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Hormel Foods Corp. (HRL)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone. Thank you for joining us and welcome to the Hormel Foods Corporation Third Quarter Earnings Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I will now hand 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 third 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, under the Investor section along with supplemental slide materials.

On our call today is Jeff Ettinger, Interim Chief Executive Officer; John Ghingo, President and Chief Executive Officer-Elect; and Paul Kuehneman, Interim Chief Financial Officer and Controller. Jeff, John and Paul will review the company's fiscal 2026 third 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. Earlier this year, I outlined priorities for Hormel Foods that could be summarized into three areas: strengthen execution, realize the benefits of the actions we have taken to improve profitability and foster greater collaboration across the enterprise. As we review the third quarter results today, I am pleased by the progress we have made against each of these priorities. I would characterize Q3 as a solid quarter, though admittedly not as strong as Q2. Our team remained focused on delivering profitable growth and that focus contributed to another quarter of earnings growth as adjusted earnings per share increased 6% versus last year.

On the top line, results were more mixed. Organic net sales declined with much of the pressure coming from deliberate portfolio-shaping actions, reduced commodity markets and a still pressured consumer environment. At the same time, we continued to see positive momentum across many of the more strategic parts of our portfolio. Importantly, these results build upon strong year-to-date performance. Through the first nine months of the fiscal year, we have increased organic net sales, delivered strong adjusted earnings growth and strengthened the underlying fundamentals of the business.

Our year-to-date results, combined with our expectations for the fourth quarter give us the confidence to raise and narrow our fiscal 2026 adjusted earnings outlook to a new range of \$1.45 to \$1.51 compared to our prior range of \$1.43 to \$1.51. We remain confident in delivering fiscal 2026 adjusted earnings growth consistent with or above our long-term algorithm. We have also tightened our full-year organic net sales growth expectation to 1% to 2% from our prior range of 1% to 4%, better reflecting current market and consumer conditions.

Before I conclude my remarks, I want to take a moment to recognize and congratulate John Ghingo on his appointment as the next Chief Executive Officer of Hormel Foods. Over the last year, John and I have developed a strong partnership. We have had the opportunity to work side-by-side on virtually every significant matter facing the company. Together, alongside our leadership team, we have shaped our operational priorities, investment decisions, portfolio strategy and long-term growth plans.

Building upon his background of more than 25 years of leadership across the consumer packaged goods industry, including six years in three important roles at Hormel Foods, John is more than ready for his new role. I have a deep appreciation for his commitment to our people, customers, shareholders and the communities where we operate. I am very confident that Hormel Foods is well-positioned for its exciting next chapter under John's leadership.

I would also like to take a moment to thank our investors and the broader investment community for your engagement, feedback and support over the last year. While this is my last earnings call, I am looking forward to

spending time on the road meeting with many of you over the next couple of months. It has been both a privilege and a rewarding experience to serve the company this past year.

With that, I will turn the call over to John to discuss the quarter in more detail and share his perspective on the opportunities ahead.

John Ghingo

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

Thank you. Before I discuss the quarter, I want to thank Jeff for his leadership and partnership over the past year. I've benefited tremendously from his counsel, experience and commitment to Hormel Foods as we work together to navigate a period of change, while positioning the company for the future. Jeff's impact on Hormel extends far beyond the past year and we're fortunate that we'll continue to benefit from his perspective and leadership as a member of our board of directors. While this is Jeff's final earnings call as Interim CEO, I look forward to continuing our engagement with investors, customers and employees as we finish out the fiscal year.

I am honored to lead Hormel Foods as its next Chief Executive Officer. This is a company with a rich history of protein innovation, a distinctive culture and an incredibly talented team. I've spent considerable time evaluating our business through a clear lens; where we are winning, where we need to improve and which capabilities matter most to creating long-term value. What gives me confidence is that the fundamental strength of Hormel Foods remain firmly in place. We have a portfolio of beloved brands, strong positions in attractive categories, a differentiated Foodservice business, a strategic International footprint and a balance sheet that provides flexibility. At the same time, we have identified opportunities to improve execution, simplify portions of our business and sharpen our allocation of resources toward higher potential growth opportunities. The work we're doing today is designed to build a stronger Hormel Foods over the long-term.

With that context, let me begin with our third quarter results. While there were several moving pieces during the quarter, we remained focused on disciplined execution and delivered adjusted earnings growth. Net sales declined modestly, reflecting portfolio-shaping actions, softer commodity markets and a challenged consumer environment while adjusted operating margins improved versus the prior year.

Let's walk through the key drivers of results for each of our segments, starting with Foodservice. In Q3, we delivered our 12th consecutive quarter of organic net sales growth, continuing to outperform in an industry facing softer traffic trends with ongoing macro pressure. Our growth remained broad-based across channels, customers and product platforms, reflecting the durability of our portfolio and the strength of our category positions.

Premium prepared proteins and branded pepperoni were particularly strong contributors during the quarter, reflecting our ability to align with operator demand for differentiated value-added solutions. Importantly, our top line results were achieved despite the impact of lower commodity-based pricing in portions of the business. Foodservice profit growth once again outpaced sales performance, driving another quarter of margin expansion. This reflects our disciplined focus on mix management and profitability.

Foodservice segment continues to benefit from the power of our operator- focused model and our direct sales organization, both of which allow us to identify emerging trends, solve real customer challenges and capture opportunities. Foodservice remains a key driver for the company and an important contributor to both top line momentum and earnings performance.

In Retail, as I mentioned last quarter, we expected a noisier top line in the back-half of the year. The divestiture of our whole-bird turkey business and the exit from certain private label snack nut products weighed on year-over-

year net sales comparisons. These actions, along with pricing elasticities and a challenging consumer environment, also affected volume during the quarter. While many of these factors were anticipated, the impact on volume was somewhat greater than we originally expected. These dynamics affected our short-term performance but they reinforced the importance of the long-term actions we are taking to improve the quality of our business and focus our resources on higher-growth, higher-margin opportunities. Importantly, the work we are doing to strengthen our protein-centric offerings is translating into marketplace momentum for our priority brands, with several delivering net sales growth in the quarter and continuing to gain traction with consumers.

Sales of Jennie-O ground turkey and the Applegate portfolio grew this quarter, benefiting from sustained demand for protein-rich offerings. Hormel Chili and our refrigerated entrées also delivered dollar sales growth, reflecting consumer's desire for convenient, versatile and flavor-forward meal solutions. Planters also delivered a strong quarter fueled by impactful in-store activations and continued investment behind the brand. Offerings such as the limited-time flavor displays for America250 enhanced visibility, drove consumer engagement and reinforce Planters' leadership in the category. At the same time, we continued to advance our focus on e-commerce and digital media. While still early, the results are encouraging and reinforce our confidence in this iconic brand.

Across Retail, we continue to shift a greater share of our marketing investment towards retailer media and digital channels, enabling more targeted, relevant and measurable consumer engagement. This evolution will continue through the fourth quarter as we further strengthen our capabilities. Over time, we expect these efforts will improve the effectiveness and efficiency of our marketing investments, allowing us to allocate more resources towards higher-return, brand-building activities.

Shifting now to International. While the quarter was impacted by some unique items that Paul will cover in more detail, our long-term opportunity remains highly compelling. We continued to focus our efforts on the markets and opportunities with the strongest long-term growth potential. During the quarter, we took important steps to advance that strategy. First, we made the decision to divest our Brazil operations as this proved to be a subscale business and a challenging market. This divestiture allows us to further sharpen our portfolio focus to the Asia-Pacific region. Given the significant opportunities in this region, we also relocated our Group Vice President of International, Swen Neufeldt, to Singapore. Positioning Swen in the region allows him to be more closely connected to our teams, customers and partners, enabling faster decision-making, deeper market engagement and stronger execution as we pursue our growth ambitions across the region.

Turning now to our enterprise supply chain. We remained focused on strengthening execution and improving how we serve our customers. During the quarter, we experienced incremental costs related to our planned inventory rebalancing actions, lower production volumes and certain operating challenges. In addition, the broader logistics environment remained pressured. These short-term impacts should not overshadow the progress we are making to develop our supply chain capabilities for the long-term. We continue to advance Hormel production systems in our facilities, enhance visibility through better data and planning tools and improve coordination across our network.

More broadly, I'm encouraged by the progress we're seeing across the business. Through the first nine months of the year, organic net sales increased 1%, we grew adjusted operating margins 30 basis points and adjusted earnings per share increased 6%, providing tangible evidence that our priorities are clear and our strategy is working. No single quarter has been easy but we have remained committed to delivering our objectives and positioning the business for the future. We're sharpening our portfolio, investing behind our strongest brands and growth platforms, simplifying how we operate and strengthening the capabilities that will help drive sustainable long-term growth. As we plan for the next fiscal year, we remain optimistic. We are focused on delivering balanced growth, expanding profitability and generating strong cash flow. We operate in attractive categories

centered around protein and we believe we have what it takes to win in our space. As the changes we've made over the past year become embedded in the business, we believe Hormel Foods is increasingly well-positioned to deliver growth and profitability consistent with our long-term objectives.

Before I turn the call over to Paul, I want to briefly acknowledge the leadership announcement we shared this week. We are excited to welcome Ash Bhumbra of Hormel Foods as our next Chief Financial Officer. Ash brings extensive finance, operations and transformation experience and I am confident he will be a strong addition to our leadership team as we continue to strengthen and modernize the business.

I also want to thank Paul for his outstanding leadership over the past year as Interim Chief Financial Officer. Paul has been a trusted partner to Jeff, myself and our broader team during an important period for the company. His financial expertise, deep understanding of Hormel Foods and commitment to our people have made a meaningful impact across the organization. We are grateful for his many contributions and look forward to his continued leadership within our finance organization.

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

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Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

Thank you, John, and good morning, everyone. Before discussing our overall results, I'd like to provide some additional context on our International segment as several items affected our results during the quarter. First, we announced the definitive agreement to sell our operations in Brazil. As a result, we recognized a loss during the quarter which was recorded at the corporate level. The transaction closed early in the fourth quarter. As such, Brazil's operating results will be excluded from our organic volume and net sales comparisons going forward.

Second, we recorded an impairment related to a minority investment in Indonesia, which was reflected in equity and earnings. Third, the underlying demand for our branded export products remained resilient but the recognition of certain SPAM export sales was adversely impacted due to a one-time legal entity transition. Strategically, we believe that the creation of this structure puts us in a more advantageous position to serve our global consumers. While these items affected our third quarter reported results, they do not change our view of the underlying fundamentals or long-term growth potential for our International segment.

With that context, let me turn to our overall quarterly performance. Third quarter organic net sales declined 2% compared to the prior year. As Jeff and John discussed, portfolio-shaping actions, softer commodity markets and the consumer environment were the primary drivers of the decline. Gross profit was \$472 million in the quarter and gross margin was 15.9%. Lower volumes and some operational inefficiencies negatively impacted margin improvement for the quarter but we believe that we remain on track for improving margins over time. I'll unpack a few of the drivers behind that belief. First, on cost of goods sold. Over the long-term, lower commodity prices helped our margin profile. On a short-term basis however, the benefits of lower input costs can take some time to be realized as we work through our inventory position.

In the third quarter, we started to recognize the benefit of lower pork prices in our P&L. But given the timing of the cost recognition, we expect a greater portion of the benefits to be realized in future quarters. For beef inputs, prices remained elevated during the quarter relative to the prior year. Elsewhere in cost of goods, several of the factors we highlighted last quarter developed largely as expected. Freight and logistics costs remained elevated during the quarter. Fuel prices moderated temporarily but subsequently returned to higher levels. Overall, our view of the logistics environment remains largely unchanged from our prior commentary.

The inventory rebalancing actions we previously shared progressed in the third quarter and we saw cost pressure due to the intentional lower plant utilization. Our new integrated business planning process brought visibility to this opportunity and we believe it will support a more efficient operating model going forward.

SG&A as a percentage of net sales was up in the third quarter. In addition to some of the one-time items previously mentioned, we recognized a litigation settlement during the quarter. On an adjusted basis, SG&A as a percentage of net sales improved compared to last year with the primary drivers being lower employee-related expenses and the timing of our marketing and advertising investments. Cost discipline remains a key focus for the business and we will continue to select the highest return investments for our SG&A spending.

Adjusted equity and earnings was comparable to the prior year. Given these factors, adjusted operating margin was 9%, up 60 basis points versus prior year. Other income was unfavorable compared to prior year with investment returns on the rabbi trust as the primary year-over-year driver. Taken together, adjusted earnings per share was \$0.37, up 6% versus last year.

Turning to cash flow and capital deployment, we generated \$241 million of operating cash flow in the quarter, up 54% a year ago, primarily reflecting improved inventory management and working capital performance. Capital expenditures were \$68 million. We invested in infrastructure improvements, along with data and technology to support long-term growth. We returned \$161 million to stockholders in the quarter through dividends, fully aligned with our capital allocation framework. We remain committed to the dividend and are proud to have reached our 392nd consecutive quarterly payout. We ended the quarter in a solid financial position with ample liquidity and a conservative balance sheet. Cash on hand totaled \$840 million, up \$169 million since the end of fiscal 2025. This gives us flexibility to continue investing in the business while returning capital to shareholders.

Let's take a moment to review our updated guidance for fiscal 2026. We expect fiscal 2026 net sales to be in the range of \$12.1 billion to \$12.2 billion, which represents organic growth of 1% to 2%. We narrowed and raised our full-year adjusted operating income and adjusted earnings per share guidance, which now represents growth of 6% to 10% year-over-year.

I'll close with a few thoughts on our progress this year. Through three quarters, we navigated both anticipated and new external challenges while continuing to execute against the priorities we established at the beginning of the year. Our results to-date, combined with improved visibility into the fourth quarter, support our confidence in delivering our updated full-year outlook.

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: We will now begin the question-and-answer. Please limit yourself to one question. [Operator Instructions] Our first question from the line of Ben Theurer with Barclays. Your line is now open. Please go ahead.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Yeah. Good morning, Jeff, John, Paul. Thank you very much for your comments early on. So my first question really is picking up on the guidance. If you could help us unpack maybe the drivers of, (a), the top line guidance revision? And then within that also what, on the other hand, do you think is going to improve as we go down the income statement as you're revising up your adjusted profit outlook and EPS outlook with the narrowing on the higher-end of the guidance? So that would be my first question. Thank you.

Jeffrey M. Ettinger

Interim Chief Executive Officer & Director, Hormel Foods Corp.

A

Yeah. Thank you, Ben. This is Jeff. I'll go ahead and take the question. Sure. We're going to share our thoughts about guidance. On the top line, given our year-to-date performance of plus 1% and our outlook for the fourth quarter, we think an organic net sales range of 1% to 2% is appropriate. John covered some of the current trends in his remarks but he'll be happy to answer other questions about the top line drivers in a follow-up. I'm going to focus more on the bottom line. So on the bottom line, when we spoke to all of you after Q2, our outlook for Q4 was frankly approximately \$0.40. Our updated assessment has \$0.40 for Q4 now at the high-end with more like \$0.37 at the midpoint.

What has changed? Well, for one thing, volumes. As John and Paul noted, we are experiencing some weakness in sales volumes for certain Retail franchises. When this happens, we lose out on both the sales margin contribution and on the plant throughputs associated with better volumes. And even though we are seeing a better COGS environment, we don't take full advantage of it when volumes are off. This is an area that could have some upside still for the quarter if we are able to improve volumes. Our sales teams are actively focused on this and they will have their efforts supplemented by enhanced advertising during the quarter.

Another item is freight, including fuel costs. We have been dealing with it as transitory that is tied to geopolitical issues and it still may prove to be transitory. But for now fuel costs have returned to higher levels. If they trend lower during the quarter, this also would be a benefit. We set out the year focused on improving adjusted EPS and we are doing just that. Our new growth range remains at or above algorithm at plus 6% to plus 10% for the year. Overall, we think our revised ranges are realistic, achievable and sensible and they represent a strong fiscal 2026 as we close out the year.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Okay. Perfect. Thank you very much. And then for my follow-up, obviously in Retail, we saw a rather significant volume decline. Can you maybe help us unpack that as well a little bit and maybe talk about it a little bit more on the core brands, the bigger ones, how they have been performing and what's been actually driving within Retail the high single-digit volume decline?

John Ghingo

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

A

Yeah. Sure. This is John. Ben, I'll take that question. So, yeah, I would say Retail had a mixed quarter after a relatively stronger second quarter. And to your question, I'll start with the top line. Volume was, as I mentioned in the prior call, going to be noisy for Retail in the back-half of the year. We certainly saw that in Q3. About half of the volume declines in Retail were specifically related to whole-birds, private label snack nuts, the exit of certain businesses there which we've talked about before as well as contract manufacturing. Beyond that half, there was a volume contraction that we expected with the elasticity impact from the two rounds of Retail pricing that we announced and implemented late last year and early this year. So that was another chunk of it. And then beyond that, there was some additional volume softness in a couple of businesses that we experienced in Retail. So, overall, I would say there was some step back on consumer takeaway across our branded Retail business in what has been a choppy environment.

But that being said, it was modest, right? If you look at our total Hormel consumption for the quarter, our dollar consumption was minus 1% after having been about plus 1% earlier in the year. And underneath that, we actually see really strong consumer takeaway and growth on many of our priority Retail businesses. So, to get to that part of your question, some of the standouts there, Jennie-O ground turkey, Hormel entrées, those are two businesses that saw mid to high single-digits consumption growth. We also saw growth on Applegate, our center store canned portfolio, HERDEZ, Hormel Black Label Bacon and importantly we saw consumption growth on Planters.

So, if you kind of take a step back and say, okay, the focus areas of Retail, we're seeing some really good consumption momentum across a number of those businesses. And while the environment is not getting easier, we continue to feel really good about our protein-centric portfolio, offering value to consumers and some of the pivots we're making around positioning and marketing those businesses.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Perfect. Thank you very much.

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

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Hey. Good morning. Thanks for taking the questions. I guess just for the first piece of it. Paul, I think you spoke a little bit about this in terms of kind of seeing a delayed benefit of some of the lower input costs coming through. And I just – I wanted to understand a little bit more if that's a function of I guess if you had weaker volume, the inventory turns a little bit slower and so it doesn't come through as quickly and so we'll get that benefit but it's really more delayed into next year. Or is it, hey, we should see some deflation in inputs but actually some other stuff has moved up on us. And so maybe it's not the same level of tailwind than we thought it was previously. I just was hoping to get a little bit of clarification on that.

Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

A

Yeah, Peter. Thank you. Thanks for the question. You're correct in the fact that the lower volumes obviously impact some of the inventory turns that we're going through and we recognize that, also the pork market didn't

really start to decline until midway through the quarter. So it wasn't like we got a full quarter of benefit as we saw those decline in the markets from where we had thought. We are also looking obviously as you get into the pork markets, as I said in my prepared remarks, the lower markets help our margin profile over time and you will see that carry forward here based on our current forecast into the upcoming quarters and into 2027 as well. But not every market component has been beneficial as well. So we definitely have some headwinds still within the – in the pork markets and the full commodity markets and then obviously Foodservice and Retail handle inventory differently. The Foodservice piece obviously can price accordingly very quickly while it takes a little bit longer to impact maybe some things in Retail and invest in the business based on what other competitor set might be doing in certain categories.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Got it. Okay. Thanks for the clarification there. And Jeff I guess if I could just ask on the revised top line sales guidance. I think you said year-to-date, you've kind of been running about 1% on the organic sales side. So – I mean I know the range is still 1% to 2% but should we be erring kind of more on the lower end of that 1% to 2% just given some of the things that John talked about for Q4 or maybe some of the commodity-based pricing dynamics that are going to come in? Just want to make sure that we're kind of level-set on where we kind of exit the year from a run rate standpoint on organic sales. Thanks very much.

Jeffrey M. Ettinger

Interim Chief Executive Officer & Director, Hormel Foods Corp.

Sure. I mean, we're – I guess we're comfortable with the range of 1% to 2%. I would acknowledge that, okay, the first couple of quarters were plus 2%, plus 3%. We're probably not seeing that for the fourth quarter but we're still having strong momentum on the Foodservice side. And the team is hard at work addressing some of the Retail brands that have weaker performance and so we're comfortable with that overall range.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Okay. Thank you.

Operator: Your next question from the line of Michael Lavery with Piper Sandler. Your line is now open. Please go ahead.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Thank you. Good morning. Just wondering if you could give us some of the key considerations or maybe some of the building blocks you're thinking about for fiscal 2027? I realized it's early and obviously you're not committing to anything. But anything that the market or investors might be overlooking or missing how to think about maybe the favorable input cost, carryover or carry-through? Would you imagine any more inventory rebalancing or is that done? Any kind of breadcrumbs would be helpful.

Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

Yeah. Michael, thanks for the question. This is Paul. You're correct. It is still early obviously and we're not ready to give guidance. But through our integrated business planning process that we've implemented, we are actually a little further along than normal. So I do have some color to share with you for your question. The positive side,

we've got strong momentum for our Foodservice segment, which we project going forward. We also are seeing benefits of evolving Retail strategy, which is accelerating growth in priority brands such as Jennie-O and Applegate. And then we do have a favorable read so far for pork input costs, which can allow us to increase investments as needed. And obviously fiscal 2027 is going to include a 53rd week.

Some cautionary notes that we've seen so far is that the consumer environment, we are not envisioning a meaningful improvement in the upcoming quarters. We do expect the cost input environment to remain pressured in some areas, specifically logistics expenses, grain prices and beef costs. But we've also got portfolio-shaping activities which will adjust the top line but not on the bottom line and that's the whole-bird turkey divestiture as well as Brazil. We're also going to continue to evaluate investment needs for the business and what capabilities can come from those investments. But while it's still early in our process, there are meaningful puts-and-takes to consider and we're very optimistic about the future.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Okay. That's really helpful. And just a quick follow-up on International. You laid out a few of the moving parts there and certainly some one-offs but any sense of just how to think about a little more of the run rate going forward? Is there a kind of sense of what's ahead that you can give us that snaps back from this quarter? Or is there some of the pressure that lingers? I imagine you don't want to be too specific, but just some help on how to think about the next few quarters in that segment would be great too.

Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

A

Yeah. Michael, this is Paul again. I'll take that as well. You are correct. Very noisy quarter, this one for International. However, we are making the right decisions here to strengthen our global opportunities and the underlying International demand and those trends remain intact. We feel pretty good headed into the fourth quarter and into 2027. I will note that the biggest issue on the numbers you see for the third quarter were really around the SPAM brand export sales, which were adversely impacted due to the one-time legal entity transition. This did create that noise that you see in the third quarter but it was the right decision to support the long-term evolution and the efficiency of our global operating model. So very positive about the future headed into Q4 and 2027 International but a very noisy quarter.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Okay. Great. Thanks a lot. I'll pass it along.

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

Thomas Palmer

Analyst, JPMorgan Securities LLC

Q

Good morning and thanks for the question. I wanted to follow-up on Pete's question just on the top line 1% and I mean like 1.0% year-to-date organic sales growth and the range is 1% to 2%. So it kind of implies that we go from minus 2% back to positive come 4Q. And so I'm just trying to understand what are the major drivers of that sequential acceleration? Are you already seeing it quarter-to-date or more to come? Thanks.

John Ghingo

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

A

Good morning, Tom. This is John. So I'll try to give you a little bit more color around how we're thinking about enterprise net sales performance. So, first, I will call out from a Foodservice perspective we've now delivered, as we said in our prepared remarks, 12 consecutive quarters of growth. Certainly, there are a couple of dynamics sitting underneath that Foodservice performance on third quarter. One was industry traffic is still muted, sluggish across many channels in Foodservice and away-from-home. And on top of that, we did have some commodity deflation that suppressed some of the net sales growth as well in Foodservice. But, yeah, we did put up the organic net sales growth and we have high confidence in that business going forward. So I'll kind of lay that out.

Second, from a Retail perspective, we do really like the momentum we're seeing on a number of our businesses. We're seeing, I'll say, growth. We're seeing the effects of some of the changes and pivots we've made around brand positioning, marketing, shifting more into digital and e-commerce behind some of our brands. We're starting to see some of those things really gain traction so we like that. We also start to see a little bit of a change in the lapping dynamics as we get into Q4. The private label nut exit that we've talked about a couple of quarters now will be behind us as we get into Q4. So that will also create a little bit of additional room there. So all-in-all, we feel good about the progress on Retail. Certainly more work to do but we like the momentum we're seeing on key brands. We like our continued success on Foodservice. As Paul mentioned, International was a little noisy in the quarter but we still like our outlook there.

Thomas Palmer

Analyst, JPMorgan Securities LLC

Q

Great. Thanks for all the detail there, John. And then on SG&A, the dollars were the lowest since 4Q 2023. I know there were some cost savings that they kind of took hold earlier in the year and so maybe this was the first quarter where we saw the more full benefits of that. Just any framing of kind of that SG&A cost structure as we look forward and how sustainable this level of spend might be when we look at 3Q versus future quarters? Thanks.

Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

A

Yeah, Tom. This is Paul. Thanks for the question. So you are correct. Obviously, we've put in a lot of things at the start of the year that Jeff has mentioned previously regarding SG&A and some items. Those really have taken a hold here as you get through the first-half and now into Q3, so you hit the nail on the head with where that's at. We're obviously continuing to drive forward and looking at SG&A and making sure that we're spending money in the appropriate spot to drive the business as well as in advertising. So part of that decrease in advertising dollars or in SG&A was in the advertising segment, which a lot of it was timing again in terms of new leadership in that area and making sure we're spending money wisely. We do expect to see some increased advertising spending here in Q4. And then obviously a little bit too early to discuss our plans for 2027 regarding the advertising spend.

Thomas Palmer

Analyst, JPMorgan Securities LLC

Q

Got it. Thanks, Paul.

Operator: Your next question from the line of Max Gumport with BNP. Your line is now open. Please go ahead.

Max Gumport

Analyst, BNP Paribas Exane

Q

Hey. Thanks for the questions. Wanted to turn back to the consumer environment, one just to hear a bit more about what you're seeing in terms of the pressure on the consumer and how that's impacting your business and how you're looking to manage through it? And then, two, just the factors behind why you're not expecting any meaningful improvement in 2027? Thanks very much.

John Ghingo

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

A

Yeah. Good morning, Max. It's John. I'll take that question. So, I would describe the consumer environment right now really as not improving. The headline for me is that consumers are still feeling quite strained with low sentiment. And that strain, a lot of it comes from those cumulative effects of inflation, which we've talked about before. I would add that high fuel prices have contributed further to that strain as this year has unfolded. So I think that's a bit of the backdrop. That being said, consumers continue to prioritize food. Overall, demand for food remains resilient. And while consumers are demonstrating resilience, they're also coupling that with flexibility. And what I mean by that is consumers are increasingly focused on optimizing for value. And I don't mean value in the sense of the lowest price point but in the sense of just being more deliberate with their dollars. So I believe what we're seeing is that a company like Hormel Foods where we have a protein-centric portfolio and we can deliver great value propositions for breakfast, lunch, dinner, snacking, convenience, affordability, we're in a great spot to deliver on those consumer needs as they're becoming increasingly deliberate with those choices. So, if you kind of step back and say, okay, how do we make sure as the consumer behavior is evolving around value and value-seeking that we're evolving our portfolio to make sure we have the right offers, the right message, right point of purchase, right pack at the right price is the work we're doing.

And if you look at some of the success across our Foodservice business as one example of that where we continue to diversify across channels; away-from-home channels, commercial/non-commercial, we are increasingly becoming that ally for consumers to be there when they need it. And then if you look at the positioning work we're doing around our core brands on Retail, we're also more and more pushing those brands into spaces where we can be a more versatile partner for consumers. So all-in-all, I would say consumer behavior is changing. Consumers are becoming more deliberate in this challenging environment. But, frankly, it's an opportunity for us as we really believe that the convenience of our product, the affordability of our products, the taste of our products and our ability to meet consumers across a broad set of channels put us in a great spot to meet that consumer need.

As far as outlook into future quarters with the consumer, I mean the environment is volatile right now frankly. And so our expectation is the environment will continue to be choppy, it will continue to be volatile. And so we're anticipating that the consumer is still going to be dealing with that in the months and quarters ahead. Certainly, we'll be flexible, we'll adapt as needed. Should we pick up some tailwinds in certain spots with consumer sentiment, with consumer behavior, with growth – additional growth in away-from-home channels, those will be additional tailwinds for us but at this point our outlook is to assume that it remains choppy and the consumer backdrop is strained.

Max Gumport

Analyst, BNP Paribas Exane

Q

Great. Thanks very much. And John, congrats on the appointment as CEO and you're stepping into the role at a time and year. Your leverage now in a very, very comfortable position on the balance sheet. Your cash levels are

quite high. So I'm curious what your view is on capital allocation and what your priorities are on that front? Thanks very much.

John Ghingo

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

Yeah. I mean, first of all, thank you, Max. I appreciate that and Hormel is a wonderful company with a great history and it does have a strong balance sheet. We've always been very disciplined in our approach to capital allocation. Certainly, the dividend continues to be very important to us and so that will continue to remain a priority for us going forward. We have also talked about the fact that the company does have a long history of M&A activity. We have been more quiet of recent years but certainly we continue to be open to strategic partnerships, strategic acquisitions, things that could make sense for us strategically going forward and we do have the flexibility on our balance sheet.

Max Gumport

Analyst, BNP Paribas Exane

Great. Thanks very much.

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

Heather Jones

Analyst, Heather Jones Research, LLC

Good morning. Thanks for the question. My first question is sort of just detail. I was just wondering if you're able to just broadly quantify the volume impact of that legal entity change, I mean with organic volumes a bit roughly flat absent that?

Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

Yeah, Heather. This is Paul. I don't want to get into specifics but the majority of the decline in tonnage in International is associated with the legal entity change.

Heather Jones

Analyst, Heather Jones Research, LLC

Okay. Thank you for that. And then I guess just taking the different questions that have been asked around input cost and demand, et cetera. But just putting this all together, I wanted to make sure that we all have the appropriate takeaway. It sounds as if you all still expect lower input costs just whether it'd be dark meat turkey on the pork side or whatever to be a net positive into Q4 and 2025 despite a more challenged consumer competitive environment. Is that the accurate takeaway?

Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

Yeah, Heather. That's right. That's exactly right.

Heather Jones

Analyst, Heather Jones Research, LLC

Okay. All right. Thank you so much.

Operator: Your next question from the line of Pooran Sharma with Stephens. Your line is now open. Please go ahead.

Pooran Sharma

Analyst, Stephens, Inc.

Q

Hey. Good morning and thanks for the question here. Wanted to maybe get a better understanding of freight cost here and you mentioned they were still pressured. How are they relative to 2Q? And as we think about the lower commodity input cost benefit for 4Q. Just wondering if that's large enough to offset freight impacts or how we should kind of think about the balance of those two items?

Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

A

Thanks for the question. This is Paul here. I'll answer on the freight piece. Obviously, it's still elevated here for most of the quarter. We did see a temporary reduction in the fuel prices but they later returned to the higher levels and even as of right now, they're at the highest level since the conflict started. Our assessment of the logistics environment remains largely unchanged from the prior commentary that we've given. So, freight, logistics and fuel costs continue to present those year-over-year headwinds and those trends are reflected in the outlook. So you are correct in terms that the Q4 guide that we presented that Jeff talked about earlier is holistic with all the inputs cost of pork being down and freight and fuel being up. So just to answer your question, freight and fuel, a little bit higher than we've seen from Q2 but overall reflected in our guidance range here for the fourth quarter.

Pooran Sharma

Analyst, Stephens, Inc.

Q

Okay. Appreciate the color there. And I'm sorry if you got a – you gave detail on this earlier but I wanted to ask about inventory rebalancing. I think in your prepared comments, you alluded to it being a little bit worse than expected. I was hoping you can help us dive into this a little bit. What came in kind of worse than expected? Are you able to kind of help us quantify any impact here?

John Ghingo

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

A

Yeah. Sure. I'll kick us off on that one. And then, Paul, feel free to add anything else you'd like to. So we did have some incremental costs this quarter in our supply chain. I'll come to the first point, which is what we discussed last quarter, the inventory rebalancing efforts we've been working through. Those efforts did result as we expected and lower production volumes flowing through portions of our manufacturing network. In addition to that, there were a few areas of the portfolio that faced softer category conditions during the quarter, so that contributed modestly to some lower volumes on top of the inventory rebalancing efforts. So that's kind of one piece.

Separately, we did also mention that we experienced a few discrete cost headwinds in the quarter. Last quarter, you may recall that we talked about we had an exceptionally strong quarter in the turkey supply chain. We were expecting this quarter to normalize. Following that strong quarter results were a bit further pressured by higher temperatures and worse feed conversion in the quarter on turkey. And then we did have some kind of one-time severe weather-related events that created power outages in a few of our facilities so that drove some incremental costs. But those we do really see short-term impacts; one-timers in nature and shouldn't overshadow the capabilities we've talked about before. But the capabilities we're building for the long-term in our supply chain; whether it's Hormel production systems, which we continue to drive consistent, improved performance across our

manufacturing network, some of the improvements we've made with data and planning tools and which Jeff alluded to earlier in terms of the enhanced collaboration and better decision-making in the enterprise. We feel good about all of the progress in those areas we're making across our supply chain as we navigate some of these short-term headwinds.

Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

A

And I'll just add on the inventory rebalancing piece for you that it did really progress as we kind of expected. You might see inventories are up on the balance sheet but that's really the result of operating supplies and WIP inventory and not finished goods. Finished goods is relatively flat for the quarter and it is significantly down from last year, both in dollars and somewhat in pounds. So we thought we did a good job in terms of what we wanted to do regarding that. And most of the actions did occur in Q3. There is still some stuff in Q4 but the majority of it was in Q3.

Pooran Sharma

Analyst, Stephens, Inc.

Q

Great. Appreciate the color.

Operator: Your next question from the line of Rupesh Parikh with Oppenheimer. Your line is now open. Please go ahead.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Q

Good morning and thanks for taking my question. So, Jeff, with this being your last earnings call, would love to hear your perspectives on any key observations do you see on Hormel's prospects going forward?

Jeffrey M. Ettinger

Interim Chief Executive Officer & Director, Hormel Foods Corp.

A

Well, thanks Rupesh. Appreciate the opportunity to provide a view of what our team worked on during the past 12 months and what I think is important about that. First of all, I think it was important that we were setting a realistic top-down and bottom-up plan that was rooted in algorithm-based growth and growing from where we are rather than trying to make up for past years. I think sometimes the team maybe fell into that syndrome sometimes.

Secondly, I think we were very clear about both internally and then hopefully expressed some clearly to the investment community about deploying several different levers to enhance bottom line performance. We had solid top line momentum but the bottom line hadn't been coming along with it, so these include pricing and we executed successfully two waves of that. The team's been focusing on mix. We've been able to generate further efficiency gains. And then we did take some significant SG&A actions and we talked about that earlier on the call as well.

As John just alluded to, I think it has been important that we have improved the coordination of what is really a recently centralized business that's only been three or four years since it used to be Jennie-O and grocery products and kind of separately run segments and now it's running on a much more centralized basis. There are very good advantages to doing that in terms of scale and efficiency. And in terms of your importance to customers but it really was important that we got the right people in the right room at the right time with the right data to make adjustments based on changing market conditions. And then, lastly, sort of a significant amount of side work in addition to sort of running the business on a day-to-day basis. We really did want to take this opportunity to look at the portfolio and see if we could make some more significant moves of getting ourselves positioned for the

future. And so the moves with Justin's and with whole-birds and with Brazil now really allow the company to better focus and reduce volatility and suboptimal performance in certain areas.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Great. Thank you for all the color and best of luck.

Paul R. Kuehneman

Interim Chief Financial Officer & Controller, Hormel Foods Corp.

Thanks.

Operator: There are no further questions at this time. I will now turn the call back to Jeff Ettinger, Interim Chief Executive Officer, for closing remarks.

Jeffrey M. Ettinger

Interim Chief Executive Officer & Director, Hormel Foods Corp.

Well, I'll just take this opportunity to thank you all for your attention during the year. I think the company has established some solid momentum and obviously we think we have an advantaged position going forward with our protein-centric model. Our Foodservice business continues to hum along and Retail has several segments that are doing well also and ultimately I think we'll get that rolling in the same way also. It was a choppy quarter for International but, overall, we have really great growth prospects there. We've redoubled our attention to the Asia-Pacific region with our strong leader, Swen Neufeldt, now heading the Singapore to run it directly there. So I'm very optimistic in the future of the company and I'll be actively interested in how it goes because I'll remain on the board of directors and remain a shareholder. So thank you all for your attention today.

Operator: This concludes today's call. Thank you for attending. You may now disconnect.

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