and in the first quarter are already demonstrating adoption rates consistent with some of our successful historical foodservice launches.

A second innovation is Hormel Black Label Oven Ready Bacon offering true convenience and driving increased household usage of bacon. Our team is focused on expanding distribution and building trial. And this convenient mess-free disposable tray is already resonating strongly with younger consumers, and 60% of its sales are being generated through e-commerce. All of this growth requires a strong foundation.

Through our Transform and Modernize initiative, we continue to strengthen our supply chain end to end. In the first quarter, the Hormel production system progressed beyond its foundational phase and the facilities that have fully implemented the model are now driving continuous improvement, increasing efficiency and are freeing up capacity on our core manufacturing lines.

At the same time, we are simplifying the company. In the first quarter, we finalized a new strategic partnership for the Justin's branded business. This partnership better aligns the business with an ownership model that can appropriately support and resource the Justin's growth plans.

Regarding the pending whole-bird divestiture that Jeff covered, I'll simply add how energized I am about the opportunity this creates. This move allows us to sharpen our focus and accelerate growth in our value-added Jennie-O Turkey business, an area where we're already seeing strong momentum. For example, our Jennie-O ground turkey dollar sales consumption was up double digits in the first quarter and the brand is winning both in-store and through e-commerce with highly relevant occasion-based marketing. We're also modernizing our technology and data backbone so the organization can move faster, make better decisions, and innovate more effectively. The team made great progress in the first quarter, completing another phase of our order-to-cash modernization and bringing us closer to retiring our legacy system.

In addition, we are also leveraging technology more to drive our growth agenda. We've incorporated weather-driven demand intelligence into our advertising decisions for Hormel Chili, allowing us to better align media spending with consumer buying patterns. And this targeted approach is already delivering stronger returns on investment.

Our final priority is all about acceleration to our people, capabilities and our culture. After more than 130 years of operating, Hormel has built a rich culture and has developed strong institutional knowledge, especially as it relates to our understanding of proteins and how to solve pain points for consumers, customers and operators. The success that Hormel has enjoyed would not be possible without our people and culture.

We are continuing to evolve as a company for the next generation of consumers. And what you've seen more recently is that we are complementing our homegrown strengths by bringing in external leaders with world-class capabilities in areas such as marketing, analytics, technology, e-commerce and supply chain transformation. This

blended leadership team truly represents the best of both worlds and their collective strength is what enables us to bring our purpose and strategic imperatives to life.

With that said, I would like to highlight a few of our recent leadership appointments. We took an important step towards enterprise alignment with the recent creation of a new role, Group Vice President of Enterprise Business Performance, and have appointed Jeff Baker to lead this critical function. With more than 35 years of experience across many parts of Hormel Foods, Jeff brings unparalleled company knowledge and a proven track record of delivering results. Jeff is working across all business units and our supply chain to strengthen decision making and to ensure strong execution.

We recently appointed Natosha Walsh as our new Group Vice President of Retail Sales. Throughout her more than 25 years with Hormel Foods, Natosha has distinguished herself as a strategic leader who understands every dimension of our business. Her extensive experience, unmatched knowledge of our brands and channels, and the strong, trusted relationships she has built with customers across the industry make her an exceptional choice for this role.

To further support our growth strategy, we have created a new enterprise-wide marketing leadership role. We are excited to welcome Jason Levine as our new Enterprise Chief Marketing Officer. Jason brings more than two decades of consumer packaged goods experience, having led marketing, innovation and brand modernization from multiple organizations, including a multibillion dollar portfolio. In just a few weeks, I've been energized by the insights that Jason has already brought to the leadership team and the marketing organization.

And finally, I wanted to introduce Domenic Borrelli, who officially joined us this week as Executive Vice President of Retail. He brings a strong history of driving consumer-led growth within mature legacy brands and categories and has a deep understanding of how to deliver results by staying closely connected to consumers, fostering strong customer relationships and guiding teams with a clear strategic direction. Dominic is the right leader to build on the team's foundation, and many of you will have the opportunity to meet him as he begins engaging with our teams, customers and the investment community.

When you put all focus areas together, you start to see a very clear picture of where we are headed. We're aligning our brands and platforms to the biggest consumer trends, modernizing the systems and structure that power our business, and reinforcing our culture with the talent and capabilities to win. That's the journey we're on and it's one that positions us exceptionally well for long-term, sustainable, profitable growth.

With that context, on our strategic direction, I will turn the call over to Paul to review our first quarter financial results in more detail and discuss our 2026 guidance.

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## Paul R. Kuehneman

*Interim Chief Financial Officer & Controller, Hormel Foods Corp.*

Thank you, John. Let's take a closer look at our fiscal first quarter results. Q1 net sales were just over \$3 billion, a 2% organic net sales increase compared to the prior year and our fifth consecutive quarter of organic net sales growth. Our Foodservice and International segments led the company's organic net sales growth and were partially offset by the decline in the Retail segment.

Gross profit continued to be hampered in the first quarter, with top line growth more than offset by higher input costs and higher than expected logistics expenses. As expected, commodity input costs mainly for beef, pork trim and nuts were a headwind in the first quarter. For context, beef remained a significant inflationary pressure across the industry, and pork trim increased 12% compared to last year.

While remaining high from a historical perspective, we did see some relief on bellies. We are still expecting to see a modest improvement in most commodity markets in the back half of the fiscal year. During the first quarter, we observed freight capacity tightening driven by severe winter weather and industry dynamics. This has created modest upward pressure on transportation costs. We continue to monitor this to assess whether these pressures persist for the remainder of the year.

For the first quarter of fiscal 2026, adjusted SG&A and adjusted SG&A as a percent of net sales were comparable to the prior year. The reduction in marketing and advertising expenses was due to timing of investments and offset by higher employee-related and legal expenses. We continue to expect an increase in marketing and advertising spend for the full year compared to last year.

As a reminder, due to the timing of our corporate restructuring, we expect the financial benefits we announced last quarter to flow through beginning in quarter two. Also, remember these actions will result in savings to both cost of goods and SG&A and will be partially offset by strategic investments in technology, people and brands.

Adjusted operating income for the first quarter was \$247 million, and adjusted operating margin was 8.2%. The effective tax rate for the first quarter of 2026 was 22.4%. Our solid results in the first quarter led to diluted earnings per share of \$0.33 and adjusted diluted earnings per share of \$0.34.

We continue to maintain a position of strong liquidity, supported by continued improvements in operating cash flow. Cash flow from operations was \$349 million, up \$26 million from last quarter. Capital expenditures were \$69 million, with the largest projects this quarter related to the ambient meat snacking facility in Jiaying, China, and continued investments in data and technology. We still expect the capital expenditures for fiscal 2026 to be in the range of \$260 million to \$290 million.

Finally, we remain committed to the dividend and we are proud of our dividend aristocrat status. We paid our 398th consecutive quarterly dividend, returning approximately \$160 million to stockholders during the quarter through dividends.

Turning now to guidance. We are reiterating our adjusted full year fiscal 2026 guidance. We continue to expect organic net sales growth of 1% to 4%. As John discussed, we believe our protein-centric portfolio puts us in an advantaged strategic position going forward. In fiscal 2026, we continue to expect adjusted operating income growth of 4% to 10% and adjusted diluted earnings per share to be in the range of \$1.43 to \$1.51 per share.

Regarding the pending whole-bird turkey transaction, we expect it to have a minimal impact on our adjusted financials in fiscal 2026. The majority of whole-bird turkey sales for fiscal 2026 will remain part of our reported results. We currently believe the impact to net sales in our fiscal 2026 results will be reduced by approximately \$50 million.

We expect the larger impact of this divestiture to be reflected in our results in 2027. On an annualized basis, this business typically generated net sales of between \$200 million and \$275 million, and has exhibited high volatility and low margins. Additional adjustments to our GAAP guidance will be provided after the close of the transaction, which we expect to occur by the end of the second quarter.

Turning to key input cost assumptions in our outlook, we expect overall commodity cost to ease somewhat in the back half of fiscal 2026. Specifically, we expect pork input costs to decline compared to fiscal 2025, but still remain above the five-year average. Beef costs remained high and are expected to be a headwind throughout

fiscal 2026. And nut costs are anticipated to be elevated from the prior year. Gross margin expansion is expected to be driven by a variety of factors, including pricing benefits, mix improvements and productivity gains from our Transform and Modernize initiative.

To reinforce Jeff's earlier commentary for Q2, we expect to deliver another quarter of top line growth and adjusted diluted earnings per share that is in the range of flat to slightly up compared to last year. We expect sequential improvement from the first quarter, benefiting from a full quarter of our restructuring actions and the second wave of retail pricing now implemented. This range also considers pressures from commodity input costs and elevated logistics expenses we saw arise in the latter half of the first quarter.

To conclude our remarks, we are encouraged with the early success to start the year and we remain confident in the plan we are executing to achieve our reaffirmed adjusted fiscal 2026 results.

With that, I will turn the call over to the operator to begin our Q&A portion of the call.

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] One moment for your first question. Your first question comes from Tom with JPMorgan. Please go ahead.

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**Thomas Palmer**

*Analyst, JPMorgan Securities LLC*

Q

Good morning. Thanks for the question, guys. Maybe we could just start out on 2Q. You noted the expectation for EPS to be flat to slightly up year-over-year. Could we maybe unpack this outlook segment level expectations, for instance, or maybe when discussing the logistics headwinds, any details on kind of where this is coming from and when it might start to taper off? Thanks.

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**Jeffrey M. Ettinger**

*Interim Chief Executive Officer & Director, Hormel Foods Corp.*

A

Yeah, thanks for the question, Tom. This is Jeff. Let me provide some added color on Paul's remarks that he gave about Q2 a couple minutes ago. So, as we were heading into this year after year of solid top line growth, but challenged bottom line results in fiscal 2025, we tried to make it clear both to the Street and to our team that our goal for fiscal 2026 was to return to bottom line growth consistent with our long-term algorithm. We also said that this recovery would likely come sequentially over the course of the year, and we're definitely pleased that our Q1 adjusted EPS turned out a little better than the minus \$0.02 to \$0.04 we had talked about on the last call. But we also recognized that the adjusted EPS was still a \$0.01 below last year.

Heading into Q2, our expectation is continued sequential improvement. We should reap the benefits of the completion of the second wave of retail pricing, which was aimed at offsetting some of the cost pressures we've talked about for the last several quarters. And on top of that, we will now start having full quarters of benefit from our SG&A actions.

But as you pointed out in your question, we are carefully watching the more challenging freight cost environment we referenced in our comments. And at this point, I mean, they've been going on for a couple of months and it's

kind of too early to tell whether they're a seasonal issue or whether there's something that will be with us for more of the year.

So, all told, at this point, we believe we remain on a path to generate the sequential but modest bottom line improvement in Q2, hence the comments that both Paul and I made about seeing adjusted EPS coming in at flat to slightly above last year, while we will continue to generate top line growth. And we do remain confident in the guidance we provided for the full year.

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**Thomas Palmer**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you for that. I also wanted to just ask on the whole turkey divestiture. Maybe one just any added details on kind of the rationale. It was helpful to get, some of the commentary about longer term margin benefit and the annualized sales expectations. But also kind of where do we sit, I guess, when looking at the volatility of this business is – should we look at 2026 as being perhaps a more favorable year for the whole turkey business? Yeah, just any added detail there. Thank you.

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**Jeffrey M. Ettinger**

*Interim Chief Executive Officer & Director, Hormel Foods Corp.*

A

So, this is Jeff, again. Let me talk about more the kind of the financial side of it. But then I want – I'd like John to be able to comment on where we saw this fitting in terms of our long-term view of this consumer landscape. As Paul pointed out in his comments, we not only said that, hey, we think the net sales impact for fiscal 2026 will be roughly \$50 million. We have most of our whole turkey sales booked already, and we have custom manufacturing arrangements with LSI to fulfill those. And then Paul gave you a kind of a generalized typical range of \$200 million to \$275 million. Obviously, that's in 2027. It'll depend on how many whole turkeys LSI decides to run through the plant. It'll depend on what the pricing is and so forth. But that gives you an idea of what typically the sales of whole-birds and bone and breast from the hen complex were in Hormel's results.

You know, in terms of the bottom line, we've said it's highly volatile and it's low margin. We have not previously provided specific margin breakout for the whole-bird piece of the business. What we can tell you is that in a typical year it is significantly dilutive to retail margins. You know, there have been isolated years of more meaningful profitability, but those are outliers. John, do you want to comment on more consumer side of our thinking?

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**John Ghingo**

*President & Director, Hormel Foods Corp.*

A

Good morning, Tom. And just to touch a little bit on the strategic rationale that part of your question. We continue to see an opportunity with turkey to accelerate our efforts, but really against what I'll call the value-added consumer opportunity. And if you look at turkey, it is on trend in so many ways with consumers and with our operator partners in foodservice. So, this transaction will really allow us to increase our focus and accelerate the efforts on that part of the business. In particular, from a retail perspective, our thriving ground turkey business, the turkey breast business, other value-added formats, these are all consumer opportunities. We continue to drive really strong growth behind those platforms. You can see the ground turkey business just this recent quarter was up over 15% for us in dollar consumption. So, we want to continue to drive that.

When I talk about Foodservice, turkey has become a critical part of our solution set for our operator partners across channels and foodservice. If you think about formats like premium oven roasted sliced turkey, which we leverage across non-commercial and commercial foodservice outlets, it's really operators looking to deliver premium experience with less labor, or another example of where we have really plugged turkey in quite well is in

the K-12 segment in schools. And if you think about, really interesting alternatives for that K-12 segment where we bring flavor and exciting formats to turkey through our Foodservice business, so things like turkey taco meat, turkey jalapeno popper meatballs, turkey nuggets, there's just a lot of opportunity there for the poultry segment. And our leadership position in turkey gives us a lot of room.

So whether it's Retail or Foodservice, accelerating, increasing our focus, accelerating our efforts by – through this transaction, what that looks like is, really spending more of our time, the focus of our team, our resources, our energy in conversations with our customers, really driving against the value-added parts of the business and not as much on, what I would call the whole-bird part of the business, which really is more commodity driven, more relying on holiday demand. But certainly to your point on volatility, very subject to those commodity fluctuations year to year.

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**Thomas Palmer**

*Analyst, JPMorgan Securities LLC*



Great. Thanks for all the detail.

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**Operator:** Thank you. Your next call comes from Leah with Goldman Sachs. Please go ahead.

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**Leah Jordan**

*Analyst, Goldman Sachs & Co. LLC*



Hi. Good morning. Thanks for taking my question. I wanted to ask about the Retail segment as it was a little light versus our expectations. And I know you called out some logistics headwinds, but we also still haven't seen the full benefit of your recent pricing actions. So, seeing if you could provide more detail on the key puts and takes for the Retail segment in the quarter and then how we should think about them as we move throughout the year. Thank you.

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**John Ghingo**

*President & Director, Hormel Foods Corp.*



Great. Leah, it's John. I'll take that question. Good morning. And obviously a very good question. For me to talk about Retail, what I'll do is I'll start off at the top line, kind of work my way down to margins. I would say, overall for Retail, we feel good about the consumer takeaway we're seeing across our branded portfolio. Despite what is a choppy environment, a strained consumer backdrop, we continue to feel good about the consumption on our branded portfolio.

That being said, in the quarter, Retail top line net sales performance was down 2%. That year-over-year decline was driven by a strategic exit of certain private label nut items. The branded portfolio, on the other hand, continues to see fairly strong consumer takeaway. I mentioned in my remarks that Hormel's total dollar consumption was plus 2% on the quarter in the latest 13 weeks of Circana data. In fact, our priority brands drove that. They were up 3% on the quarter in terms of dollar consumption growth driven by Jennie-O, Planters, our Mexican brands, pretty broad-based growth, our Hormel Gatherings, Applegate continued to grow. So, a nice cross-section of our priority brands really driving consumption growth, which I think does speak to the relevance of our protein-centric portfolio in this environment.

That being said, profitability for the quarter, certainly below prior year. And if you kind of look at how things play out, a significant driver compared to prior year is certainly the commodities. And we're still experiencing the very high commodity markets that we saw soar on us late last year. And those markets have us clearly facing increased COGS, significantly above – our COGS, significantly above where they were prior year.

And as we mentioned on the call last quarter, we announced two waves of retail pricing. The first one took effect for Q1. And the second wave, the one that we announced later in Q4, we mentioned we wouldn't expect to see the benefits of that second wave of pricing until Q2. And so overall, the way I would describe the pricing is the actions have been well-accepted. The elasticities, where we've implemented the pricing actions, are generally playing out in line with our expectations at this point. We will continue to get additional benefits from that second wave of pricing action in Q2 and beyond.

And in general on Retail, to go to kind of the outlook part of your question, we're working at three primary aspects to improving our margins on that business. Pricing is one, as I mentioned, right? That's critical. Following the commodity increases, we've seen.

Our Transform and Modernize initiative is the second aspect. We continue to drive productivity and efficiency across our entire supply chain. That work is ongoing and is very important. And then the third aspect of improving margins on the Retail business is mix. And, when I talk about [ph] distorting (00:37:06) resources, driving growth behind our priority brands, those are the businesses that tend to be margin favorable for us, so that's a part of it. But it also is a part of, pulling back and at times exiting and walking away from certain businesses which are in the lower margin part of our retail portfolio. And you continue to see us doing that as well. So, that's kind of the dynamics that are playing out.

What I will also say is in the first quarter, in addition to those high commodity markets, we began to experience unexpected increases in freight and logistics costs, and that really popped up in the latter part of the first quarter. I'll ask Paul if you can comment a little bit, Paul, on what we're seeing unfold there.

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**Paul R. Kuehneman**

*Interim Chief Financial Officer & Controller, Hormel Foods Corp.*

**A**

Yeah, thanks, John. So, we did see, as Jeff and John have pointed out, some significant tightening in the industry and specifically across the refrigerated sector in the back half of our first quarter. Spot rates began to increase as there were severe weather – winter weather events and driver availability did tighten. These pressures have continued in early quarter two and obviously we're still seeing some severe weather events across the United States. So, we're continuing to closely monitor these conditions throughout the industry dynamics, such as carrier exits and driver shortages as we head into quarter two.

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**Leah Jordan**

*Analyst, Goldman Sachs & Co. LLC*

**Q**

Thank you for that. That's really helpful color. I'll pass it on.

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**Operator:** Thank you. Your next call is from Ryan with Barclays. Please go ahead.

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**Ryan Lavin**

*Analyst, Barclays Capital, Inc.*

**Q**

Hey. This is Ryan on for Ben. Thanks for taking our questions. So, we wanted to look a little bit more at Foodservice and understand. So, volumes were essentially flat. And with that, are your pricing tools all implemented over in Foodservice? I know there's a little bit of delay on the Retail, but I want to understand the dynamic of how Foodservice customers are responding to those price increases and what you're seeing from the top line and the margins there going forward. Thank you.

**John Ghingo**

*President & Director, Hormel Foods Corp.*

A

Yeah. Yes. Thank you for the question. Ryan. This is John. I'll take that. So, we are, very encouraged by the start to the year in our Foodservice segment. You know, we did see that strong top line growth with 7% organic net sales growth, and that's 10 consecutive quarters, as we've mentioned in our prepared remarks.

So, the heart of our Foodservice model, we think is really a differentiated advantage model, which has allowed us to continue to drive that top line growth in what is still, I'll say, a challenging foodservice environment overall. We know traffic continues to be challenged in a number of the different aspects of Foodservice.

What we lean into there, the way we've been able to continue to drive the growth is three aspects. One is our direct sales team. We feel like this is a real competitive advantage for us. Our team is out on the street working with operators, working with our partners every day and [indiscernible] (00:39:53) how we can help them in the challenging environment, right? So that's a critical aspect.

The second piece is our portfolio of innovative solutions. We add value for the operators and we do help them with pain points, we help them with efficiency, we help them with reducing labor, we help them get high quality products on their menus in affordable ways. And so, the solutions-based portfolio is important.

And then finally, the critical aspect is we have a very diversified channel set on our Foodservice business. So, even when overall there are some headwinds in the industry, we can still work hard to find pockets of growth which enable us to really sustain that.

Now, on a net sales basis, we were plus 7%. Our volume came in flat, which, obviously with prices going up, with the protein markets going up and prices, flat volume delivery is a good delivery. I would say to your question on pricing, yeah, typically there is a lag time on our Foodservice. The prices will follow the markets. And as we talked about in Q4, we saw pretty dramatic, rapid increases in the market and we knew we would take a little bit of time to catch up on that.

First quarter, definitely, we did see our pricing coming back in line with the market movements, which did help us on the margin side recover what we had basically lost in Q4. So, that is the heart of what kind of is going on in terms of Foodservice, which is strong top line growth, pricing catching up with the markets that we saw explode on us late last year.

**Ryan Lavin**

*Analyst, Barclays Capital, Inc.*

Q

That's perfect. Thanks so much for the color. I'll pass it on now.

**Operator:** Thank you. Your next question comes from Heather with Heather Jones Research. Please go ahead.

**Heather Jones**

*Analyst, Heather Jones Research, LLC*

Q

Good morning. Thank you for the question. I just was wondering, first a details question, if you could give us a sense of how much of the volume decline in Retail was related to this snack nuts exit and it sounds like to a lesser degree the deli, and how you all are thinking about that trajectory over the rest of the year.

**John Ghingo***President & Director, Hormel Foods Corp.*

A

Good morning, Heather. Yeah, it's John. I'll take that question. So, obviously just stepping back on volume overall with rising protein markets, increasing prices, volume growth is more challenging. That said, we do feel good about flat volume delivery in Foodservice. We feel good about a little bit of volume growth in International. Retail is clearly where we had our volume decline.

And to answer your question, the way I would think about volume in the Retail segment is really in three buckets. The first bucket is what you're alluding to, which is the exit of that private label snack nut business, which was, let's say, a less strategic business for us. That was one of the drivers of the volume decline. But there are two other aspects I would touch on.

The second one is we did have a couple of declines, I'll say, on acute businesses with some soft consumption. Skippy being one of the areas where we have some volume softness right now. So, there was some volume softness on a couple of businesses, including Skippy. And then the third one, maybe the most obvious, but certainly all of the pricing in the portfolio and the elasticity dynamics around that pricing, which we expected and as I mentioned, elasticities are playing out in line with our expectations, but there is some volume coming out as a result of the pricing actions overall across the portfolio.

So that said, looking forward, I do feel like we can continue to drive growth and volume growth on our Retail portfolio. If you look at our priority brands, even in the latest 13 weeks from a consumption standpoint, we do have volume growth in a number of spots on our priority brands; Planters, Hormel Gatherings, Applegate our Mexican portfolio. So, we are growing volumes in a number of places. We'll obviously continue to invest with consumers and drive increased volume in pockets. But the reality is in this environment with pricing, there will be some throttling of that volume.

**Heather Jones***Analyst, Heather Jones Research, LLC*

Q

Okay. Thank you. And my follow-up is just as you all have taken a closer look at the business over these last few years – sorry, these last few months, when I look at the Retail segment, profitability even for 2025 has dropped roughly a third since 2021. Volumes are down some, but margins are down considerably. The Foodservice piece has grown nicely. But just as you're – as you've taken a look at the business, I was wondering if you could just sort of flesh out for us, like the opportunity to return to the margin levels we saw in the past. Are there any structural changes that are going to limit that ability? How much do you think is related to company specific execution issues? And just how you're thinking about maybe the next few years and what that Retail business will look like? Thank you.

**John Ghingo***President & Director, Hormel Foods Corp.*

A

Yeah, sure. You know, I'll comment a little bit on that, Heather, just to give you a little bit more depth around what I talked about earlier in Retail. Last week I spoke extensively at the CAGNY conference about kind of our new lens on our opportunity as a company. And we believe we have a really strong opportunity with our brands and capabilities in the Retail segment to win with consumers. We're in the process of pivoting our brands into some big consumer opportunity spaces, modernizing and refreshing our brands, modernizing our capabilities as a company. And I talked a lot about that in terms of some of the investments we're making in areas like data technology, analytics, e-commerce. So, there's a lot of pivot happening to make sure we can unlock those opportunities.

But I will tell you, when I look at our portfolio and I look at our roster of brands and what we call our top 8 priority brands, which I talked about at CAGNY, when I look at our next sources of growth, which are incredibly aligned with future consumer trends, we have a lot of opportunity to drive growth and profitable growth. So, the lens we brought to that was a consumer lens, but it certainly was also a financial and strategic lens to say how do we make sure we're driving the parts of our portfolio where we have strategic advantage, where we have strong margins, where we have consumer opportunity, so we can drive growth and favorable mix over time on the Retail business, and then the capability piece is what is it going to take to deliver all of that. So, we feel very good about the outlook for our Retail business, our ability to do that over time. We feel like we're making the right investments now to continue to make that pivot.

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**Heather Jones**

*Analyst, Heather Jones Research, LLC*

Q

Okay. Thank you so much.

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**Operator:** Thank you. Your next question comes from Chris with Bank of America. Please go ahead.

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**Chris Downing**

*Analyst, BofA Securities, Inc.*

Q

Hey, guys. It's Chris Downing on for Pete. Thanks for the question. Two quick ones on the whole-bird business divestiture. One, how should we think about this transaction relative to the WholeStone Farms transition you went through in 2018 on the pork side? What would be some of the similarities and differences? And two, can you remind us what percent of the legacy Jennie-O portfolio whole-birds was? I believe at last disclosure, it was around 20%, but just wanted to double check that. Thanks again.

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**Jeffrey M. Ettinger**

*Interim Chief Executive Officer & Director, Hormel Foods Corp.*

A

Hi, Chris. This is Jeff. I'll tackle this one. So, I mean, I would look at the turkey complex at Hormel has on as differently than the pork complex. Hormel at its peak in the pork complex was like the number six or seven player. Another dynamic in it is in the Upper Midwest, there are anti-corporate farming laws that apply to beef and pork. And so, Hormel never had a vertical operation here in the Upper Midwest. We did own farms in mountain and prairie out in the western area for a while and with Farmer John. But again, it was a small percentage of the business. So, I think in that case, the notion of having somebody else take over some of the deep verticality of that business made a lot of sense.

On the turkey side, Jennie-O has been the big player, or one of the two or three big players in the industry for a long time. We think we are an effective, low-cost producer. We have substantial Tom assets that we are retaining indeed. You know, we talked about selling the Melrose plant, but we're actually keeping plants in Barron, Faribault, Willmar, Montevideo and Pelican Rapids. So, I think they're different.

I mean, the mentality of ultimately, hey, there may be opportunities to get closer to the consumer and not be as vertical, it's a logical question. We did ultimately identify the whole-bird business as being less strategic and more volatile, and hence thought it was better owned, frankly, by LSI. But otherwise, no, we were committed to the Tom aspect of the business and we think it gives us an important continuity of supply and cost advantage. ultimately for those value-added products.

In terms of the percentage, I mean, I think, we could follow up with you on that. I mean, I don't think you're way off, but it's, at the \$200 million to \$275 million, I mean, it's been a while since we obviously we reported Jennie-O as its own segment, but that gives you some ballpark.

**Chris Downing***Analyst, BofA Securities, Inc.*

Q

Thanks. I'll pass it on.

**Operator:** Thank you. Your next call comes – your next question comes from Rupesh with Oppenheimer. Please go ahead.

**Rupesh D. Parikh***Analyst, Oppenheimer & Co., Inc.*

Q

Good morning and thanks for taking my question. So, just going back to the full year guidance, so given your 2Q guide implies a pretty significant profit acceleration in the back half of your fiscal year. So, just, just curious on your confidence in being able to drive that improvement as we get towards the back half of the year. Thank you.

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

A

Yeah. Thanks, Rupesh. This is Jeff, again. I'll tackle that. And we're pleased to be off to the solid start that we've talked about today. We're happy with our fifth consecutive quarter of organic net sales growth and glad to be \$0.02 ahead of our bottom line target after Q1. In light of the logistics cost trend, we think our confirmation of both our top and bottom line annual guidance range should be seen as a prudent, yet confident sign. And we would remind you that as we head through the year, we're expecting sequential profit improvement and there's a number of levers or drivers to that. We should see benefit from the pricing actions. We should continue to see T&M benefits, we will benefit from ongoing SG&A savings, we expect modest improvements in many of the commodity markets in the back half. And you know, frankly, our – in Q4, we had some one-time discrete events that hurt us last year that we don't expect to happen again, obviously. And so that should be a benefit as well.

**Rupesh D. Parikh***Analyst, Oppenheimer & Co., Inc.*

Q

Great. And then maybe one follow-up question just on the Retail segment. I know you've got a number of questions so far on the call. As we think about maybe the exit rate from a top line perspective, would you be expect – would you expect to be closer to flat on the organic net sales line for Retail as you get towards the end of your fiscal year? Just trying to get a sense of the exit rate. Thank you.

**Paul R. Kuehneman***Interim Chief Financial Officer & Controller, Hormel Foods Corp.*

A

I mean, for our segment detail guide in Retail, I think on net sales, we continue to – you're right, in terms of where the private label nut business really has been and where it exists here for the first quarter. I do think that, for volume, we expect modest declines just given the private label nuts and the elasticities related to pricing within the Retail segment. And as we stated back at the start of the fiscal year back in November, Retail for segment, we're going to have modest declines in volume with net sales on low-single digits on to flat, and that's where we going to think we're still going to be.

**Rupesh D. Parikh***Analyst, Oppenheimer & Co., Inc.*

Okay. Great. Thank you.

Q

**Operator:** Okay. Thank you. [Operator Instructions] Your next question comes from Pooran with Stephens. Please go ahead.

**Pooran Sharma***Analyst, Stephens, Inc.*

Good morning and thanks for the question. Wanted to maybe start off with understanding what percent of your profits are now commodity. I think, in your 2023 Investor Day, it was about 10%. But you've made some moves. You sold out Mountain Prairie. Now, with the sale of commodity, I was just wondering how we should think of Hormel profits in terms of value-added commodity.

Q

**Paul R. Kuehneman***Interim Chief Financial Officer & Controller, Hormel Foods Corp.*

Yeah, this is Paul. I'll try to answer that, but we really don't track that answer specifically. This can be something that Florence and the IR team follow up with you later. Obviously, as you know, we have had declines here with the sale of Mountain Prairie and then the definitive agreement here with the whole-bird turkey operation, which will [indiscernible] (00:52:48) commodity growth as well as what we went through with the reorganization and what we call Project Tower internally with looking at our turkey operation full and reducing some of the harvest levels a couple of years ago. So, they can follow up with you more on that, but it definitely is down from where it was back in 2023.

A

**Pooran Sharma***Analyst, Stephens, Inc.*

Okay. Appreciate the color there. I wanted to – for my follow-up, I wanted to ask about the whole-bird, sorry to pile on here but, I know you had a procurement strategy for Jennie-O before where I believe you were an overall buyer of dark meat just given the prevalence of your ground turkey product. Does the sale of the whole-bird business because in your prepared comments you mentioned breast in there as well. Does this change your procurement strategy at all at Jennie-O?

Q

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

This is Jeff. No, it really doesn't. I mean, the Tom complex, if you will, we mentioned the farms and feed mills and plants that we have related to that, but for many years, Jennie-O has also supplemented its own production with the purchase of certain raw materials that are key to many of our value-added items, and that will continue. There is an aspect of the contract whereby we can get a small amount of some of the dark meat products from LSI on the hens that they bone out. And so that would be one minor change, I guess, to the operation.

A

**John Ghingo***President & Director, Hormel Foods Corp.*

And I would just add also to what you heard in the call, we identified bone and breast as a product coming off of the hens, so that's not really breast meat that's going into the value-added product coming off of Tom turkey. So, that is a finished good product that's coming off of a hen only.

A

**Pooran Sharma**

*Analyst, Stephens, Inc.*



Okay. Appreciate the clarification.

**Operator:** All right. Thank you so much. That concludes our Q&A session. I will turn the call over to Jeff. Please go ahead.

**Jeffrey M. Ettinger**

*Interim Chief Executive Officer & Director, Hormel Foods Corp.*

Thank you very much. I appreciate everyone's questions today. And we thank you for joining us, particularly at this early hour. We are pleased with our solid start to fiscal 2026 and the momentum we are building across our business. The initiatives we have implemented are positioning our company for continued success, and we look forward to updating you on our progress throughout the year. Thanks very much.

**Operator:** Ladies and gentlemen, this concludes today's conference call. Thank you for participating and you may now disconnect.

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