08-Sep-2020

Hormel Foods Corp. (HRL)

Barclays Global Consumer Staples Conference

Copyright © 2001-2020 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Nathan P. Annis
Director of Investor Relations, Hormel Foods Corp.

Glenn R. Leitch
Executive Vice President-Supply Chain, Hormel Foods Corp.

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

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

OTHER PARTICIPANTS

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

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

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

...and joining us today from Hormel, Jim Snee, Chairman of the Board, President and CEO; Jim Sheehan, Executive Vice President and CFO; Glenn Leitch, Executive Vice President, Supply Chain. Jim Snee is the 10th President and Chief Executive Officer in the company's 129-year history. He joined Hormel Foods in 1989 in the Meat Products division. Jim was named President and Chief Operating Officer in October 2015, Chief Executive Officer in October 2016 and elected Chairman of the Board in October 2017.

Jim Sheehan oversees all financial areas of Hormel and joined the company in 1978 and resumed his current role in 2016. Glenn Leitch became EVP of Supply Chain in 2017 and joined Jennie-O in 1996, which he continues to oversee. The team prepared a video to share their current initiatives around supply chain, Project Orion, among others. After the video, we will dig deeper and go into questions.

Nathan, over to you.

Nathan P. Annis
Director of Investor Relations, Hormel Foods Corp.

Good afternoon. Before we begin today, I want to remind you that we will be sharing some forward-looking statements and those may differ from actual results. You can see a detailed list of our risk factors in our recently filed 10-Q available at hormelfoods.com under the Investors section.

And now, I'd like to introduce Jim Snee, Chairman of the Board, President and Chief Executive Officer.

Copyright © 2001-2020 FactSet CallStreet, LLC

James P. Snee

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

Good afternoon. Thank you for joining us to learn more about Hormel Foods, truly an uncommon company. I am Jim Snee, Chairman of the Board, President and Chief Executive Officer of Hormel Foods. And it's an honor to represent our nearly 20,000 inspired team members around the globe.

Led by an experienced and tenured management team and a workforce of heroic team members, it has been remarkable to see this team work together since the beginning of the pandemic. This team embodied our cultural belief of safety first to ensure team member safety at work and at home, while providing safe, high-quality food for millions of consumers impacted by this crisis. I'm very proud of how all our team members rose to the challenge with a sense of responsibility, pride and purpose. For those of you who may be unfamiliar with Hormel Foods, we are a global branded food company with approximately $10 billion in annual revenue and we're headquartered in Austin, Minnesota.

I mentioned earlier that Hormel Foods is an uncommon company and we truly believe that. For years, we've been recognized for our efforts, including being named to the Global 2000, World's Best Employers list by Forbes magazine for three straight years. Fortune magazine's Most Admired Companies and Corporate Responsibility Magazine's 100 Best Corporate Citizens list for the 12th year in a row. Additionally, since the start of the pandemic, our company has donated millions of dollars and millions of meals to those in need. And we've also pledged up to $300,000 to help support education and equality as part of our newly created Inspired Giving program. But perhaps most notable is our recent announcement of a college assurance program for the children of our team members and we know that this program along with all of our efforts throughout the pandemic clearly demonstrate that we are a company that puts people first. Another example of what makes this company uncommon is our balanced business model. Our goal has been to create intentional balance to limit sales and earnings volatility by diversifying our raw material inputs, the categories in which we compete and the consumers and operators we serve. Now, more specifically, our business is made up of four reporting segments. Our largest segment, Refrigerated Foods, is approximately 50% of our company and consists primarily of the marketing and sales of branded pork, beef and poultry products for food service, retail and deli customers.

Our next largest segment at about 25% of our business, Grocery Products, and that's focused on the sale of shelf stable and Mexican food products for the retail channel. Jennie-O Turkey Store, our vertically integrated turkey operation represents about 15% of our business. Jennie-O Turkey Store is one of the leading turkey companies in the US, with a strong value-added presence in the retail and food service channels with the Jennie-O brand.

And lastly, our International segment, with less than 10% of sales continues to represent a long-term growth opportunity for our company. And together, this intentionally balanced and resilient business model has a proven track record of performing in many market conditions to deliver uncommon results. We've grown earnings 29 out of the last 34 years. We've increased our dividend for 54 consecutive years and we've maintained one of the strongest and most flexible balance sheets, not just in our industry, but across the Fortune 500 companies. All in, we've continued to generate uncommon and industry-leading shareholder returns.

Our third quarter is just another example of how our balanced business model has proven to be a winning formula. We achieved record third quarter net sales, as three of our four segments delivered sales growth, a testament to the strength of our brands and the dedication of our supply chain teams. The business overcame $40 million in increased supply chain costs related to COVID-19 to deliver diluted earnings per share in line with last year. And once again, the company generated strong and stable cash flows, giving us the flexibility to fund our capital needs while continuing to invest in long-term growth opportunities.

Copyright © 2001-2020 FactSet CallStreet, LLC

At our Investor Day in October of 2019, which now seems like a lifetime ago, I outlined our 2020 path forward, which is simply the continued evolution of Hormel Foods. Now, a lot has changed since last October. And as with most global industries, the impact of COVID-19 pandemic on the food industry was abrupt and immense. But, as I look at our business almost a year later, I remain extremely confident in our strategy. Our long-term strategies of building strong brands that customers, consumers and operators trust, relentlessly pursuing innovations that are relevant in the marketplace, making strategic and disciplined acquisitions and creating intentional balance in our business model have not and will not change.

Now, I'd like to walk you through our 2020 path forward and provide an update on the specific actions our teams are taking to execute on each of these priorities. First, grow our deli and food service brands. No part of our industry and company has been more impacted by COVID-19 than food service.

Personally, as a past member of our Hormel Foods service team, it's been heartbreaking to see distributors, restaurants, hotels and many other food service venues struggle to survive. Though many patrons have returned to their favorite establishments, it's clear the industry will be in recovery mode for quite some time. We continue to hold deep competitive advantages in the food service industry, including our relationships with operators and distributors that span decades, a large direct sales force and a balanced product portfolio.

We also have the advantage of being able to turn insights from our sales force, who are on the frontlines in kitchens each day into solutions that solve for the challenges and concerns of operators. And nowhere is that more apparent than in our pre-strategy, a strategy built on pre-marinated, pre-cooked, pre-sliced and fully prepared options. As operators continue to shift their focus to alternative selling and kitchen formats, streamline menus, and safe convenient food options, our portfolio is well-positioned to adapt and grow through the industry recovery. It's also important to note that this isn't the first time our food service business has had to recover and emerge from an economic downturn.

During the recession in 2008 and 2009, our direct sales force expanded their reach to the emerging channels of lodging, healthcare, and colleges and universities. This intentional pivot provided significant growth for the next decade. And today, we are leveraging many of those same strategies with an increased focus on some of the newer emerging opportunities.

The Hormel deli solutions team has also seen impacts from COVID-19, as consumers shift from behind-the-glass meats and prepared offerings to pre-packaged and pre-sliced options. In our most recent quarter, the overall strength in our grab-and-go offerings more than offset declines in our prepared foods and behind-the-glass businesses. We expect this trend to continue as our Hormel Gatherings party trays and Columbus branded items provide differentiated at-home experience.

Second, accelerate growth in ethnic cuisines. I've talked before about our excitement for our on-trend Mexican foods portfolio. Brands like HERDEZ and WHOLLY are well-known for their flavor profiles and authenticity. The HERDEZ brand has been a disrupter to the Salsa category in the US, and not only with classic offerings like Salsa Casera and Salsa Verde, but with Guacamole Salsa, which continues to be one of the fastest growing salsas in the category. The brand recently introduced another new line of offerings, Salsa Cremosas. These innovations and HERDEZ traditional Guacamole which was introduced last fall are sure to keep the brand growing and vibrant as consumers look to add more variety to their at-home eating occasions.

We've also had tremendous success with our latest WHOLLY campaign, ALL REAL, NO DRAMA, inspired by the difficulties of preparing and consuming the perfectly ripe avocado. Our latest innovations, WHOLLY Diced and WHOLLY Smashed, capitalize further on that trend and consumer need. These products are real food, 100%

Copyright © 2001-2020 FactSet CallStreet, LLC

Hass avocado with no preservatives added, ready whenever you are. As we grow this business, pass the $700 million threshold, we have the necessary scale to help consumers as they re-imagine Mexican flavor with our brands.

Third, pursue bold new innovation. And innovation is truly part of our DNA which was proven again earlier this year when we achieved our goal of having 15% of sales come from products introduced in the last five years. We have continued to place a priority on innovation even with the challenges caused by the pandemic. The company has introduced a number of products across multiple brands and categories, including SKIPPY Squeeze Peanut Butter, SKIPPY No Sugar Added Peanut Butter, SKIPPY Protein Peanut Butter, blended with plant protein, Hormel Cup N' Crisp Pepperoni. And it was recently recognized as the most brilliant new pizza topping by Food Network Magazine.

Lloyd's hardwood smoked pulled meats made with two time world barbecue champion Pig Beach Mustard Barbecue Sauce, Natural Choice Hardwood Smoked Meats and our first entry into the food service plant-based pizza toppings category with HAPPY LITTLE PLANTS pepperoni. I continue to encourage our teams to be bolder and think bigger with respect to innovation. And I am fully confident we will deliver on this initiative.

Fourth, expand our global presence. The impacts of the pandemic have touched all parts of our business, including our international division. Our first experience managing through the current uncertainty was back in January with our in-country China operation. As the country took steps to quarantine and our food service business declined, our team in China immediately stepped up their efforts in the retail channel, leveraging our SPAM and SKIPPY assets in the marketplace. As the food service industry has begun to recover in China, our retail business continues to grow at an accelerated rate. Sales of SPAM continue to surpass all expectations, growing both households and share at a very rapid rate.

Additionally, we've seen the popularity of the SPAM brand explode globally due to our strong partnerships in Europe, South Korea, the Philippines and Japan. SPAM truly is our global brand. As a global branded food company, we aspire to create global brands and take our highly successful business model to other parts of the world. Through our multinational platforms, worldwide partnerships, global brands and legacy export business, we know there is a distinct opportunity to grow faster internationally and believe this business provides a runway for growth.

Fifth, protect our core brands. Brands still matter and never have consumers relied on established and trusted brands to feed their families like they have during these uncertain times. It is a responsibility we take very seriously. Brands like SPAM, SKIPPY, Dinty Moore and Mary Kitchen are just some of the shelf-stable brands that have all witnessed extraordinary growth since the start of the pandemic. Similarly, our legacy retail meat products brands have also done extraordinarily well, including brands such as Hormel Black Label, Hormel Pepperoni, Hormel Cure 81 and Hormel Natural Choice.

One brand that has emerged stronger from the pandemic has been the Jennie-O brand, demand has been extraordinary for all of our retail turkey items, and we've increased distribution on many of our key lean ground items. We will be further supporting that brand this fall with advertising campaigns in key markets.

Having the number one or number two position in over 40 categories provides competitive advantage and the stark and dramatic shift in consumer behavior since March has further supported this belief. We can attribute much of our sales growth, share gains, increases in new buyers, repeat rates and household penetration gains to our trusted longstanding brands, and our company-wide commitment to brand stewardship.

Copyright © 2001-2020 FactSet CallStreet, LLC

Sixth, continue to transform our company. I've talked in the past about the importance of transforming and modernizing our company and have discussed in detail the importance of the One Supply Chain and Project Orion initiatives for our long-term growth. These efforts were both critical for us as we strategically responded to COVID. Our progress since March has been truly remarkable. And I'd like you to hear first-hand from Jim Sheehan, Executive Vice President and Chief Financial Officer and Glenn Leitch, Executive Vice President, Supply Chain about our team's great work managing through these uncertain times.

[Video Presentation] (17:27-22:58)

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Well, thanks, Jim and thanks, Glenn, not only for the great information that they shared in the video but for their leadership during this pandemic, they, along with so many others have worked tirelessly to navigate our company through these uncertain times.

So, as we wrap up today, you should be able to see how the continued focus on our 2020 path forward will set Hormel Foods up for continued success in the years ahead and to be able to deliver strong shareholder value.

On behalf of the entire Hormel Foods team around the world, thank you for supporting our uncommon company.

QUESTION AND ANSWER SECTION

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Well, thank you very much for that. That was very impressive, Jim. Obviously, you've highlighted it, brands matter. So, I wanted to ask if you could share some of the more recent product developments, how your blockbuster brands have been performing and what you've learned from the current health crisis in order to kind of further create innovation within the brands, the core brands, but also the new products.

James P. Snee

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

A

Well, thanks, Ben. I appreciate your comments. And brands do matter. They've always matter to us. And we've been incredibly impressed, not surprised, but impressed with how our brands have performed during the pandemic. And in terms of product developments, we've been able to continue to develop or innovate a number of new products. We've talked about the three items that have been innovated in the SKIPPY brand and we've also learned a lot about the messaging of our brands. And so, we're not changing the messaging for consumers to get product off the shelf into the home, but one of the things that we have done is changing the messaging to make sure they are thinking about the brands now that they're in their house and how they might want to use them in a variety of ways. And then, the other thing that we've learned and we've talked a little bit about it was with our Gatherings brand, our party trays. Clearly, pre-pandemic, that was a brand that was focused on social gatherings, right. So, you've got something that happens impromptu and you're able to pull that out and serve a party or gathering. We quickly recognized that social gatherings weren't happening. But there are still family gatherings and there's still a place for gatherings or party trays. So, we've been able to change the messaging on social media and our teams just have done an absolutely great job. So, I mean, overall our brands remain incredibly strong. And like I said, they've performed really well and none of that surprises us.

Copyright © 2001-2020 FactSet CallStreet, LLC

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

Q

Yeah, perfect, thank you. Now, one question for Glenn. And it was in the video, but the One Supply Chain initiatives. Could you give us a quick update how this has actually helped you all the advances you had throughout the pandemic?

Glenn R. Leitch
Executive Vice President-Supply Chain, Hormel Foods Corp.

A

Yeah. I'd be happy to. The first answer I'm going to give you is a really tactical one that through COVID-19 having One Supply Chain really helped us create spontaneous results, if you will, that we had to change plans literally from one day to the next in a different operating environment based on new information that we had. So that was very helpful to us. That also helped us when you think about assets and you think about how to utilize assets. Taking our food service plants and introducing some retail products for them to keep their employees working at that site, it's very important for us.

So, tactically. It certainly paid some dividends. When you think about it in an aggregate capacity standpoint, we've been very much enhanced by the ability to look at assets as one unit. So, we're not protecting our grocery divisions assets, if you will, we're rethinking about it from a total company standpoint that's allowed us to put equipment in places where maybe we wouldn't have put up before. It's allowed us to think about our programs differently. So that's all been advantageous. But if you think about when we started in 2018, our objective then was to look at 12 buckets, create some cost savings around those buckets. We're happy in our second year of fully having those challenges to our team members that will hit our $75 million cost savings goal this year. We are changing our distribution network and so we modeled it in 2018 and we started in grocery in 2019. This year grocery is effectively done, so distribution and warehousing for grocery is in the new model, we're closer to our customers, fewer miles driven. So that will be a benefit and refrigerated is in the middle of that process. And I would hope by the end of next year, we'll have that as well. So, in a nutshell, lots of different things going on in, but certainly paying some long and short-term dividends.

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

Q

Okay. Perfect. Now, a little different topic. And if you could give us an update and what the implications are on your business from Proposition 12 in California?

Glenn R. Leitch
Executive Vice President-Supply Chain, Hormel Foods Corp.

A

Sure. From my perspective, it is a moving target that the rules are being interpreted today and so we're paying attention to what that means. Producers will incur some added costs, they likely have to go to their banker to be able to get some financing to make some changes on their farm sites. The date we have to comply by is January 1 of 2022 unless something changes, so that's all in motion. From a Hormel perspective, we're going to add some complexity to our supply chain.

We're going to have segregation in our plants, so we do that today with other items, but this will be another layer of complexity. We also likely are going to look at our SKU counts a little bit differently due to the regulations and how we distribute it to our customers. But at this point in time, we understand the date and the deadline, trying to make sure we understand the rules and we're ready to comply by that point in time.

Copyright © 2001-2020 FactSet CallStreet, LLC

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

Q

Okay. [indiscernible] (29:00)

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

A

Yeah. And as we've looked at this process, we've been analyzing the impact to Hormel and we're quite confident that this will have an immaterial impact to Hormel. However, we do expect that the cost involved with Proposition 12 will have an inflationary impact on products going into California.

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

Q

Very interesting. Thanks for those thoughts. Now, just on like the more medium-term outlook, I mean, some years ago you'd laid out your 5% top line, 10% bottom line growth target which requires M&A, you've just issued debt at a very favorable rate. So, clearly timing allowed for it, are you seeing any opportunities in the market and if so, do you prefer domestic or international?

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

A

Yeah. So, Ben, I would just take one quick step back and make sure we remember that during our Investor Day last year, we did split our organic growth goal, then it was our all-in [ph] gross (30:03) goal. So, I think that's important to delineate because M&A as part of that 5% and 10% and your comment around issuing the debt and as we headed into the pandemic, there were a lot of unknowns. And so, as we think about what are the needs for the business, the liquidity and the capital markets. We saw a really good opportunity to make sure that we were well-positioned to take care of the business, but also knew that if it weren't needed for that opportunity, there would be other opportunities for us in the future. And so, as we think about what's happening in the M&A markets and clearly, it was pretty quiet on the front end of the pandemic. I think as organizations have started to figure out how they're going to operate going forward, there are a lot more conversations taking place. So, not just the quantity of conversations, but the quality of the conversations that weren't happening several months ago. So, we're still going to maintain the discipline that we always have to make sure that it meets our criteria, it meets our threshold and that's a good fit for us in terms of domestic or international the theory of our portfolio in our business is that we've got the opportunity to integrate an acquisition in either spot. So, we continue to be very interested in the China market based on the platform that we've built over there, the performance of that business. We're ready to add onto that and clearly, we've got a number of places that we've talked about in the past that we could target for domestic acquisition. So, either one really fits very well into our portfolio.

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

Well, thank you very much. Jim, Jim, Glenn, thanks for coming on and sharing your thoughts today and look really forward, well, to see you see hopefully in the [indiscernible] (32:09) next year at our conference in Boston. Thank you very much for joining today.

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

Thank you, Ben.

Copyright © 2001-2020 FactSet CallStreet, LLC

James N. Sheehan

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

Thanks, Ben.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.