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Hormel Foods Corp. (HRL)

Q2 2026 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 28, 2026.

I would now like to turn the conference over to Jess Blomberg, Director of 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 2026. We released the 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 Investors 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 second quarter results and provide a perspective on the remainder of the year. We will conclude with the 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. At the conclusion of this morning's call, a webcast replay will be posted to the Investors 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.

Jeffrey M. Ettinger

Interim Chief Executive Officer & Director, Hormel Foods Corp.

Thank you, Jess, and good morning, everyone. We delivered an excellent second quarter, highlighted by continued top line momentum and meaningful improvement in bottom line performance. Our top line results remained a clear area of strength, as we achieved our sixth consecutive quarter of organic net sales growth. This performance reflects both the quality of our execution and the strategic positioning of our portfolio, as we delivered these results despite a dynamic external environment.

All three segments drove net sales growth, with notable contributions from Foodservice and International and momentum across certain key retail brands. As we have said before, our protein-centric portfolio positions us well to meet consumer and operator needs, and we continue to see that advantage translate into marketplace performance during the second quarter.

We also delivered impressive double-digit adjusted earnings growth. In addition to our sales growth, earnings benefited from margin expansion, improved manufacturing performance, and solid results from our joint ventures, which more than offset higher logistics expenses during the quarter. This resulted in segment profit growth across all three segments and second quarter results that exceeded our original expectations.

Encouragingly, the drivers of our second quarter results align with the growth levers we shared with you coming into the year. Pricing actions, mix improvements, productivity gains in our supply chain, and benefits from our restructuring actions are expected to drive growth throughout fiscal 2026 and were central to our second quarter performance. Finally, our continued focus on enhanced collaboration across the organization allowed us to respond more quickly to an evolving environment.

Given our strong first half results and improved visibility into the balance of the year, we have even greater confidence in our ability to achieve our full year plan. We are reaffirming our organic net sales and adjusted earnings per share expectations. Based on how the year is progressing and the underlying momentum of the business, we believe we are trending towards the upper half of our earnings range. However, we think that maintaining our current outlook is the right approach at this stage of the year and appropriately reflects near-term dynamics.

While we expect the back half overall to deliver both top and bottom line growth, we now see third quarter adjusted earnings to be more in line with the prior year. This reflects expected near-term cost pressures, including certain commodity inputs and higher logistics expenses, as well as actions to rebalance some inventory levels,

which Paul will cover in more detail. While this affects quarterly cadence, it does not change the strength of the underlying business and is fully reflected in our full year outlook.

In summary, we are very encouraged by our performance. We drove another quarter of top line growth, expanded gross margins and executed with discipline across the organization. We are confident in our ability to deliver our full year guidance and remain clear-eyed about near-term operating dynamics, leaving us well positioned for the year. We believe these results reinforce both the strength of our portfolio and our ability to drive sustainable, profitable growth over time.

With that, I will turn it over to John to provide more detail on our operational performance.

John Ghingo

President & Director, Hormel Foods Corp.

Thank you, Jeff. Before turning to the quarter, let me start with what we're seeing in our business and across our consumer base. While consumers are under pressure and sentiment is low, food has remained resilient in recent months, particularly with growth in protein, where our portfolio is well positioned. Consumers and operators are prioritizing products that deliver clear value, whether it's convenient kitchen shortcuts, substantial snacking solutions, or affordable protein options. We are focused on helping consumers and operators make protein work better for them.

Our approach to winning in protein is grounded in consistent execution, connecting with consumers in meaningful ways, delivering across usage occasions, and meeting demand across a broad range of price points. We've stayed disciplined in how we price, innovate and partner with customers and operators, and this strategy helped drive the consistent top line growth we delivered in the second quarter. In addition to this, as an enterprise, we executed well across our supply chain. The combination of protein-led growth and disciplined execution is apparent across our results for the second quarter.

Let's start with Foodservice. This was another outstanding quarter. With organic net sales growth of 7%, this marked our 11th consecutive quarter of organic net sales growth, with broad-based strength across this portfolio. Brands such as Hormel Natural Choice, Austin Blues, Jennie-O and Fontanini delivered strong performance.

Just as important, profitability improved in the Foodservice segment as market-based pricing went into effect and we realized some cost benefits across our supply chain. As a result, we saw gross margin expansion and a segment profit increase of 11% for the second quarter.

In an environment where traffic remains pressured, we've been able to consistently deliver growth. Our solutions-based portfolio, combined with our direct sales force, remained a clear competitive advantage in the quarter. Working closely with our operators allows us to move quickly and deliver solutions that meet their evolving needs. In this environment, we delivered solutions across both value and premium tiers, which helped operators manage cost pressures while still differentiating their menus.

Take pepperoni and our leadership in pizza toppings as an example. Pepperoni was a driver of top line growth in the quarter, with offerings spanning traditional to artisanal and mainstream to premium. The team continued to build on that momentum through innovation. And at this year's International Pizza Expo, our team launched new Calabrian chili pizza toppings, reflecting our ability to stay close to emerging trends that will help drive traffic. We believe this kind of innovative and anticipatory mindset will continue to propel our Foodservice segment. Simply put, in Q2, the Foodservice segment again performed at a very high level.

Turning to our International segment. We delivered a very good quarter, with organic net sales up 5% and segment profit growing 20% versus prior year. These results reflect momentum across key markets and brands. China remained a driver, supported by strong demand and the success of our localized strategy. Our branded export business, led by our SPAM brand, also performed well once again, reflecting global demand and the strength of our portfolio. These results are the outcome of focused execution, disciplined investment of resources and a clear strategy to grow in the right markets with the right brands and products. And importantly, we see continued opportunities ahead.

Now to Retail. Retail performed ahead of our expectations in the second quarter. We delivered 1% organic net sales growth, margin expansion and 13% segment profit growth. Performance was strong across several key areas in the business though opportunities remain and we are taking deliberate actions to address them.

We continue to see momentum in our key growth platforms, particularly within value-added poultry. The Jennie-O and Applegate brands continued to benefit from sustained demand for lean protein forward offerings. Jennie-O ground turkey delivered another quarter of double-digit dollar sales growth and dollar share growth based on the latest 13-week Circana data ending April 19.

Applegate products have also continued to build momentum, with a strong second quarter driven by frozen breaded chicken and chicken breakfast sausage. These platforms reflect how we are aligning with evolving consumer preferences and competing effectively across attractive growth segments.

Another area of progress is the Herdez brand, where we expanded distribution and benefited from innovation. The salsa portfolio delivered encouraging dollar and volume consumption growth in the quarter and we are extending this authentic Mexican brand into new occasions through entrees, marinades and seasoning solutions. Taken together, these results demonstrate how we are strengthening our relevance with consumers and expanding our presence across the store.

We also executed with a measured and data-driven approach on pricing, where we work closely with our customers to implement actions strategically and in support of the overall health of our categories. Our second wave of pricing actions was fully reflected on shelf during the quarter and elasticities tracked largely in line with expectations, reflecting this disciplined approach.

That said, we have a few opportunities across our portfolio where we can do better. In some cases, this reflects near-term timing-related dynamics, including promotional lapping where we have good visibility to recovery. In other areas, we are seeing more structural pressure requiring targeted actions to reposition those businesses.

In these areas, we are focused on improving competitiveness through price-pack architecture, more targeted promotional strategies and sharper in-store and e-commerce execution. At the same time, we are refining assortment, prioritizing innovation and ensuring resources are aligned to the highest return opportunities. Overall, we are encouraged by the progress in Retail and remain focused on advancing performance across the portfolio.

Stepping into supply chain. We delivered solid operational results across the enterprise, with meaningful improvements across our vertically-integrated turkey operations. This was driven by favorable growing conditions and improved manufacturing performance. This operational excellence became a tailwind for both Retail and Foodservice profit growth during the quarter.

During our Q1 call, we flagged freight and logistics as an area we were watching. While those costs were a year-over-year headwind, we improved execution in the second quarter to better navigate the environment and manage costs. This reflects the benefits of a more connected and responsive supply chain.

Beyond this, logistics costs were further impacted by the increase in fuel prices, which added incremental pressure during the quarter. When you step back, the progress we are making across the enterprise through our brands, our customer partnerships and our internal operations reinforces that the work to sharpen our strategy and strengthen our capabilities is translating into more consistent execution.

We also see opportunity to move faster and unlock additional value, especially through technology. We were excited this quarter to welcome our first-ever Chief Technology Officer to Hormel Foods, Don Monk. Don is an exceptional leader, with more than 35 years of global experience and a track record of successfully implementing modernization of technology at large global organizations.

The addition of a CTO to the leadership team represents an important step in strengthening our digital and technology capabilities and enabling greater speed, agility and impact across the business.

What I've seen across the organization is a team that is motivated to win and focused on seizing the many opportunities in front of us. I've seen, firsthand, the power of our protein-centric portfolio and the enduring demand for our brands and products. As we look to the back half of the year, I am confident in our ability to execute, navigate the environment and deliver on our commitments.

With that, I will turn the call over to Paul to discuss our financial performance for the quarter and our full year guidance.

Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

Thank you, John. As Jeff and John noted, we delivered a strong quarter with solid performance across all three segments. Organic net sales grew 3% versus the prior year, marking our sixth consecutive quarter of organic growth. Cost of goods sold had multiple drivers throughout the second quarter. Pork and beef remained elevated relative to historical levels, but overall, the commodity environment unfolded as anticipated.

As John mentioned, logistics remained a year-over-year headwind for us in the quarter, but not as large as we expected. Given the timing of the geopolitical conflict, the second quarter saw only a portion of the elevated fuel pressures. Despite this backdrop, we more than offset discrete cost pressures through top line growth, market-based pricing actions, favorable mix and ongoing productivity improvements. As a result, gross profit was up 7% versus last year, and gross margin expanded to 17.4%, up 70 basis points, reflecting strong execution across the business.

Equity in earnings increased 12%, mainly driven by year-over-year growth from our MegaMex joint venture. We completed an important strategic transaction in the quarter, closing on the divestiture of our whole-bird turkey business. This move reinforces our focus on higher value, less volatile branded offerings. We recorded a loss on the transaction reflected in SG&A, which drove the year-over-year increase in that metric. Adjusted SG&A was up just 2%, reflecting good cost discipline.

Adjusted operating margin expanded 80 basis points. Other income increased in the second quarter, primarily driven by the investment gains within the rabbi trust. Excluding onetime items, underlying performance was strong. Adjusted earnings per share was \$0.40, up 14% versus prior year.

Turning to cash flow and capital deployment. We generated \$179 million of operating cash flow. Capital expenditures were \$82 million. We invested in data and technology and infrastructure to support long-term growth. We returned \$161 million to stockholders through dividends, fully aligned with our capital allocation framework. We remain committed to the dividend and are proud to have reached our 391st consecutive quarterly payout. We ended the quarter in a strong financial position with ample liquidity and a conservative balance sheet. Cash on hand totaled \$827 million, up \$156 million since the end of fiscal 2025. This gives us flexibility to continue investing in the business while returning capital to shareholders.

Looking ahead, we are confident in our position for the remainder of the fiscal year. We are reaffirming our full year net sales expectations of \$12.2 billion to \$12.5 billion and our full year adjusted earnings per share guidance of \$1.43 to \$1.51. We remain confident in this guidance range, which incorporates a balanced and realistic view of the dynamic external environment. We are updating our GAAP earnings per share range solely to account for the loss on the sale of the whole-bird turkey business.

Let me walk you through a few key assumptions behind our outlook given our solid first half. At the segment level, our organic net sales expectations remain unchanged, including flat to low single-digit growth in Retail, mid-single-digit growth in Foodservice, and high single-digit growth in International.

As Jeff mentioned earlier, while Q2 came in ahead of expectations, we do anticipate some cost headwinds as we move into the third quarter and the back half of the year. First, we are closely monitoring pork and beef markets. We do believe our guidance range appropriately reflects potential second half volatility.

Second, fuel is expected to remain a headwind, and logistics costs are projected to pressure results on a year-over-year basis. Execution strengthened in the second quarter, but the broader logistics environment remains dynamic. We believe we have plans in place to continue to mitigate these headwinds.

Third, we are taking targeted steps to rebalance certain ambient inventory levels. As we advance toward becoming an even more connected enterprise, this is a clear example of how integrated business planning is driving more forward-looking decisions. As we work through this adjustment, we do expect some near-term cost pressure primarily in the third quarter due to lower plant utilization. However, this action supports a more efficient operating model going forward.

Finally, our effective tax rate is trending toward the higher end of our range. Overall, while we continue to expect bottom line growth in the second half, our current view for the third quarter is that adjusted earnings will be more in line with the prior year.

Turning to our recent divestiture of the whole-bird turkey business. There are no changes to our previously shared assumptions related to the transaction. We still expect about a \$50 million reduction in fiscal 2026 net sales with minimal impact to the full year adjusted earnings. I want to take a moment to thank the teams who led and executed this transaction. Their speed, focus and thoughtful execution were critical in completing this work during the second quarter.

In summary, the strength of our second quarter gives us the confidence to reaffirm our net sales and adjusted earnings expectations for the year. We feel confident in our ability to continue delivering results.

At this time, I'll turn the call over to the operator, and we'll open it up for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question comes from Leah Jordan with Goldman Sachs. Your line is now open.

Leah Jordan

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. Thank you for taking our question. So, you had really strong 2Q results today, but there's also been some investor concern around input cost inflation and freight heading into the back half. So, seeing if you could provide more color on the decision to reaffirm the guide today and what sounded like even greater confidence in that outlook?

Jeffrey M. Ettinger

Interim Chief Executive Officer & Director, Hormel Foods Corp.

A

Well, thank you, Leah. This is Jeff Ettinger. I'll take that question, and appreciate the chance to give more color on why we are comfortable with reaffirming our guidance range on both the top and bottom line. On the top line clearly, we're rolling along. We have six straight quarters of top line growth and we fully expect to keep it up in the second half. We are benefiting from our protein-centric portfolio and our Retail and Foodservice balance. When it comes to the bottom line, we assess where we are at. And while we recognize that we're ahead at this point in the year, we feel we're still within the range. As I said in my comments earlier, we do believe we are trending to the upper half of the range at this point. Our ability to connect with consumers and operators, coupled with solid management of our business, does indeed make us even more confident that we can deliver on our year plan and our algorithm growth.

In terms of timing, we did mention some challenges in Q3, and that was covered in your question as well. We do see that quarter coming in closer to a year ago. We will be looking at a full quarter of higher fuel expenses where our commodity market assessment right now is running above our original plan in terms of some of the cost inputs. And we will be doing some inventory rebalancing and having some of the operational changes that Paul mentioned in his comments. These factors really don't change our view of the underlying strength of our business. And in reaffirming the range, we recognize that this still implies bottom line growth in the second half, which we now expect to come primarily in Q4. I mean, overall, we're more confident than ever in our playbook, our growth levers for the year, and our ability to deliver our fiscal 2026 outlook.

Leah Jordan

Analyst, Goldman Sachs & Co. LLC

Q

That's all very helpful. Thank you. And then just in a related follow-up, I think one of the things that really came through on your comments this morning have been around productivity improvements and the strength and execution there. Just – and I know, coming into the year, cost savings and SG&A was a big initiative. Maybe you could provide an update around what's been done, what's still left. Is this the right level we should be thinking about as a percent of sales at this point, or, I guess, just the outlook on the SG&A savings? Thank you.

Jeffrey M. Ettinger

Interim Chief Executive Officer & Director, Hormel Foods Corp.

A

Sure. Again, this is Jeff. I'll be happy to talk with that. Really, our SG&A reductions that we've talked about are on track for the year. Our efforts, I should call them, net-net, as Paul mentioned, Q2 SG&A was up a modest 2%. But

prior to the efforts that we undertook at the end of the year, we were trending at a much higher level than that. And we recognized that, to put us in the best position to have our bottom line be more reflective of the growth we are already enjoying on the top line, we needed to take some actions to address that. So, there definitely have been some meaningful benefits from this work. We've had savings that have freed up capacity for growth objectives. We've been able to invest in new capabilities and talent. And we've – and indeed, we're also covering SG&A headwinds, such as wraparound incentives. So, last year wasn't a very good year. This year, hopefully, we will be paying our proper incentives to our team.

And I also want to add the reminder of what I talked about last quarter that some of the actions we took really don't show up in the SG&A line. They show up in cost of goods if they're related to costs that would roll through the plants. So, bottom line, we're really pleased with the results we've seen thus far this year when it comes to the SG&A efforts, and the steps we've taken on our structure and expense control seem to be working.

Leah Jordan

Analyst, Goldman Sachs & Co. LLC

That's all very helpful. Thank you. I'll pass it on.

Operator: Your next question comes from Rupesh Parikh with Oppenheimer. Your line is now open.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Good morning and thanks for taking my questions. So, I just want to start with the gross margin line. Better than expected performance in Q2. You did call out some headwinds to expect in Q3. So, just curious how you guys are thinking about the outlook for gross margin in Q3 and then for the balance of the year.

John Ghingo

President & Director, Hormel Foods Corp.

Good morning, Rupesh. This is John. Thank you for the question. Yeah, we did have gross margin progression across the business, certainly, if you look across the segments, Retail, Foodservice and International. I'll dig into Retail a little bit since that's some of the driver in the change that we've seen.

Retail had a strong quarter, certainly after a softer start to the year. If you kind of play through the P&L on Retail, we could start with the top line, where we do feel good about the consumer takeaway we're seeing across the branded Retail business. It certainly is a choppy environment. The consumer continues to be strained. But if you look at the health of our branded portfolio and you know how important that branded portfolio is to our mix, we did see good consumption. So, we saw plus over 1% consumption growth in the quarter on a dollar basis, which was driven by 3% dollar consumption growth in our priority brands.

So, if you kind of flow that down then into the gross margin conversation, what you'll see is we had an improved profitability quarter in Retail, no doubt. We experienced the benefits of that second wave of Retail pricing. So, we mentioned that in the call last quarter. That wave was announced toward the very end of fiscal 2025.

So, really, with about a 90-day lag time on that pricing being in effect, it was the second quarter that benefited from it in Retail. On top of that, we did get the positive mix benefit. So, if you look at the growth we saw on Jennie-O ground turkey, Applegate, Black Label bacon, those were all mixed drivers for us in Retail. And then, as we mentioned in our remarks, the manufacturing benefits in the quarter buoyed the business and that buoyed both Foodservice and Retail.

So, if we kind of step back and look at the drivers across the business, that manufacturing performance driven by turkey notably helped both Foodservice and Retail margins. Pricing helped both Foodservice and Retail margins and mix was a positive driver for both Foodservice and Retail.

Now that being said, on Retail in particular, we still have work to do as we're heading into the back half. If you kind of look at the big picture, freight costs remain elevated, commodity costs remain elevated, we will see some impact on margins as a result of that rebalancing of inventory on select ambient items that Paul mentioned and we still have work to do in Retail and some of our brands that are not meeting our expectations.

So, in general, we feel really good about the margin progression. Certainly still some work to do, but we feel very good about our overall progress.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Q

Great. And then, my follow-up question. Just on Retail, so, return to positive growth this quarter, just confidence in sustaining momentum for the back half of the year within Retail.

John Ghingo

President & Director, Hormel Foods Corp.

A

Yeah. Thanks for that question, too. So, what I would say is we feel very good about our ability to continue to drive top line and consumption momentum on our Retail business, in particular on those priority branded businesses. We've seen a number of quarters of good consumption growth driven by our priority businesses. We feel good about the pricing we've put in place. Elasticities are performing largely in line with our expectations. So, those elements feel good.

That being said, there will be some noise in the back half on Retail. If you kind of look at the changes we've made, which are important strategically for us in the long run in terms of portfolio shaping, you'll recall that we announced the sale of the majority of the Justin's brand, largely a retail brand for us.

We mentioned last quarter that we're stepping back from some private label snack nut business that was a big volume and sales driver for us. And most of that whole-bird turkey divestiture, those impacts will be seen in the Retail segment as well. So, as we look at next quarters, we look at second half overall, the branded part of the Retail business, we feel very good about the progression, we feel very good about our ability to drive consumption growth there, but it will be a bit of a noisy quarter in terms of overall impacts on net sales and volume.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Q

Great. Thank you. I'll pass it along.

Operator: Your next question comes from Heather Jones with Heather Jones Research. Your line is now open.

Heather Jones

Analyst, Heather Jones Research, LLC

Q

Good morning. Thanks for the question. I first wanted to ask about the turkey network manufacturing changes you made. I would assume you had higher volume this year. So, I'm sure that helped, but were there other changes that you all made in that network that helped and would expect to continue going forward?

Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

A

Good morning, Heather. This is Paul. Thanks for the question. Obviously, as John mentioned, there are some weather factors involved in there. As you mentioned, the volume improvements also helped putting the throughput through our plants. Overall, that's really what the benefits that we recognize in the supply chain. And then, those favorable growing conditions also helped in terms of feed conversion and the weights of the turkeys coming through our facilities.

So, overall, really good manufacturing performance. This can be cyclical. Weather is never easy to predict. And so, that's one of the things we are watching and we've got included in our range guidance for the second half.

Heather Jones

Analyst, Heather Jones Research, LLC

Q

Okay. And then, my follow-up is, if I'm interpreting you all's commentary correctly, I just want to – I guess, I want to make sure I'm interpreting correctly. So, year-on-year, within Retail, you should have seen significant benefit from ground turkey pricing, just the turkey portfolio in general. But it sounds as if there was broad-based profitability growth across including your non-turkey business. So, am I interpreting that correctly and you think those businesses have stabilized?

John Ghingo

President & Director, Hormel Foods Corp.

A

Thanks, Heather. This is John. Yeah, I'll take that and try to build out a little bit. So, you are right. We did have a very strong quarter on ground turkey. So, we saw double-digit consumption growth, share gain, as I mentioned, and we had good performance through the supply chain.

That being said, we are seeing benefits across retail in terms of margin progression. And if you think about the pricing we took, the multiple waves of pricing when we saw the market spiking in the second half of last year, a lot of that pricing was rooted in things that were more beef, pork, nut-related, where we saw increases in commodity. So, that pricing flowing through has been really, really important. And then we've also seen mix benefits coming from other businesses that we've driven disproportionate growth on. That's been helpful. And our supply chain has been performing well overall. Outside of turkey, we had a good quarter.

Heather Jones

Analyst, Heather Jones Research, LLC

Q

Okay. Perfect. Thank you so much.

Operator: Your next question comes from Pooran Sharma with Stephens. Your line is now open.

Pooran Sharma

Analyst, Stephens, Inc.

Q

Good morning, and thanks for the question, and congrats on the strong results here. I wanted to start off and just better understand guidance. And I think you gave us really good commentary on 3Q is expected be roughly in line year-over-year. I'm just wondering, when we look at that on a segment level basis, should we expect sequential pressure in Retail or should we see some pressure in Foodservice as well as we look from 2Q to 3Q?

Jeffrey M. Ettinger

Interim Chief Executive Officer & Director, Hormel Foods Corp.

A

Yeah. Thanks for the question. This is Jeff again. As we did mention, we had a few discrete items to consider going into the third quarter, the spike that really everyone has experienced in fuel costs. In our case, we had six weeks of it in Q2. We'll have most likely all 13 weeks of it in Q3. We have seen commodity cost volatility. Our outlook right now is – on the pork side would be a little bit more like last year versus we had hoped to see some more relief, but that remains to be seen where that lands. And then what Paul and John both mentioned in terms of the targeted actions in certain plants to rebalance our inventories are why we're looking more at a kind of flat year-to-year on the bottom line for Q3. We do think our growth levers are still going to be working for us overall.

As John mentioned, there are some noise in retail, particularly on the top line. And net-net we're probably looking at a gross profit margin that's not quite as high as what you saw in Q2, but that's still improved over where we were trending before. So, I think we have created some sequential improvements there. And then on the Foodservice side, they will see some of the detriment of some of these challenges of freight in the network as well, but they've been on a very nice roll, and we expect them to be in a good position also.

Pooran Sharma

Analyst, Stephens, Inc.

Q

Okay. Appreciate that. And just on the follow-up, would getting you to the upper end of guidance require additional pricing actions from here?

Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

A

Thanks for the question. That's not one of the things that's getting us to the upper levels of the pricing range. We clearly have a lot of things going for us, with continued underlying strength in the business. But really to get to the upper end of the range, we're looking at Foodservice over delivery, continued turkey strength. Obviously, volume and mix upside can provide some benefit. And then the commodity markets are going to play a big role if we're going to get to the upside of the range, if they come in lower than forecasted. Those are really the driving forces of it. We do also have some wraparound pricing as would impact it, but that's not a driving factor to get to the top end of the range.

Pooran Sharma

Analyst, Stephens, Inc.

Q

Okay. Appreciate the color. Thank you very much.

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

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Hey, guys. Good morning. Thanks for taking the questions. I know we've spent a lot of time talking about gross margin in the quarter. But, Paul, and John, and Jeff, I think it might be helpful to kind of bridge the upside relative to your expectations. So, I mean, is there anything you can do to kind of help us understand the positive tailwind impact of the manufacturing in the quarter, maybe what that was worth? I know you said logistics were a headwind, but then I think you also said they were maybe less of a headwind than you initially anticipated. So, just any dynamics in the bridge for the quarter itself, I think, would be helpful.

John Ghingo

President & Director, Hormel Foods Corp.

A

Yeah, sure. Peter, this is John. I'll kind of walk through the second quarter a little bit. And obviously, we were pleased overall with the second quarter results. As a headline, we would say strong execution, but across the levers we've been talking about for the year. So, clearly, strong top line performance is where it starts, and we did see that across the company. We saw net sales growth in all three of our operating segments. Top line has been a consistent theme for us over the past six quarters, as Jeff mentioned earlier, but Q2 was another strong top line quarter.

On top of that, there were three other levers that contributed that we've been discussing. Pricing is one. I mean, pricing was really important. We saw the benefits of the pricing flowing through across the businesses that included, as I mentioned, that second wave of Retail pricing that we discussed last quarter. I mentioned favorable mix at the company level. Foodservice is favorable mix for us. So, that nice growth number we put up in Foodservice drives mix benefits for the enterprise. And then within the segments, Foodservice was driving higher-margin brands. Retail is benefiting through that growth on Jennie-O, Applegate, bacon. So, we did see a lot of benefits that were helping our margins overall.

And now to your question around manufacturing, yes. Manufacturing, we had a strong quarter overall. We did headline the turkey manufacturing, which was a very good performance as we saw, to Paul's point, in a very good growing conditions, strong manufacturing performance across our turkey facilities. But we had a good manufacturing quarter overall. And then beyond those business-driven results in the quarter, we did see a benefit of a discrete gain on the rabbi trust, but that was not the main driver of the performance. It truly was the business.

So, with all of that said, one of the reasons we feel good about the quarter is it was a challenging environment. The consumer is what I would describe as cautious still. We did talk about those known pressures last quarter around logistics, and that was a significant year-over-year headwind, although we did navigate it a little bit better than we had planned, which helped us. And then on top of all of that, the significant new headwind that popped up midway through the quarter was rising fuel costs. So, with all of that said, the second quarter exceeded our expectations and importantly gives us increased confidence in achieving our full year range.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Okay. Thanks for that, John. Paul, maybe as a follow-up, just to drill in a little bit on the inventory rebalancing. I mean, this has historically been something that has happened with Hormel over the years. Just curious kind of how we should think about the potential impact of that discrete item in 3Q both from a sales and margin perspective, again, as we kind of try to think about the EPS impact. And in light of that, I know you called out a bunch of incremental headwinds maybe into 3Q. One area where we've gotten some questions has been around pork bellies, which have actually flipped, I think, deflationary. And I know there's a bit of timing lag in the flow-through, but maybe you can talk about just what you're seeing within the pork complex. I know there are some puts and takes there from a headwind and tailwind perspective. Thanks very much.

Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

A

Thanks, Peter, for that question. Lot to unpack there. I'll try to go through it all. But I would characterize the inventory rebalancing as a really proactive step to better align our inventory levels across certain areas of the portfolio, like I said. I mean, I want to give some props to transform and modernize work that we've done that has enhanced our Hormel production systems and how we operate our plants more efficiently. And we've also taken

this integrated business planning journey and have improved that over the past six months. And so, our visibility to some inventory has really improved, that we've identified these opportunities to rebalance some of our inventory. We do expect this to have a short-term impact, as you noted, with lower plant utilization, mainly in Q3. But I do want to just emphasize it's not wide scaling. It's really certain ambient products with longer shelf life. And just think of the center of the store, canned items and Skippy to be kind of more precise. But as I said in the prepared remarks, these are targeted actions, which we expect to position us better going forward on the inventory rebalancing.

Regarding your pork bellies question, I will say that's all embedded into our guide. As you know, they are lower right now. But depending on who you listen to and what you see in forecast, there's a wide range of elements here on what's going to happen over the next six to eight weeks. And so, we're kind of in a wait-and-see model there in terms of where we are at. But we do have in our guide that we expect to be closer to the earlier part of or closer to last year in terms of the second half than where it's at in the present-day market.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Okay. Great. Thanks very much, guys.

Operator: Your next question comes from Max Gumport with BNP. Your line is now open.

Max Gumport

Analyst, BNP Paribas Securities Corp.

Hey. Thanks for the question. So, it sounds like you've got higher logistics costs, you've got the 3Q impact coming from lower cannibalization, you had fuel costs ramp up on you in the middle of the quarter, your tax rate is now tracking towards the higher end of the range, so tough headwinds that you didn't foresee at the beginning of the fiscal year. But clearly, you're off to a great start for these first two quarters, and you now think you're on track towards the upper end of the profit range. Can you just talk through a bit how much of this is maybe some cushion and conservatism in the initial outlook you provided versus how much is coming from things really operating much better than expected, whether it's the turkey network or other helps to profit that you are seeing? Thanks very much.

Jeffrey M. Ettinger

Interim Chief Executive Officer & Director, Hormel Foods Corp.

Sure, Max. This is Jeff. I mean, I think we talked to you even back when John and I were at our first call in these roles about a mentality toward, look, we know we need to set realistic plans and deliver those plans. It's always a bit of a balance between. You want to stretch some so that the team is reaching toward a somewhat aggressive goal. On the other hand, you want it to be realistic. And so, we talked even on that call about that the realistic timing for over the long run in this company should be our algorithm. It should be the 2% to 3% top line, the 5% to 7% bottom line. And so, indeed, when we came out with our plan for this year, it encompassed those ranges. Actually, it was maybe slightly on the higher side for the bottom line, making up for some of the onetime things we had last year.

So, as the years played out, I mean, for the first two quarters on the bottom line, we have indeed been a little bit ahead of what we had initially anticipated. And, yes, we think that's been almost all performance-based. We're enjoying some strong momentum still on the sales side. We had a chance with a new year to kind of reassess where do we want to put our marketing and trade push, and we're able to push it toward higher margining items. We have the benefit of the SG&A items that we've talked about that we said, hey, look, when we're doing those at

the end of the fiscal year, if you will, but they really didn't even kick in until the beginning of the calendar year. So, that, you started seeing more in Q2. And so, overall, I think it's been mostly performance-based. We probably did start with – we are going to start from a more – a somewhat more conservative standpoint. We view it as much more important to deliver performance than to promise performance.

Max Gumport

Analyst, BNP Paribas Securities Corp.

Q

Yes. I think that's a very prudent position to take. And then just to follow up on two of the discrete items you've called out and just hoping for some quantification. So, first, on the turkey network benefits that you're seeing, can you quantify just roughly how much of a help that was to profit in Q2, and then what's embedded in your second half forecast? It sounds like maybe a reversion given that it was partially helped by weather. And then on the lower plant utilizations that you expect to see in 3Q, can you just quantify how large of an impact that is to profit? Thanks very much. I'll leave it there.

Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

A

Yeah, Max, this is Paul. We're not going to quantify those dollar amounts. As you noted, the turkey manufacturing network can help us here in Q3, driven by weather and a lot of good performance as well, wait-and-see attitude on that in terms of what happens in Q3 and Q4. In the inventory rebalancing, to what I said earlier, there is an impact here in Q3. It's embedded within our guide. We think that guide reflects the risks and opportunities in today's environment.

Max Gumport

Analyst, BNP Paribas Securities Corp.

Q

Okay. Thanks very much.

Operator: Your next question comes from Michael Lavery with Piper Sandler. Your line is now open.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Thank you. Good morning. Just wanted to unpack Foodservice a little bit. And the traffic is obviously down pretty broadly, but you had volumes up. How much is channel mix, share gains? Maybe can you just help us understand what some of the key drivers are there?

John Ghingo

President & Director, Hormel Foods Corp.

A

Good morning, Michael. This is John. Thank you for the question. Yeah, I mean, we feel good about our Foodservice business. I will say that the traffic remains challenged in many parts of the away-from-home channels and our business has remained quite resilient despite that traffic softness.

Putting up the 7% sales growth with some volume growth as well is a good quarter for us. If you look at the environment, kind of how we approach Foodservice, we've talked about this before, but our direct sales team, who work very closely with our operator partners, really, what I would call, in collaboration and problem-solving mode, allows us to build business and gain business even when traffic is down. And that can take the form of helping solve problems with kitchen shortcuts, labor savings. It can take the form of affordable options that help control prices on the menu. And it still takes the form of innovation.

And I mentioned in my earlier remarks the Calabrian pizza toppings, which we are executing across both pepperoni and sausage, right, that's an example of bringing news to an operator to drive traffic and actually drive interest in the menu. So, that partnership we have in the kitchens with the operators in Foodservice and our direct sales team truly does allow us to continue to build our business even when our operator partners are challenged. And so, part of it is that.

And then, the other part, to your point, is we do have very broad-based channel coverage. And so, when we see pockets of growth, we can redirect our resources to the places where we see opportunity, whether that's commercial or noncommercial, whether it's down the street or it's national chain. We do have flexibility to flex where the growth and pockets of growth are happening from a channel perspective, too.

So, we continue to be confident in our Foodservice team and their ability to execute and perform, deliver results. Obviously, to Paul's point, if we were to see some tailwinds behind the Foodservice traffic across channels, that would be some upside for us. But right now, we're planning to deliver with the environment we're operating within.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Okay. That's helpful. And just to follow up on guidance, I know a lot of it's been covered pretty well. But when you laid out some of these key factors for 3Q, it sounds like the inventory rebalancing should largely or maybe nearly completely be done in the third quarter. But you also cited the full quarter of higher fuel pressure. I guess just looking ahead to 4Q, obviously, you expect a rebound and the kind of entirety or very close to it of the second half's growth to come there. Is your operating assumption relief on fuel cost pressure or how do you think about kind of maybe just what's closer to the end of the year and some of the assumptions there?

Jeffrey M. Ettinger

Interim Chief Executive Officer & Director, Hormel Foods Corp.

A

Sure. This is Jeff. I'll be happy to answer that. I mean, really, Q4 will be benefited by, first of all, we had some onetime events last year in Q4 that we're certainly hoping are not going to repeat. Secondly, we feel that the overall momentum of the business should be able to shine through better during that timeframe. And then third, we do feel there will be somewhat less impact maybe from all three of those factors, from fuel, from the operational slowdowns and from the commodity markets. But we're not banking on a huge improvement in that, baked in the number. But one way or the other, yeah. I mean, by holding our range, we're clearly signaling that we expect the double-digit bottom line increase in Q4.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Okay. That's helpful. Thank you.

Operator: Your next question comes from Ben Theurer with Barclays. Your line is now open.

Ryan Lavin

Analyst, Barclays Capital, Inc.

Q

Hey. This is Ryan on for Ben today. Thanks for taking our questions. So, first, you called out earlier in your remarks some structural weakness in certain retail brands and categories. Can you expand a little bit on the puts and takes of how that's impacting your retail results, especially in context of the manufacturing gains and the other benefits you've talked about?

John Ghingo

President & Director, Hormel Foods Corp.

A

Yeah. Sure. Thanks, Ryan, for the question. So, we had another quarter of consumption growth in total on Retail. And I mentioned we were up over 1% in dollar consumption. That was headlined by 3% growth across our priority brands in total. So, we feel good about that. That being said, to get clicking on all cylinders in Retail, there are a couple of businesses that we are dialed in on focused improving performance.

PLANTERS is one of those businesses. I would say PLANTERS didn't fully meet our expectations for the quarter. And while peanuts are performing well, some of the more expensive nut types like cashews have not been performing as well. We mentioned that dynamic last quarter, that consumers had been trading out of cashews, which saw some significant price increases precipitated by commodity inflation over the past year.

And so, we're dialing in, in terms of our overall plans with PLANTERS. Couple of things to note. We continue to invest in the brand and our innovation, as we've talked about previously. But we are adjusting aggressively our go-to-market plans to take advantage of our broad portfolio. We feel very good about the franchise in total, but we need to adjust our plans.

And so, I'll just call out two specific enterprise focus areas, where we're dialing in to strength of performance on Planters. One is revenue growth management work. So, we are enhancing promotions where warranted, getting very dialed in through data and analytics on that, as well as developing new pack size strategies, which should be helpful for us to manage, again, those nut type and portfolio dynamics. And then the second area of big focus for us is digital investment, where we're dialing in to lower funnel tactics, including investing into enhanced capabilities and efforts in e-commerce. So, we continue to love the Planters business, the macro opportunity around substantial snacking. But certainly, there has been some volatility across the portfolio driven by commodity dynamics. And so, we're dialing up our game to address that.

And then the second business I would call out is Skippy. So, Skippy had a softer first half of the year in terms of consumption. You'll recall that, at the very end of last year, we announced that we had a fire at our Little Rock facility. We rebounded from that fire very quickly, went back into full supply. But we did make a decision in the immediate aftermath of the fire to be conservative with our customers and pull some first half promotions. And so, we've been working our way through some darkness in terms of promotions. We are now fully back in business. The back half is loaded up. We're back on the front foot with Skippy. And in fact, the latest four weeks of consumption data, which we just saw, which are now bringing us into Q3, show a significant improvement in Skippy's consumption. So, we feel good about that. We are confident in our ability to continue to drive demand on the business, and we feel very good overall about the execution and supply chain behind that.

Ryan Lavin

Analyst, Barclays Capital, Inc.

Q

Great. Thanks. And a quick follow-up slightly related to that. You talked about last quarter that you expect higher marketing expenses and investments on the year, but, again, this quarter, it was a touch lower compared to last year. So, are you expecting then a pretty big step-up in marketing expenses in the back half, especially as some of these brands try to come back online?

John Ghingo

President & Director, Hormel Foods Corp.

A

Yeah, good question. So, what I would say is, yeah, the second quarter, we did spend a little bit less that was primarily driven by a shift of timing of events in our International business. Our focus with our advertising

investment continues to be to focus on our priority brands and Retail. And so, if you think about it from a mix perspective, if you think about it from a consumer opportunity perspective, and where we have the strongest, clearest demonstrated ROIs is how we're focusing our investments in the back half, we do, in total, for the full year, still expect to deliver higher spending in terms of year-over-year versus prior year in advertising. So, that will play through in the back half in our plans.

That being said, we also, several months ago, announced that we had brought a new enterprise-wide Chief Marketing Officer into the organization. He's now have – has a few months under his belt. It's been very helpful for him to kind of identify some of the spending opportunities we have to get even more out of our marketing investments. So, we're excited about the plans we have in the back half to drive those brands and businesses with even higher return on investment.

Ryan Lavin

Analyst, Barclays Capital, Inc.

Thanks for the color. Appreciate it. I'll pass it on then.

John Ghingo

President & Director, Hormel Foods Corp.

Thank you.

Operator: [Operator Instructions] Your next question comes from Heather Jones with Heather Jones Research. Your line is now open.

Heather Jones

Analyst, Heather Jones Research, LLC

Thank you for the follow-up. I just wanted to go back to a comment that you made on bellies. And just, again, wanting to make sure I'm interpreting this correctly. It sounds like your second half outlook assumes relatively flat year-on-year with fiscal 2025. And if that's correct, then when you're saying you're tracking towards the upper half of your guidance, that assumes the flat year-on-year with bellies. Did I understand you correctly?

Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

Yes, Heather, you're exactly right.

Heather Jones

Analyst, Heather Jones Research, LLC

Okay. Wonderful. Thank you.

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

Jeffrey M. Ettinger

Interim Chief Executive Officer & Director, Hormel Foods Corp.

Well, we really appreciate everyone's questions and for your engagement today. I'll just close the call by bringing everything back to what we heard throughout the call. We delivered a strong second quarter with growth from

each segment and support from our supply chain. We have taken meaningful actions to strengthen the business, simplifying where needed, improving how we operate, and sharpening our focus. And we are executing with discipline on pricing, costs and how we prioritize. That's what's been driving the performance you're seeing today, and we think it's positioning us well for what's ahead. Thank you again for your time and have a great day.

Operator: Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.

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