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Hormel Foods Corp. (HRL)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Hormel Foods Fourth Quarter 2020 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Nathan Annis, Director of Investor Relations. Please go ahead.

Nathan P. Annis

Director of Investor Relations, Hormel Foods Corp.

Good morning. Welcome to the Hormel Foods conference call for the fourth quarter of fiscal 2020. We released our results this morning before the market opened around 6:30 AM Eastern. If you did not receive a copy of the release, you can find it on our website at hormelfoods.com under the Investor section.

On our call today is Jim Snee, Chairman of the Board, President and Chief Executive Officer; and Jim Sheehan, Executive Vice President and Chief Financial Officer. Jim Snee will provide a review of the company's current and future operating conditions, commentary regarding each segment's performance for the quarter, an update on the impact of the COVID-19 pandemic, and a perspective of fiscal 2021. Jim Sheehan will provide detailed financial results and commentary regarding the company's current and future financial condition. The line will be open for questions following Jim Sheehan's remarks. As a courtesy to the other analysts, please limit yourself to one question with one follow-up. If you have additional questions, you are welcome to get back into the queue.

An audio replay of this call will be available beginning at noon today, Central Standard Time. The dial-in number is 888-317-6003, and the access code is 5831860. It will also be posted on our website and archived for one year.

Before we get started, I need to reference the Safe Harbor statement. Some of the comments made 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 pages 34 through 41 in the company's Form 10-Q for the fiscal quarter ended July 26, 2020. It can be accessed on our website.

Additionally, please note the company uses non-GAAP results to provide investors with a better understanding of the company's operating performance. These non-GAAP measures include organic volume, organic sales, adjusted diluted earnings per share and operating free cash flow. Discussion on non-GAAP information is detailed on our press release located on our corporate website.

I will now turn the call over to Jim Snee.

James P. Snee

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

Thank you, Nathan. Good morning, everyone. Before we get into the business results of the fourth quarter, I want to say thank you to all of our supply chain and plant professionals. They continue to show up every day and their dedication is remarkable. They are the heroes in our company during this pandemic. We remain focused on keeping all our employees safe, supporting our communities through these difficult times, and meeting the needs of our consumers, customers, and operators with safe, high-quality food.

With a dramatic increase of COVID-19 cases upon us, we are doubling down on our awareness campaign called KEEP COVID OUT! These various preventative measures are focused on stopping the spread of the virus in the communities where we live and work, and keeping the virus out of our production facilities.

In addition to our virus mitigation efforts and safety initiatives, in August, we announced the milestone effort in our commitment to education. Our new program called Inspired Pathways will provide for every graduating senior, who is the child of one of our employees, the opportunity to attend community college on us. This program is one of a kind and truly uncommon.

Our team is making excellent progress on the program, and we are excited for the first class to begin in the fall of 2021. We know the application process is a major roadblock to college admission. For this reason, we are building out a network of mentors in our company to assist employees and their children through the college application process. Hormel Foods is a change maker, and we are excited for the impact this program will have for our families and all future of Hormel Foods families for generations to come.

Fiscal 2020 was, by all measures, challenging. This year certainly tested our balanced business model. Coming into this year, we were confident we could deliver record sales, but never could we have imagined how it unfolded. All four operating segments contribute to the record as each grew sales for the full year. This is even more impressive when you consider all four segments have sales into the foodservice channel, which showed sharp declines due to the pandemic.

An important component to our growth this year was innovation. I'm pleased to say our team achieved our goal of having 15% of our sales coming from new products created in the last five years. Even in the midst of the pandemic, our team developed, launched and grew new product sales. Key items contributing to this

accomplishment were SKIPPY peanut butter squeeze packs, Hormel Cup N' Crisp Pepperoni, Herdez Salsa Cremosas, Happy Little Plants plant-based pepperoni and foodservice, and many other innovative items.

Earnings per share for the full year were \$1.66 compared to \$1.80 last year. This includes over \$80 million in incremental supply chain costs, representing almost \$0.12 per share. This is in addition to a \$0.10 headwind from the divestiture of CytoSport in 2019.

As you think back on 2020, our experienced team managed through a lot of rapid and unpredictable changes. We have been through a lot in the last nine months, and we have gained an understanding on how to appropriately operate in this environment, while never sacrificing employee safety. In March and April, we all witnessed the foodservice industry collapse. On-premise dining was shut down completely. And most establishments were not prepared or structured to handle a large influx of pickup and delivery orders. Simultaneously, grocery store shelves were emptied due to incredible consumer demand. We saw raw material markets decline precipitously as demand dropped, only to see market spike as some harvest facilities temporarily paused operations.

We also put multiple production facilities on a voluntary pause to protect the health and well-being of our team members, while also dealing with our suppliers pausing their production. It seemed like each week since the pandemic started, we had a different raw material, ingredient or packaging component shortage to manage through. As we sit here today, we believe there is more stability across the industry because of the learnings from the last nine months, even as COVID-19 cases surge across the country.

In the foodservice industry, even though on-premise dining is being restricted again in many states, operators are better prepared to effectively manage, pickup and delivery. Our supplier community is also more experienced at how to handle manufacturing facilities in limited labor situations. There are countless other examples of improved stability across the food supply chain. But the bottom line is we do not expect there to be the same level of chaos as there was nine months ago.

Looking at the fourth quarter, volume decreased 2% and organic volume decreased 3%. Sales decreased 3%, and organic sales decreased 4%. Earnings per share was \$0.43, down from \$0.47 last year, fully reflecting \$0.03 per share in increased supply chain costs related to COVID-19.

Turning to our segments. Grocery Products volume increased 1%, and sales declined 1%. Low inventory levels and production limitations in certain categories, such as canned meats and chilly, limited our ability to meet the unprecedented customer demand. In categories such as nut butters, where we had adequate capacity and labor, sales grew double-digits. Earnings for Grocery Products increased 1%, as improved results in categories such as nut butters and microwave meals offset increased freight expense and lower earnings from our mega mix foodservice business.

International volume decreased 1%. Sales increased 8%, and segment profit increased 55%. The strong sales and earnings performance was led by our retail and foodservice business in China. Products like SPAM and SKIPPY have shown exceptional growth, but we've also seen growth from innovative new items such as our Hormel [ph] beef turkey (00:11:06). This product was launched in the e-commerce channel and is the most successful new product launch in Hormel China's history. We remain very positive about the long-term prospects of our China business.

International demand for SKIPPY Peanut Butter and SPAM Luncheon Meat was very robust. Both our US export business and our affiliated businesses in the Philippines, South Korea and Europe benefited from this consumer demand.

Jennie-O Turkey Store volume declined 2%, and sales declined 6%. Growth in Jennie-O lean ground turkey and whole birds was exceptionally strong. We did experience declines in foodservice, which was disproportionately impacted by lower sales to K-12 schools.

Segment profit decreased 21%. Lower foodservice sales and increased supply chain expenses associated with COVID-19 were key drivers to the profit decline. The plant pauses in the second quarter continue to impact performance within our vertically integrated supply chain.

Refrigerated Foods volume decreased 4% and organic volume decreased 5%. Sales decreased 5%, and organic sales decreased 7%. Brands such as Applegate, Hormel Black Label, Hormel Fully Cooked Entrées and Hormel Always Tender generated exceptional growth this quarter. Lower levels of inventory and production limitations on certain categories, such as dry sausage and sliced meats, limited our ability to meet the unprecedented customer demand.

Our foodservice business, which has historically represented approximately 40% of Refrigerated Foods' sales, saw double-digit declines during the quarter. Earnings declined 17% due to lower foodservice sales, and incremental supply chain costs related to COVID-19.

Looking forward, our solid performance this year amidst the uncertainty posed by the pandemic, along with our balanced business model, gives us confidence we can perform well in many different economic scenarios. To give you a sense for how we are thinking about the future, I'd like to walk through three important drivers to our near-term and long-term performance: retail dynamics for our brands, our leadership position in the foodservice industry and our supply chain performance.

In the retail channel, like most food companies, we have seen dramatic increases in measures such as sales, household penetration, buy rate and repeat rate for our retail products as consumers ate more meals at home. Instead of reviewing all the metrics, I want to provide some insight into the underlying consumer dynamics we believe are important to understanding how Hormel Foods is positioned to outperform as the pandemic subsides.

Long before the pandemic started, we were witnessing a shift away from the traditional sit down family dinner. Anyone with kids has experienced this. There are many activities, not enough time, and dinner was whatever could be eaten between activities. The pandemic brought the sit down family dinner back. Meals previously eaten on the go have become family activities, and early on, were viewed as enjoyable and highly anticipated within the home.

Through our research, we recognize that consumers are enjoying the new ritual of eating at home, but want products that are convenient, versatile and flavorful. We have a portfolio of brands that meet these consumer needs. These brands were growing before the pandemic, and we believe, they will have staying power as the pandemic subsides, because they are uniquely positioned to meet the evolving needs of consumers.

Another important trend in retail is e-commerce. We continue to drive market share gains in our biggest and most important categories as consumers quickly gain acceptance of ordering food online. We continue to shift our investments toward this channel and are excited by the growth we see.

Turning to the foodservice channel, we are committed to the future of foodservice. We are confident consumers will want the choice to purchase food prepared away from the home. As a leader in the foodservice industry, we are adjusting and investing in our capabilities. We are shifting resources to faster-growing channels, investing in

our direct sales force talent and continuing to support the foodservice distributor and operator community as they battle through this difficult time period. We cannot overstate the importance of relationships in this industry and the long-term competitive advantage our direct sales force provides.

When the foodservice industry returns to growth, we understand operators will be looking for products to simplify their operation, save time and minimize labor, all while preserving the flexibility to add their own unique touch to a menu item. Products like Hormel Bacon 1, Hormel Fire Braised meats, Sadler's authentic smoked barbecue and Café H globally inspired proteins are well positioned to thrive in this market.

Finally, I want to address our supply chain. In many categories, we have produced at very high levels relative to our historical performance. We've been able to steadily improve our throughput as we learn how to operate in a COVID-19 environment or supplement our internal production with trusted co-manufacturing partners.

On our third quarter call, we talked about short-term supply chain risks, including lower inventory levels, limited labor availability and production inefficiencies that could impact our ability to meet the unprecedented demand [ph] that's played out (00:18:00) in certain categories in the fourth quarter.

Production in categories like canned meats, pepperoni and chili was constrained due to labor shortages, but also because of COVID-related changes in our production lines. Our supply chain team has done an excellent job solving for each individual issue, and our production capacity is structurally higher as we move into 2021.

We continue to focus on the health and safety of our employees, which impacts our ability to adequately staff our facilities. Our COVID-19 leadership team, including operations, quality control, communications, R&D and human resources are working tirelessly to keep our team informed on COVID-19 preventative measures. We are much better at adjusting through rapid changes in staffing than we were when the pandemic started, and we'll continue to keep the health and safety of our employees as the top priority.

A benefit we have this coming year is additional capacity from the investments we made before the pandemic started. Our Burke expansion in Nevada, Iowa, will open in our first quarter and will give us additional capacity for pizza toppings. Throughout the pandemic, we have seen sustained demand as pizza continues to be a favorite amongst consumers and patrons. This new capacity will help us meet that demand.

We will also be opening our new dry sausage production facility in Omaha, Nebraska, during the first half of the year. This facility will produce Columbus charcuterie products, which is an important milestone in the trajectory of this leading deli brand. We also announced an additional investment for pepperoni capacity. This will give us the runway to continue growing our retail and foodservice business.

As you consider the various factors influencing our business, and our favorable balance across the retail, foodservice, deli and international channels, we are optimistic about our ability to grow sales and earnings in fiscal 2021. While uncertainty exists, we do want to give you some basic insight into how we see the year playing out. For our retail business, it will be hard to replicate 2020 from a sales demand perspective. However, we do expect continued growth, albeit at a slower rate. For foodservice, we expect a modest recovery in the industry, but likely, not back to 2019 levels.

Today, foodservice operators are better equipped to drive growth even with fewer patrons physically in their restaurants or venues. We expect modest growth in our deli business as retailers are more experienced in operating their deli business in a COVID environment. As a reminder, our deli business exhibits characteristics of

both retail and foodservice. Finally, our International business is poised to continue growing and, barring any unforeseen geopolitical issues, is expecting a strong performance next year.

Hormel Foods has the right strategy. Our business fundamentals are solid and we are on sound financial footing. I continue to be incredibly optimistic about our long-term performance, even as we navigate all the uncertainty, COVID has brought. As a global branded food company, our balanced and diversified business model positions us to win across all of our key channels.

At this time, I will turn the call over to Jim Sheehan to discuss our financial information relating to the quarter, give an update on our financial position and provide commentary regarding key input cost markets.

James N. Sheehan

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

Thank you, Jim. Good morning. Net sales for the fourth quarter were \$2.4 billion, a decrease of 3%. For 2020, the company generated record sales of \$9.6 billion, a 1% increase. Our balanced model proved successful as all four segments grew sales for the year. Fourth quarter and full-year segment profit declined 9% and 4%, respectively. The business absorbed approximately \$81 million in incremental COVID-related expenses during the year, with \$20 million impacting the fourth quarter.

Earnings per share for the fourth quarter was \$0.43 compared to \$0.47 last year. Our fourth quarter results reflect approximately \$0.03 in incremental COVID-related expenses and \$0.01 in losses on strategic hog positions. Full year earnings per share decreased 8% to \$1.66. On an adjusted basis, earnings per share declined 2%.

CytoSport contributed \$0.10 earnings per share in 2019 [ph] including (00:23:48) the gain on sale. SG&A, excluding advertising and the expense reductions from the sale of CytoSport in 2019, was 6.6% of sales compared to 6.5% last year. Advertising investments for the year were \$124 million compared to \$131 million last year. [ph] Plan (00:24:12) to increase advertising in 2021 to support many of our leading brands. Jennie-O will be the first turkey company to have a float in the 94-year history of the Macy's Thanksgiving Day parade.

Unallocated expenses returned to more normal levels in the year compared to the prior year, which included the favorable impact of the sale of CytoSport and a legal settlement. Full year operating margins were 11.5% compared to 12.6% last year. Decline was driven by the COVID-19-related expenses and the impact from lower foodservice earnings.

The effective tax rate was 18.5% compared to 19.1% last year. We again executed our disciplined financial strategy despite the disruption caused by the pandemic [indiscernible] (00:25:09) 2020, grew operating cash flow, paid record dividends, invested in capital to grow our value-added businesses and acquired Sadler's.

We also secured \$1 billion in debt to provide liquidity and allow the business to take advantage of strategic opportunities. The company remains in a position of strength heading into 2021.

For the year, the business generated cash from operations of \$1.1 billion, an increase of 22%. Cash flow benefited from lower working capital. Finished goods inventory began the third quarter at unseasonably low levels. Strong demand for our retail items continued into the fourth quarter. Retail business in Grocery Products and Refrigerated Foods were most negatively impacted by this dynamic during the quarter.

We're seeing a gradual improvement in inventory levels, [ph] improvements (00:26:11) in operations, labor availability, internal capital expansions and increased use of strategic manufacturing partners give us confidence in the ability to expand supply in 2021.

Paid our 369th consecutive quarterly dividend effective November 16, and announced a 5% increase for 2021, marking the 55th consecutive year we have increased the dividend. The new annual rate for 2021 will be \$0.98 per share.

During 2020, the company repurchased 300,000 shares for \$12 million. Capital expenditures in 2020 were \$368 million compared to \$294 million last year. Recently we completed an expansion at the Burke pizza toppings plant, and are nearing completion of the new dry sausage facility at Nebraska.

2021, we will continue to prioritize investments to support the growth of the value-added businesses, including a new expansion for pepperoni. Company's target for capital expenditures in 2021 is \$350 million. The hog market has recovered from 20-year lows due to strong domestic and export demand. USDA composite cutout showed some similar strengths throughout the fourth quarter before moderating more recently. USDA is projecting domestic production of pork to increase 1% in 2021.

We expect hog prices to rebound significantly in 2021. Continue to have ample access to hogs and pork raw materials, through our balanced mix of hog and pork supply contracts. USDA composite cutout is expected to be modestly higher in 2021. Although the outlook remains uncertain, given the surge of cases happening now, it is our expectation that over the full year, industry operating efficiencies and production levels will increase in 2021.

Labor availability will continue to be a significant factor in the industry's ability to operate efficiently. We expect much lower levels of commodity volatility compared to last year as supply stabilizes and demand exhibits less dramatic changes within the year. Strength of our brands and balanced approach to procurement will be key in managing through this volatility.

[ph] Pork trim (00:29:00) markets are expected to decline in 2021, but the value is highly dependent on the pork industry's operating level. We anticipate belly prices will increase from the current levels. This is based on moderate foodservice growth. Fundamentals in the turkey industry remain mostly unchanged. The benefit of favorable whole bird prices, lower pork placements and reduced cold storage levels are being offset by lower breast and thigh meat markets due to lower demand.

We anticipate lower commodity prices of turkey in 2021. A sustained recovery in the foodservice industry would likely benefit turkey markets. Feed cost is expected to be higher. Managed feed costs through a combination of spot buying, derivatives and adjusting feed formulas. We expect the COVID-19-related higher cost structure to continue through the first half. We expect the majority of the COVID cost to subside as the pandemic comes under control.

Although 2020 was a challenging year, it is important to revisit the accomplishments related to long-term growth and stability. We maintained one of the strongest balance sheets across the Fortune 500 companies, grew operating cash flow in excess of 20% and issued bonds that were well received by the debt investors. We used this capital to gain market share in e-commerce and retail, support our leading brands through advertising and marketing, achieve our 15% innovation goal, invest in value-added capacity, expand our authentic foodservice portfolio with the Sadler's acquisition and transform and modernize our company through Project Orion and One Supply Chain initiatives.

All of these actions will help us attain long-term growth goals, while continuing our outstanding track record of returning cash to shareholders. In one of the most difficult years in our 130-year history, we have shown our continued commitment to our employees, our communities and our shareholders.

At this time, I'll turn the call over to the operator for the question-and-answer portion of the call.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Adam Samuelson with Goldman Sachs. Please go ahead.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Yes. Thanks. Good morning, everyone.

Q

James P. Snee

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

Hey, Adam.

A

James N. Sheehan

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

Good morning.

A

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Good morning. So I guess, Jim, I'm trying to just wrap my head around kind of how the different moving pieces in the outlook – and there's a lot of detail that you just gave on the cost side. But at a high level, I mean, there is an expectation of sales growth. On the cost side, raw material wise, it seems kind of balance of puts and takes, a reduction in COVID-related expenses, potentially a step-up in advertising. And then just help me on tax rate, and just help me think about the other moving pieces, trying to think the bridge from sales to just earnings per share, knowing you're not giving explicit guidance.

Q

James P. Snee

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

Yes. Thanks, Adam. I'll go ahead and start and I'll let Jim [indiscernible] (00:32:45) markets. But you're right. There, obviously, are a lot of moving pieces as we're thinking about 2021, just like there were in 2020. It does start with the demand side of the business. So I think if you go back to our channel guidance around retail showing growth, albeit at a slower rate; foodservice, having some modest recovery, deli business showing some growth, and International maintaining its strength. I mean, that's the important first piece of the puzzle.

A

The second piece of the puzzle for us is the structurally higher capacity. And so, as we've tried to be very upfront about is, we didn't meet the demands of the business in the fourth quarter, but there's a lot of work happening behind the scenes. A lot of it was already planned, some of it came to be during the pandemic. But it's work and execution that the team's been accomplishing over that time, and that's why we feel good about where we're going to be from a capacity perspective heading into 2021 to meet the demands of the business.

From a COVID cost perspective, Jim talked about having the same cost structure in the first half of the business. We need to all understand when does the vaccine come into play, when is it distributed, when can we see broad distribution. But I think the timing that we've been hearing and have recently heard is that first half, second half window seems to make sense. So, the demand side and the supply side for us, we feel really good about as we head into 2021. Jim, I'll let you maybe talk about some of the markets or any other financial information.

James N. Sheehan

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

A

Sure. Good morning, Adam. Your comment about markets being mixed, I think is a fair assessment of how we see 2021. The main issue here is that you won't see the volatility that you saw especially in the second and third quarter of 2020. Those periods, we had a drastic decline in the foodservice demand, and then you had plant shutdowns, and it just created almost a violent level of volatility that we believe will be much more stable environment in 2021.

Part of the change in the input costs, for instance, bellies, will be dependent on how quickly the foodservice business regains strength. Delis track that foodservice demand very closely. So overall, it is a bit of a mix. We see our hog costs somewhat similar to what they were in 2020, maybe slightly lower. We'll see what that happens, understanding that hog costs or the Western Corn Belt is forecasted to be much higher. But that's not really the basis of what we purchase hogs on.

The other issue you asked about was tax rate. We don't see any significant change in the tax rate in 2021. We believe the tax rate will be between, 20% and 21.5%. Let's use that as the range as to where we expect it to end up.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's super helpful. And then, if I could just squeeze a question in on Jennie-O, I mean, business has had some challenges in recent years and kind of ex-COVID, I think there was a thought that we might be turning the corner there. But now maybe a non-Thanksgiving or different Thanksgiving maybe impacting inventories on the whole bird side just help us think about, the trajectory for the Jennie-O business specifically?

James P. Snee

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

A

Sure, Adam. If you go back to Q4 of last year, we really had started to turn the corner in terms of our – the strategy that we were building out and regaining our lost distribution, especially for our lean ground business. And we had a solid Q4, solid Q1 and quite frankly, Q2 was pretty good as well. And then, as COVID came into play and dramatically, impacted the supply side of the business for that product also impacting just the supply chain, right, vertically integrated supply chain that had plant pauses, severe disruption, increased costs.

Now, as we've made our way through that, we're still seeing impacts in the supply chain. Anytime you back that supply chain up, you're going to have impacts for a while. The part that we remain optimistic about is the strategy of building out distribution. We still had success with lean ground turkey. The dramatic impact beyond supply chain has been Jennie-O foodservice business. Like in the Hormel foodservice business significant declines, theirs is probably a little greater. It's driven – they've got a bigger presence in K-12 business, which has been dramatically impacted this year.

So, I mean, you're right. It's been a mixed bag for Jennie-O over the last several years. But we feel good about where we were headed pre-COVID. We've done all the right things during the COVID environment. And feel like as we emerge from this pandemic, the fundamentals of the business, especially on the retail side, are strong. And then we are going to need to see the recovery on the foodservice side.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Okay. That's all I have. Really helpful color. I'll pass it on. Thank you.

James P. Snee

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

Thank you.

Operator: The next question is from Peter Galbo with Bank of America. Please go ahead.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Hey guys. Good morning. Thank you for taking my questions. I guess, just the first question on the retail sales guide of – still expecting growth despite at a slower rate. I guess, what I'm having a harder time understanding, I get in the first quarter where the comps have kind of continued to accelerate, but as you just start getting the some of these tougher comps in the second quarter and back half of the year, understanding the capacity coming online. Just help us understand your thinking around, organically or from a demand perspective why that should continue to kind of grow in the second quarter and back half of the year?

James P. Snee

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

Right. So I mean, you hit on it on the first half of the year. I think the second part of your commentary that there's that unknown of – even though we will have a vaccine in place. But how quickly are you going to see that recovery in foodservice, and how quickly are consumers going to move back to historic behaviors. I think it's too early to tell. I mean, we do see that modest recovery in foodservice, but I don't think retail is just going to hit that cliff.

I think the other part for us in the back half of the year is the fact that we did have some of these supply disruptions, and we didn't meet all the demands of the business. So from a comp perspective, we think there's going to be opportunities for us as well in the back half. So that's what's really driving our outlook for the retail business, the continued comps in really the first part of the year. And then, as we're going to be [ph] topping (00:40:26) against some unmet demand in the back half of the year.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Okay. Thank you. And then, Jim, maybe just on Jennie-O, your comments maybe in the cost section of your prepared remarks with higher grain and maybe lower commodity prices and maybe if you could also comment on freight. Just how should we think about the margin trajectory in 2021, maybe not from an absolute level, but just versus historical, can we get back to 2019-type levels on the margin side? Just help me understand that. Thanks very much guys.

James N. Sheehan

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

A

Sure, Peter. We obviously expect to continue to have some COVID cost in 2021, especially in the first half that will be a headwind to Jennie-O. But one of the things that we can't understate is the impact to Jennie-O in their live production operation by the interruptions in production that they saw in 2021, how that backed up the birds. You're feeding birds longer. You're processing birds at a heavier weight that underperform. And I think that's a big benefit as we keep the operations running at a more consistent level and don't have these plant interruptions. That's going to be a significant benefit to their cost structure.

So yes, there will be headwinds with COVID costs. Grain costs could be higher. But we managed that grain cost through our hedges that we have. We do some forward buying on grain. And we also can adjust the feed formula, so that we're mixing the feed a little bit better to improve our feed costs. So there's a lot of levers there that we can, let's say – in 2019, we had about a 9% margin on this business. We think that we can go back and achieve that level in 2021.

Operator: The next question is from Ben Bienvenu with Stephens, Inc. Please go ahead.

Benjamin Bienvenu

Analyst, Stephens, Inc.

Q

Thanks. Good morning, everybody.

James P. Snee

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

A

Good morning, Ben.

James N. Sheehan

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

A

Good morning, Ben.

Benjamin Bienvenu

Analyst, Stephens, Inc.

Q

I want to ask, first, just to clarify on the commentary in the press release that you're optimistic about revenue and earnings growth in FY 2021. I assume that's true even on a 52-week basis? And then I want to tack on to that. You highlighted and it's been a really unusual challenging two years from an external standpoint, a number of elements that have caused volatility, headwinds and inefficiencies. But you've also been undergoing some significant supply chain adjustments over the last two years, in Fremont, in particular. And I'm curious we haven't seen earnings grow in a few years. And I'm wondering, what kind of external environment do you think we need for the earnings growth potential of the business to shine through? And then, at what point do we start to see kind of steady state around supply chain cost side of things as it relates to the adjustments that you've made internally?

James P. Snee

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

A

Yes. So, Ben, we certainly would agree it's been unusual and challenging. And the work that our One Supply Chain team has done has been absolutely phenomenal, not just with the Fremont transition, but in the midst of

this pandemic and making sure that we've got one message consistently across the organization. The guidance or the comments that we've made about sales growth does play out in a 52-week year.

Obviously, we've got a 53-week year next year. But for us, the business, we expect moderate growth in our retail business. So if you go back to the Grocery Products business, I mean, we were showing steady growth in Grocery Products. Our foodservice business has been a shining star in our organization and continued – had been outperforming the industry significantly, the investments that we've made around our business out with deli, and then, of course, our International business.

But I think for us as there's a return to just that level of normalcy, where we can see our retail businesses return to historical growth, our foodservice business, the foodservice industry get back to some level of normalcy. We've got the right investments. We've got the right structure. We've got the right businesses to take advantage of those market conditions. And so, it is obviously unusual and challenging. But we remain very, very confident in the way that we've built the balance across the organization. And we've improved sales capabilities on the e-commerce side. We've made investments in consumer insights and analytics. So we've done all the right things to support the growth of this business over the long term.

Benjamin Bienvenu

Analyst, Stephens, Inc.

Q

Okay. Great. Thank you for that. And then, the International business has had nice results in the midst of this challenging year and it has exhibited nice growth over the last several years. I'm curious, how big do you think that business can get? And when you think about opportunities as it relates to that business, you alluded to some of that in your opening comments, but I'd be curious if you could elaborate a bit more on that segment?

James P. Snee

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

A

Yes. I mean, we think there's continued opportunities in China, and we've really seen that team hit its stride. We've built our new facility there in Jiaying several years ago to support the expected growth, and they've delivered both on a retail and foodservice basis. They also, as we described, had some great innovation from an M&A perspective. I've talked about my desire to really add on to that great platform that we've built, both retail, foodservice, and then even in retail, ambience and refrigerated frozen. So it's got a lot of the great attributes that our domestic business has, and we see opportunities for it to continue to grow organically and be supported from an M&A perspective.

Our export business this year demonstrated the power of brands on a global basis with SPAM and SKIPPY showing great growth, and we expect that to continue to grow. So again, just really optimistic on where the business is today, but then also, the opportunities that exist organically and from an M&A perspective.

Benjamin Bienvenu

Analyst, Stephens, Inc.

Q

Okay, Jim, Jim. Thank you, and have a happy Thanksgiving.

James P. Snee

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

A

You too, Ben.

James N. Sheehan

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

A

Thank you.

Operator: Your next question is from Robert Moskow with Credit Suisse. Please go ahead.

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. A couple of questions. You mentioned new capacity that's coming online, some new plants. Have you secured labor for that new capacity? I know you had some labor issues, but I'm not quite sure in which facilities or which regions it's happening? And then just a clarification, you said that you're expecting sales growth across all of your – sales and profit growth, but that's excluding the 53rd week, correct?

James N. Sheehan

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

A

So I'll start with the second one, Rob. Yeah, we expect to be able to grow the business on a 52-week basis, sales and earnings. And then, of course, next year, we do have our 53rd week as well.

From a labor perspective, the two big labor needs are the plant in Omaha, Nebraska, the expansion of our dry sausage, our subsidiary line of products for Columbus. And yes, we've had a lot of success securing labor for that facility. It's a bigger metropolitan area and so labor has not been an issue. The other big investment that we described, our Burke expansion in Nevada, Iowa, and there, again, we had a great labor force, and we've been able to secure additional labor in that facility as well.

And some of the other areas where we are expanding capacity with an additional line, we are confident we'll be able to do that as we navigate through the COVID environment, but they're historically really strong labor markets for us. Our SPAM, for example, we're expanding capacity here in Austin, Minnesota and Dubuque, Iowa, very strong labor markets for us. As we've said, it's some of the more rural markets that can be a challenge for us. But where we're currently expanding capacity, we're actually in a good position.

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Good. And then, it's the season of giving, so I'm going to give you some more questions here. In the back half of the year, I think you said, you expect easier comparisons because you'll have sufficient capacity in chili and in your other canned goods, I can't remember the other one. But I would imagine demand for those canned goods is going to be down a lot in the back half, just because we'll have a vaccine and the consumers will regain mobility. So, have you factored that into your expectations for easy comps? But you might have the capacity, but I don't know if you're going to have the same demand.

James P. Snee

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

A

Yeah. No, I think that's a great point, Rob. And we have. And so what we're trying to say is it's not going to be pound-for-pound in terms of the opportunity. But we do still expect there to be growth. And the other part to consider is the fact that, I mean, these businesses we're talking about were largely growing before the pandemic.

So I mean, yes, we'll have capacity. We understand. And we've said that, we do expect continued growth at a slower rate. But we also know that we didn't meet the current demands of the business. And so when you factor those three things together, that's why we're – we expect to have a strong back half of the year.

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Lastly, on peanut butter, did you take a price increase this year? Your competitor was talking about the price increase that they took in their strong performance. Have you taken pricing? And also, are you satisfied with your share of performance in peanut butter?

James P. Snee

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

A

Yeah. Thanks, Rob. We've been really pleased with the performance of SKIPPY. Even before the pandemic, the trends were really positive. We've continued to perform well during the pandemic, have done a nice job gaining share. We are also taking pricing on peanut butter. And again, feel really good about where the business is trending. We haven't had any capacity constraints. The plant has been running well. And then we've done a great job supporting this business through innovation. I talked about in my prepared remarks about how the team has done a great job, in the midst of everything going on to continue innovation with SKIPPY Squeeze, SKIPPY high-protein, SKIPPY No Sugar, just lots of great work supporting that iconic brand.

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay, great. Have a great holiday. Thank you.

James P. Snee

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

A

Thanks. You too, Rob.

Operator: The next question is from Michael Lavery with Piper Sandler. Please go ahead.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Thank you. Good morning.

James P. Snee

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

A

Good morning, Michael.

James N. Sheehan

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

A

Good morning.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Can you just come back to the supply chain a little bit? And elaborate a little bit on the status or timing of savings from the One Supply Chain. And I guess the question is it feels a little bit like the curveballs you've had this year would make it a little bit like changing a tire, while you're driving. But it still sounds like you're expecting the savings to be coming through and that's a progress. And so, is it just maybe that you've settled back into sort of a new normal groove? Or how should we just think about the trajectory of how all that plays out?

James N. Sheehan

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

A

Thanks, Michael. We are beating the supply chain savings that we laid out [ph] would be for (00:53:52) the organization. In fact, we think some of those savings will be accelerated. Those savings have paid dividends in a very difficult operating environment this year and allowed us to do things that we wouldn't have been able to do in the past and other things that we did much more efficiently.

So, we're very pleased with the progress we're making on one supply chain. It's hard year to measure, because there are a lot of moving parts. But we believe that we've met every expectation that we set originally on this. And we think it's going to accelerate as we go through. And continue to expand the efficiency of these operations.

James P. Snee

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

A

Yeah. And, Mike, I mean, clearly, we've had pretty significant cost increases. You think about PPE, team member bonuses, plant disruption costs, lower overhead recovery, and so you're trying to measure it in a year where you've got so many different pieces. And your analogy of changing a tire while driving is one that I haven't heard, but certainly it's very appropriate for the environment that we've been in this year.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Okay. Thanks. That's great color. And then, just a follow-up on the retail side of the business and your expectations there, for the three quarters where you've given the channel splits this past year, it was up 16%, 19% and now 7%. So even if 1Q was around flat, that's like a 10%-plus pace on the year. Just to hold that sales level absolute at flat would seem quite impressive. And so to grow over and above it, I know we've touched on this already, but can you just maybe quantify some of what the capacity impact is? Or just how you're confident that that's a growth driver over and above the very high levels that you set for fiscal 2020?

James P. Snee

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

A

Yes. So I mean from a capacity perspective, I talked a little bit earlier about SPAM, and we were constrained on our SPAM business, but are in a really good position because of expanded capacity. Our chilly, our stew, our hatch business has had success, but it took some time securing co-manufacturing, but we've also internally been able to get to some extended runs, [ph] our complete (00:56:25) business in terms of adding shifts to that business. So from a – as we said, from a capacity perspective, we feel really good about where we are heading into 2021. We obviously still understand everything that's happening in the world around us with these increased COVID cases. And we're experiencing that first hand. I guess from our perspective, we believe the retail number is very realistic as we think about the full year. And then for us, really, the key is to be able to meet the needs of the business. And so as we head into 2021, capacity is at the top of our priority list.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Okay. Thanks. That's great color. Thank you.

Operator: The next question is from Rupesh Parikh with Oppenheimer. Please go ahead.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Good morning. Thanks for taking my question.

James P. Snee

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

Hi, Rupesh.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

So, just going back, I guess, to foodservice. So as you look longer term, do you see any impediments in getting back to your prior foodservice levels, just given some of the – it seems like, obviously, a lot of restaurant – permanent restaurant closures out there?

James P. Snee

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

Yes. I mean we don't, Rupesh. I mean, we know the way that we've – the way that we've attacked the business structurally with the direct selling organization, the way we've innovated in the space, the relationships that we have with operators. Clearly, the timing is uncertain. But I think, over time, we do expect our foodservice business to continue to be a growth vehicle for our organization.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Okay. Great. And I know there's been a number of questions just around cost on this call. So outside the COVID cost that you guys expect to continue at least for the first half of next year, anything you can share just in terms of other puts and takes in terms of costs, whether wages, freight, advertising? Anything else we should be thinking about for the upcoming fiscal year?

James N. Sheehan

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

Oh, I think, one of the things that we have had a challenge, and that was in freight cost, and that was because of some capacity constraints for us, that increase in freight cost had to do with not loading full trucks and sending trucks out at less than optimal levels. So, as capacity goes up and production improves, we think that freight cost, even though – there is pressure on freight, but sending out trucks that aren't full is an expensive process. We think there's going to be improvements on that side of it.

Again, with COVID cost, everyday we learn a little bit more about how to operate more efficiently. So we continue to have a headwind on COVID costs that our operations become more efficient from probably a less direct cost standpoint. So, efficiencies in the plant, the speeds that you can run those types of things. But obviously, for us, regarding COVID, it's employee safety, and that will be the highest priority. We'll continue to invest what we need to invest in those costs to keep our employees safe.

James P. Snee

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

A

And, Rupesh, I would say, we are obviously making the necessary investments in advertising back to supply chain. We've talked a while ago about the new distribution center to support our Grocery Products business that continues to do really well, even with the load balancing we're having to do. And our team is working on another distribution center to support the Refrigerated Foods business. So we continue to see opportunities to get better in that area.

James N. Sheehan

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

A

The other area, Rupesh, that I'd point out is that we've made significant investments and Project Orion in 2020. We haven't called it out. We haven't separated it, but the expenses, as you might expect, have been material. You could see some of that in our unallocated expenses this year, where we've closed out our HR, benefit and finance portions of the project, and there have been some expenses that impacted us in the fourth quarter too.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Q

Okay. Great. Thank you for all the color.

Operator: The next question is from Tom Palmer with JPMorgan. Please go ahead.

Thomas Palmer

Analyst, JPMorgan Securities LLC

Q

Good morning, and thanks for the question. I wanted to ask on the inventory side. I mean, I can see on the balance sheet that inventory is up pretty substantially versus where it was a quarter ago. And you've talked about actions you've taken to kind of resolve that. So I guess, I really was looking to understand, on next earnings call, I mean, are we going to see some lingering effects of this inventory constraint having weighed on first quarter, especially as we see kind of a resurgence of COVID cases and potentially pantry stocking again? Or is it quite the opposite and you have the potential to get a catch-up where inventories were drawn down a quarter ago by your customers, and now you can backfill into it? Thanks.

James N. Sheehan

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

A

Good morning Thomas. It's much like 2020. It's a mix of both. Our raw material – or our finished good inventory is down. So, there's some constraints that we'll have in Q1. Now, Q1 is more of a quarter at which you sell more close to what you produce. It's not a quarter that you build inventory in, but it's also a quarter that normally you don't draw down a lot of inventory. So it's going to have a less of an impact in Q1 than perhaps it did in Q4, which is a period – a quarter in which you draw inventory down, you can't produce enough product during the quarter.

The other factor is that there is an increase in raw materials in inventory, and that primarily comes back from products that are generally sold through the foodservice industry. In some instances, that means that we won't have to go out and buy products. When we buy products on the open market, obviously, you have fluctuations in those costs as product is put away. And as foodservice returns to strength, we will be able to draw down that inventory and perhaps manage our cost a bit better in the foodservice areas.

Thomas Palmer

Analyst, JPMorgan Securities LLC

Q

Okay. Thanks. Thanks for that color. And then just wanted to ask on pricing assumptions as we look towards the coming year, there were several segments or a couple of segments where pricing rolled over sequentially. I assume that was mainly mix. But then when you're looking at positive growth in the coming year, how much of the burden is volume driven? And then how much is pricing?

James P. Snee

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

A

Yeah. Thomas, the big driver right now for pricing is, we talked about SKIPPY. And then – I mean, we are expecting an uptick in volume. We've got opportunities to drive volume this year. But I mean, we do also have pricing power when we think about products that are tied more to underlying commodities on the retail side. So you think about bacon, which is a big driver. Obviously, we'll be watching that closely. Jim talked about the belly market earlier. But I mean it's volume-driven, but we know that we also have pricing power as well, and we do have our SKIPPY pricing in place.

Thomas Palmer

Analyst, JPMorgan Securities LLC

Q

Thanks.

James P. Snee

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

A

Yes.

Operator: The next question is from Ken Zaslow with Bank of Montreal. Please go ahead.

Kenneth B. Zaslow

Analyst, BMO Capital Markets Corp.

Q

Hey. Good morning, everyone.

James P. Snee

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

A

Hi, Ken.

Kenneth B. Zaslow

Analyst, BMO Capital Markets Corp.

Q

There's been a lot of discussion, obviously, about your ability to – your inventory levels as well as your supply chain. Can you talk about how much demand did you leave on the table in 2020 that you'll get back in terms of – in 2021 because of your capacity constraints? Can you put some sort of quantification to what actually was the impact in 2020 and what will be the benefit in 2021, as you gain your capacity? I know there's a lot of [ph] quality (01:04:51), but I just don't understand how to actually model it.

James P. Snee

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

A

Yeah. That's a tough number to get at, Ken. I mean, I think clearly, as we've talked about the end of Q3 and given the warning signals into Q4, we had missed demand opportunities in SPAM, in some of our pepperoni business, sliced meat, as we've described, it's hard to quantify. And we do think we'll be able to capture some of that back in 2021. And it is, as I said, the supply chain, the structurally higher capacity is going to be a very key component for us in delivering the sales and earnings growth. But in terms of actually quantifying that number, that's a difficult number to get at, but we know the opportunity is there.

Kenneth B. Zaslou

Analyst, BMO Capital Markets Corp.

Let me just ask one more way of asking you, maybe this is an easier way. How much more capacity will you have in 2021 than in 2020?

James N. Sheehan

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

Well, that's going to depend on the product lines, but on the key areas, we think that there will be some significant expansion in capacity. We've talked about some of the plants that we've expanded on. So as far as a dollar amount or a percentage, that's difficult. Obviously, we continue to operate with the uncertainty of COVID that how much impact is it going to have in our plants, which plants is it going to impact, those are all the difficult – those are all the uncertainties that we're living with. And we wish we knew exactly how hard we could run the plants and for how long. But that's a bit of the struggle with, what we're looking at in 2021 to identify it down to a number.

Kenneth B. Zaslou

Analyst, BMO Capital Markets Corp.

Okay. And then just a final question is, did you say that grocery profit will match sales? Or did I mishear that? I just didn't hear that.

James P. Snee

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

No. I don't think, we said that, Ken.

Kenneth B. Zaslou

Analyst, BMO Capital Markets Corp.

Okay. Do you want to say something about that? How is that?

James P. Snee

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

I mean, our bigger conversation, rather than getting into the segments, as we think the channel discussion is really how to think about the business as we head into 2021. And obviously, we've given some, we hope, additional and good color around retail, foodservice, deli and international.

Kenneth B. Zaslou

Analyst, BMO Capital Markets Corp.

Great. Thank you. Be well. And have a happy Thanksgiving, guys.

James P. Snee

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

Yes. You too, Ken.

Operator: The next question is from Eric Larson with Seaport Global Securities. Please go ahead.

Eric J. Larson

Analyst, Seaport Global Holdings LLC

Q

Yeah. Thanks, guys. I know we're running low on time and happy holidays to you here as well. Hope you have a good Turkey Day. The question is – and Jim alluded – Jim Sheehan alluded to it a little bit earlier. And I had this question in mind. But I think you're now, I think, two years or so into your ERP update conversion. Will fiscal 2021 require the same amount of capital? I can't tell but your CapEx numbers are kind of about where they were a year ago, maybe a little bit lower. But will that start being a net positive to your corporate expense line in 2021? Or should we be thinking that the real benefits of reduced ERP expenditures come in FY 2022?

James N. Sheehan

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

A

There will be a reduction, as you – as we go into 2021. As you think about this, we had three major tasks to attain when Project Orion. First was HR and benefits, second was to update the entire finance function, and third was supply chain. HR and benefits is completed. Finance is totally completed. For example, all of the staffing that had been assigned to Project Orion and the finance group have been pulled back to their old jobs, so those two are gone. Obviously, supply chain is a big task.

But as you look at the accomplishments, two out of three have now been completed, as we go into 2021. And you will see significant benefits from what we've attained through Project Orion and efficiencies in the operations. And insight into the business, the amount of analytics that we're getting and the scope of information that we now have to operate the business has expanded drastically even in the last quarter.

Eric J. Larson

Analyst, Seaport Global Holdings LLC

Q

Okay. Yeah. Thanks, Jim. And so my final question, I know this is just – it's a very 30,000-foot level question, but I think Mr. Snee, you alluded to it a little bit in your prepared comments. But you said the consumers are enjoying being at home and cooking. And that a lot of that will continue going forward. And I'm sure you're talking to your customers. I mean, the debate here is, customers – a lot of consumers say, I'm sick of cooking at home. I can't wait until we can go back to the restaurants. So it's kind of a pull and tug argument. So, what are your consumers telling you when you talk to them about what their behavior changes might be?

James P. Snee

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

A

Yeah. I think you hit it right on the head, Eric, is that, especially early on, they enjoyed the time together, but there's been a bit of fatigue. But I don't know that, that's going to entirely go away, where a lot of consumers are missing the option of being able to get out into their favorite dining establishment.

And I do think they've been able to take some advantage of that as foodservice operators have gotten better at on-the-go and – or grab-and-go and delivery. But I do think we're going to see that shift away from dining at home back into the foodservice channel. The key is at what rate. And so that's why we're saying we expect a moderation of retail, and we do expect an expansion of foodservice. The unknown is what is the right rate or the right number in 2021. But there's certainly fatigue, I think, is the right word to use. And we also know that over the

long-term, consumers are going to maintain their need for convenience and versatility, which so much of our product portfolio, whether in retail or foodservice really [indiscernible] (01:11:45).

Eric J. Larson

Analyst, Seaport Global Holdings LLC

Got it. Okay. Thank you. And happy and safe holidays to all.

James P. Snee

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

Thanks, Eric. You too.

Operator: The next question is from Ben Theurer with Barclays. Please go ahead.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Good morning, Jim and Jim. Thanks for squeezing me in. Actually, first, quick question for Jim Sheehan. Could you clarify on the hog cost commentary? You said something like prices would be up, but then cost will be down. Just to get this right from your commentary you had.

James N. Sheehan

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

Sure, Ben. I'll try to clarify my comments. You're seeing forecast that the Western Corn Belt is going to be higher in 2021 than it was in 2020. So, for instance, in the fourth quarter, Western Corn Belt ran, let's say, mid-50s, probably \$54 would be a good number. It's about \$58 today. We think it's going to go up. But with the method in which we purchase hogs, that is one component, and actually, it's one of the smaller components in which we price the hogs that we buy. The more common method that we use or the higher percentage of hogs that are purchased are purchased on what's called the composite value.

The composite value in – today is \$78, and we see that as the basic range that it will be in for 2021. And that's actually down from where it was in the fourth quarter of 2020, I think it was at \$83 on average in the fourth quarter.

So we often [indiscernible] (01:13:19) hear comments about the Western Corn Belt prices, but it's not the primary method, in which we buy hogs. That's why we see some fluctuation in the cost of hogs as we go into the year, but not at the rate that you're hearing from those that are quoting the Western Corn Belt. We do have hedges in place. And those hedges are slightly below the future markets. Now, we've had some negative impact in 2020 from our positions that we put on to protect us from ASF. Those are rolling off and have been replaced.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Okay. Perfect. And then, Jim Snee, just coming back to one of the prepared remarks commentary within the retail portion and the balance versus foodservice on those growth rates. So, one of the particular things I wanted to focus on is the MegaMex JV, which you've actually highlighted to have seen some of the negative performance impacting on grocery, because of the foodservice piece about it. Could you elaborate a little bit on how that has performed on the retail side? And how that maybe has balanced versus foodservice and what you're expecting on the demand side over there for that particular segment?

James P. Snee

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

A

Yes. Great question, Ben. Our MegaMex business, especially on the retail side has performed really well. Again, even heading into or before the pandemic, that business was really strong for us. And not only just on an organic basis, but the work that our team had done from an innovation perspective. We've talked about Herdez Guacamole Salsa. This year, we've talked about some additional innovation that the team has been able to put in place. And so, the retail business was strong, continued very strong, and we expect it to maintain the strength going forward.

As you mentioned, the foodservice business, like our other foodservice businesses were soft. But we do expect over time to see those businesses recover as well. But we could not be more positive or optimistic about the future growth of our MegaMex retail business. We think it's really, really well positioned, and it's on strategy for us as we think about our desire to grow our ethnic portfolio.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Okay. So net-net, it was still up, correct?

James P. Snee

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

A

Yes. Yes.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Okay. Perfect. Thank you, very much.

James P. Snee

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

A

Thanks, Ben.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Jim Snee for any closing remarks.

James P. Snee

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

Yes. Thank you. On behalf of the team here at Hormel Foods, I want to thank all of you for joining us today. And as I said earlier, I continue to be incredibly optimistic about our long-term performance. And we have done a great job navigating all the uncertainty COVID has brought. But I know that this company has the right strategy, the right business fundamentals and we are on sound financial footing. I want to wish all of you a happy Thanksgiving. And please stay safe and healthy during the holiday season.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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