11-Feb-2021

Hormel Foods Corp. (HRL)

Acquisition of Planters from Kraft Heinz Co by Hormel Foods Corp. Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Hormel Foods Conference Call and Webcast. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Nathan Annis. Please go ahead.

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

Good morning. Welcome to the Hormel Foods conference call to announce the signing of a definitive agreement to acquire the Planters snack nut portfolio from the Kraft Heinz Company. The acquisition includes the Planters, NUT-rition, Planters Cheez Balls and Corn Nuts brands. To accompany our comments this morning, we have posted a presentation and press release to our investor website, which can be accessed directly by going to hormelfoods.com and selecting the Investors 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 an overview of the business and the strategic rationale for the acquisition. Jim Sheehan will review financial aspects of the transaction. The line will be open for questions following Jim Sheehan's remarks.

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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 later this afternoon February 11, 2021. 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 on slide 2. 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. Factors that may affect actual results include, but are not limited to: whether and when the transaction will close, whether and when the company will be able to realize the expected financial results, growth, and accretive effect of the transaction, and how customers, competitors, suppliers and employees will react to the transaction.

Please refer to pages 5 through 9 in the company's Form 10-K for the fiscal year ended October 26, 2020 for detailed information on our forward-looking statements and risk factors. It can be accessed on our website.

I will now turn the call over to Jim Snee, who will begin the presentation on slide 3.

James P. Snee

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

Thank you, Nathan. Good morning, everyone. Today is a very exciting day at Hormel Foods, as earlier this morning, we announced that we've entered into a definitive agreement to acquire the Planters snack nut business from Kraft Heinz. As a global branded food company, we have a long history of brand stewardship, innovation, quality, integrity, and a focus on shareholder returns. All our principles are embodied in our purpose statement of Inspired People. Inspired Food.

The acquisition of Planters fits perfectly into our vision for Hormel Foods and we are very excited to add another iconic, leading brand to our portfolio. We have numerous leading brands at Hormel Foods across the retail, deli, foodservice and international spaces, and the acquisition of the Planters snack nut business is an excellent addition to our company.

Turning to slide 4. We will be acquiring the Planters, NUT-rition, Planters Cheez Balls and Corn Nuts brands as part of the transaction. The adjusted purchase price is $2.79 billion, consisting of the acquisition price of $3.35 billion less a tax benefit valued at $560 million. The adjusted purchase price of $2.79 billion equates to 12.5 times 2020 EBITDA.

The transaction is an asset purchase and is subject to customary closing conditions, including regulatory approvals in the United States. This is the largest acquisition in our company's history and very important to our continued evolution as a global branded food company.

Total sales for all four acquired brands were just over $1 billion in 2020. The margins are expected to be accretive to both the Grocery Products' operating segment and the total company. Jim Sheehan will get into more financial details, but I do want to mention that we expect this to be accretive to fiscal 2022 by $0.17 to $0.20. We will manage this brand within Grocery Products and expect the transaction to close in the second calendar quarter of this year.

On slide 5, you see the variety of snacking products under the Planters, NUT-rition, Cheez Balls and Corn Nuts brands. Planters truly is an iconic brand, with over $1 billion in sales, leading positions in many snacking categories, universal consumer awareness, and a significant presence across the retail and C-store channels.

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The acquisition of Planters brings a diverse portfolio of products to Hormel Foods. And on slide 6, you'll see how this portfolio of products is well-balanced and not dependent on any single product or category. That is certainly one of many elements that made this acquisition attractive. Everyone knows Planters for its line of peanut products ranging from large-size canisters to the small handheld to-go pouches. However, on a net sales basis, peanuts represent only 29% of sales. The remaining portion of the business is split between cashews at 29% of sales, mixed nuts at 24%, and all other including corn nuts at 18%.

At our Investor Day in October 2019, we outlined the key milestones on our evolution as a global branded food company, as seen on slide 7. Prior to 2013, we were primarily a meat-centric company with a concentrated retail presence and focus. Over the years, we have continued to transform our company with a diverse portfolio of products spanning the retail, deli, foodservice and international channels. Additionally, we have expanded beyond meat protein, which has opened up new areas for growth, while further diversifying our business away from the fluctuations associated with commodity meat businesses.

I'll reiterate what I said at Investor Day as it rings just as true today. There is nothing revolutionary here. There's no new strategy of the day. The acquisition of Planters is simply a continuation of our strategic evolution. And as with anything we do at Hormel Foods, we have taken a very diligent and disciplined path to this acquisition. In fact, we identified the Planters brand in our 2016 strategic planning process as a brand that would fit well into our growing and evolving portfolio. However, it wasn't until early 2020 that we engaged with Kraft Heinz on this process.

Turning to slide 8. Planters perfectly aligns with our long-term strategy for growth that we call Our Formula for Success. Having leading brands matters, and the iconic Planters brand is no exception. We have ambitious plans to grow this brand, and our competency and brand stewardship will be key to driving growth for the business and for our customers.

Additionally, the Planters brand provides another platform for snacking innovation. As you will hear later, we know that there is a significant opportunity to leverage our current snacking portfolio with Planters to drive even more growth in the snacking category.

And as we've shown in the past, acquisitions are a key part of our growth strategy, similar to SKIPPY and Justin's. The acquisition of SKIPPY allowed us to expand into other parts of the nut butter category, which led to the acquisition of Justin's. We believe that Planters could act as a similar catalyst into other areas of the snacking space.

This acquisition also further diversifies our portfolio. With the addition of Planters, 25% of our sales will now come from non-meat products. Planters will join a non-meat portfolio with leading and on-trend brands such as SKIPPY, Justin's, Herdez and Wholly, just to name a few.

The Planters snack nut business was not only a perfect strategic fit, it was also financially attractive. We believe that by acquiring this business, we are leveraging our balance sheet in a responsible way, adding a margin-accretive business to our portfolio and unlocking significant value in the form of synergies to further enhance our shareholder returns. As you can tell, we are very excited to welcome Planters to the team.

On slide 9, you will see that snacking continues to remain on trend with today's consumer. Consumers are snacking today more than ever and the category has seen steady growth for quite some time. Consumers are also making snacking part of their daily ritual, and the majority of consumers are snacking multiple times a day. In

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fact, 70% of consumers snack more than two times per day. Whether snacking at home, on-the-go, out with friends or even at the office, the convenience and versatility of snack nut is unmatched in the snacking category.

On slide 10, you'll see that Planters is a clear leader in the snacking category. It is the number one brand in peanuts, cashews and mixed nuts, with shares much higher than that of the number two brand. And household penetration for Planters is at 28%, almost two times the nearest branded snack nut competitors. The distribution of Planters is ubiquitous in the retail and convenience store channels with similar ACVs to other leading salty snack brands. All these metrics have led to a universal awareness of the brand by consumers, in line with other well-known and iconic chip, snack mix and cracker brands.

Slide 11 shows our holistic view of the snacking space, which covers all day parts and occasions. We understand that most consumers think of snacking as an individual experience, whether that is at work, on-the-go, or at home watching a movie. However, snacking is much broader, especially when you consider snacking as a social activity. Consider your Super Bowl party with your close circle of friends and family consisting of a Columbus charcuterie platter, chips with Herdez salsa and Wholly Guacamole, and Hormel chili and cheese dip.

On slide 12, we have built a very strong core competency in the social snacking portfolio, with products like Hormel Gatherings party trays, especially designed for snacking as a group. We have enhanced the social snacking portfolio with products like Columbus charcuterie, Herdez chips and salsa and Wholly Guacamole dips.

We have also expanded our portfolio into the individual or solo snacking space. Products like Natural Choice snacks, stacks and wraps, SKIPPY and Justin's squeeze packs, Justin's peanut butter cups, and Columbus Paninos are all innovative items that were born out of other products in our portfolio.

The Planters portfolio perfectly complements and accelerates our snacking portfolio in both the social and solo occasions. The business comes with numerous items designed for individual consumption with products such as on-the-go packs, pop-and-pour jars, snack mixes, trail mix, Corn Nuts and many other products. This acquisition also gives us further scale in social snacking occasions with product formats such as larger canisters and jars of peanuts, cashews, mixed nuts, pistachios, almonds, pecans, snack mixes, Cheez Balls and numerous other products.

The capabilities we built and acquired combined with the Planters portfolio are truly complementary. And we believe there are numerous opportunities to use the consumer insights and innovations from both portfolios to improve growth in our entire snacking space.

Slide 13 shows our history of generating growth in our brands. Hormel Pepperoni has been around since 1919, and we continue to deliver new and exciting innovation into the category. Products like Cup N' Crisp Pepperoni, an innovation from our foodservice business, is just one of many items that are helping us generate growth of 6% compound annual growth over the last three years. Internally, we look at SKIPPY as the model for Planters. When we acquired SKIPPY in 2013, we immediately integrated the brand into sales, marketing, supply chain, and back-office functions. From a consumer standpoint, we increased our investment into advertising and innovation. And to date, SKIPPY has been one of our most successful acquisitions in our company's history.

SPAM is not only an iconic brand, but in many ways is the flagship brand for our company. SPAM is the perfect example of how we maintain the relevance of iconic brands with consumers. SPAM is on track for its seventh consecutive year of record sales and has generated growth of 11% compound annual growth in the last three years. It was growing before the pandemic and we fully expect it to grow after the pandemic.

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In addition to the successful brand stewardship we have provided for many of our iconic brands, we have also successfully managed younger brands like Applegate, Justin's and Wholly. Applegate has given us a clear, competitive advantage in the natural and organic meat space, and we continue to push the boundaries of the brand using the innovations and technologies from our existing product portfolio. Applegate is an excellent example of how we are able to share and leverage insights and innovations between our existing business and an acquired business. We know how to manage brands. And I'm confident our marketing team will grow the Planters, NUT-rition, Planters Cheez Balls and Corn Nuts brands.

Turning to slide 14. The Planters business not only gives us another iconic brand to develop and grow, it also increases our scale in key areas such as center store and convenience stores. We are a leader in center store with brands like SPAM and SKIPPY, and Planters gives us another important brand, allowing us to generate growth for both ourselves and the retailer in this very important space.

Our presence in the convenience store channel to date has been limited. We do service the back of the house with our Hormel foodservice business with ingredients such as pizza toppings and sliced meats. We also serve the front of the store with products such as SKIPPY peanut butter and Don Miguel burritos. The Planters acquisition gives us another important brand in the front of the store and meaningfully increases our scale in convenience stores. Planters also add scale to our alternate channel business in club, drug and dollar formats. We see this as a growth area and Planters gives us another avenue to drive further growth for our customers.

Turning to slide 15. Over the years, we have built a very successful playbook for integrating acquisitions into our company. We will immediately bring all our core sales and marketing competencies to this business, whether it is our revenue growth management, digital experience in e-commerce, consumer insights, or innovation.

From a supply chain perspective, the transaction comes with three dedicated production facilities and ample capacity for future growth. We plan to integrate the business into our One Supply Chain group and into our Project Orion, HR, financial and supply chain systems. All these activities will lead to significant synergies.

At this time, I will turn the call over to Jim Sheehan to discuss the financial information relating to acquisition.

James N. Sheehan

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

Thank you, Jim. Good morning. Turning to slide 16. The transaction is an asset purchase. As Jim said, the purchase price is $3.35 billion. Included in the price is a tax benefit with a net present value of $560 million. This equates to an adjusted purchase price of $2.79 billion. This adjusted purchase price implies a 2020 EBITDA multiple of 12.5 times, which speaks to our disciplined valuation process.

We see our sales growth in line with our long-term organic growth targets. The acquisition is accretive to both the total company and [ph] Grocery Products' (00:20:58) margins. We believe we can attain significant supply chain, SG&A and sales synergies. Our expectation is between $50 million and $60 million by 2024.

In fiscal 2022, we expect accretion of $0.17 to $0.20 per share. In fiscal 2021, we expect dilution of approximately $0.02 to $0.07 per share due to transaction costs, integration costs, and purchase accounting adjustments. We have spoken about responsibly leveraging our strong balance sheet. And this transaction achieves this goal. We expect to finance the deal with cash on hand and a combination of long-term and short-term debt. We are very focused on retaining our strong investment grade rating and expect to deleverage quickly during the first 18 to 24 months.

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On slide 17, with the cash flow from our existing business and the additional cash flow the Planters business will provide, we anticipate no long-term changes to our capital allocation. Returning cash to shareholders is very important to us. Dividend growth has been and will remain a top long-term priority.

We will also continue to invest back into our business. We expect CapEx to have a similar run rate as prior years. The acquired facilities require minimal capital investments. Share repurchase will have a lower priority as we deleverage our debt. We are targeting to achieve 1.5 times leverage by 2023 and retain significant capacity for additional leverage for future investments.

Turning to the final slide. We are confident that the Planters business perfectly aligns to our long-term strategy for growth. It is the right strategic fit at the right valuation.

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: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And the first question will be from Ben Theurer with Barclays. Please go ahead.

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

Q

Hey. Good morning, Jim and Jim. So, first of all, congratulations, finally got that into the pocket, I mean, it's been talked about. So, quick question just in terms of how you're going to – I mean, obviously, it's a roughly $3 billion acquisition here and you've said you're going to look off combination of cash on hand long-term debt, short-term debt. Do you have any sense or can you give us any sense of what you think your cost of financing for this acquisition is going to be with what's baked in to your expectation, just to get a little bit of a better feel of where we're ending up with, particularly than the accretion on EPS for 2022? Thanks.

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

A

Well, good morning, Ben. Well, obviously, this gives us an opportunity to utilize the underperforming assets on our balance sheet, the cash that we've been talking about. We'll be able to borrow the funds at approximately 1.5%, so very low historical rates. That combined with the tax step-up allows us to buy this number one brand for a 12.5 multiple, and we will be able to significantly deleverage this debt in 18 to 24 months. And as we said, the capital that's required on the facilities that were purchased, they're good facilities, well-run facilities that have been maintained well. So it's very minimal. And on top of that, it adds $0.17 to $0.20 EPS in 2022. So, about 1.5% is where we think that will come in.

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

Q

Okay. Perfect. And just as a follow-up, so you said no major changes on CapEx, but just to understand, do you have a rough estimate and how long it's going to take from a CapEx [ph] to spend (00:25:42) what you need to invest in order to integrate the business within your different sales and marketing, the One Supply Chain, what needs to be applied? Just to have like everything running on the same system, do you have like a time horizon that you could share and an amount that you think it will cost to integrate that business into what you have existing?

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

Sure, Ben. This is exactly why we focused on Project Orion. We're running one platform across the company and this allows us to move into that platform. And by the way, the team that was assembled to implement Project Orion will just transition right into this integration. So, we feel that we'll have portions of this. In fact, we believe we'll – we know that we will have the HR and the payroll function, for instance, running day one. We will focus on getting the finance running and finally through the supply chain. So, our goal is to have this fully implemented within one year. And regarding the cost of the implementation, that's all built in the model that we provided.

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

Okay. Perfect. [ph] So one – (00:26:53) perfect. Thank you very much and congratulations again. I'll leave it here.

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

Thank you.

Operator: Next question will come from Rupesh Parikh with Oppenheimer. Please go ahead.

Erica Eiler
Analyst, Oppenheimer & Co., Inc.
Q

Good morning. This is actually Erica Eiler on Rupesh. Thanks for taking our question. So, first, I was just wondering if there's any more specificity you could provide on the margin profile of the Planters business, both from gross margin and operating margin perspective.

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

Certainly. The business from a margin perspective is accretive both on a total company and to our Grocery Products segment. The growth will be in line with our long-term goals for growth.

Erica Eiler
Analyst, Oppenheimer & Co., Inc.
Q

Okay. And then just as we look at 2020, obviously, kind of an anomaly here with COVID. So as we look at that $1 billion in sales from the Planters business, can you maybe talk about what type of growth rates you saw in the portfolio in 2020? Any commentary you can provide on how much sales and sales growth benefited from COVID. And I don't know if there's any context you can provide in terms of maybe what calendar year 2019 sales look like as well.

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

Yeah. Erica, [ph] I'd tell you (00:28:16), in 2020, they saw good growth in the Planters brand really across the board. As we've looked at it, we've really tried to focus on snacking as a category and because we, of course, already have a large presence in snacking in our snacking business. So, what we've seen is that at the beginning of the pandemic, early in 2020, snacking slowed down a little bit. But then throughout the year it picked up. And so, it was maybe slightly above historic levels.

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But I think the big takeaway here is that consumers are snacking more than ever. Snacking continues to be a growth area for this business and for our business, and that's what we're projecting into the future. So, how much of it was a COVID bump or not a COVID bump, it's really hard to parse that out. Like our business, they've gained a lot of households. Our job now will be to retain those households.

So, we know that there's be over time probably offsets with the gains in retails and C-store. But I think the bigger thing is where the category has been and where it continues to grow and how we're able to capitalize on that.

Erica Eiler
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Great. That's helpful. Thank you so much.

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

A

Yeah.

Operator: And the next question is from Ken Zaslow with BMO. 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

Yes. Hi, Ken.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

Just can you give a little bit more clarity on the synergies that you expect to have? You said both the cost side and the sales side, the timing, as well as what are the specific opportunities on both sides. And you didn't give a quantification on the sales side.

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

A

Certainly. So, as we talked about, there's about a $50 billion to $60 billion (sic) [$50 million and $60 million] (00:30:11) synergy that will be attained by 2024, Ken. One of the issues to think about is that we operate on a lower cost basis than this business has functioned under in the past. So, there's pickup on the lower cost basis.

Supply chain, we think there's savings. We know there's savings in procurement, logistics, packaging, and not just from the Planters site, the acquired site. These are things that we'll gain on our existing business as we increase in scope and magnitude to these suppliers.

SG&A, we know that we have an efficient operation. It shows in our SG&A expense as a percentage of sales. We're going to bring that efficiency into this business. And on the revenue, you'll see growth in the C-store

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channel and the snacking platform. And if you look at it, I would say that you'd split this up probably equally between supply chain, SG&A and revenue, just from a rough standpoint.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

Okay. And then my final question, you said the operations [ph] – you said an interesting comment that (00:31:24) the operations are strong or solid or I forgot the exact wording. How much due diligence did you do in that? And not to – but some of the assets generally around the packaged food industry have atrophied a little bit. How do you know that this asset is actually operating at a quality level? And are you worried about any sort of – getting the product to the supermarkets, things like that in terms of logistics, absenteeism? It just was an interesting comment and I was just surprised by the assertion that you're that comfortable with it.

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

A

Yeah. Good morning, Ken. We've had the opportunity to visit all the plants just like we do with any due diligence. The plant is – it's not a new plant, but it's been a well-maintained plant. And if we go back to the SKIPPY acquisition, we saw a lot of similarities in the condition of the facility being well-maintained, the operational optimization, a well-run plant. Had a chance to speak with the workforce, so an experienced workforce running those facilities. And it is also a bit more automated. So, there's not as many people in the plant as if you were saying one of our refrigerated plants. And so, the risk of production or getting products into the supply chain, we examine that through due diligence and are very comfortable with it.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

Great. Thank you very much.

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

A

Yeah.

Operator: And our next question will be from Adam Samuelson with Goldman Sachs. Please go ahead.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Yes. Thanks. Good morning, everyone.

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

A

Hi, Adam.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Maybe just following up on Ken's question there, and maybe asking you in a different way. I mean, the prior owner, I mean, had probably been prioritizing kind of margins over growth since the last several years across its portfolio. And I just – how do you think about kind of the level of investments that have been taking place on the sales side here? Marketing spend as a percent of sales, was it appropriate? Is there a need to step it up? And just

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thinking about maybe distribution, there are opportunities that are some whitespace there. I'm just trying to think about if there's investment needed to actually get the growth to where you want it to be over the medium-term.

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

Sure. Great question, Adam. And really, the way we're thinking about this business is that it starts with having a high level of focus. And think about where the brand was in the previous owner's portfolio relative to where it is in our portfolio now. It's our largest brand and it will receive all the focus and attention that it deserves. So, that's a really important part to think about.

And yeah, we do believe that the brand is going to need some additional investments and some additional support in advertising, in innovation. Not so much from a sales side. We believe that we'll be able to seamlessly integrate that into our consumer product sales organization.

But all of those investments are modeled in the numbers that we've given to you. From our perspective, I mean, there's just a lot to like about this transaction, both financially and strategically. As we're thinking about this business, I mean, Planters is way more than just peanuts in a jar, right? There's opportunities across varieties and categories and channels. We're really excited about what the future holds. And it starts with the focus, which we'll provide, and there are investments needed and we'll provide those. But we're well aware of all of them as we head into the future with the Planters brand.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC
Q

Okay. And then maybe just a quick follow-up on sales kind of mix, and is the – was there any meaningful business outside the US? And I know [ph] you – I mean (00:35:54) you're thinking about like your – the experience with SKIPPY and expanding that in China and the SPAM in Asia. Is there opportunities to maybe more aggressively deploy this brand internationally or what limitations did you see up in that?

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

Yeah. No, there's a nominal amount outside the US. It's not a – I wouldn't say it has an international presence. Are there opportunities? Yeah, but we're going to have to build those over time. It's not that we'll be able to apply our playbook and just accelerate growth like we were able to do with the SKIPPY brand in China. So, there is a nominal amount, Adam. But as we think about where those opportunities lie, we are very excited, as we mentioned in our comments, about the C-store business. It's an area that we've had very minimal exposure with our portfolio, and this opens the door for us to learn more about it, to sell the Planters brand, and then leverage that expertise across our portfolio.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC
Q

Okay. Great. I appreciate the color. I'll pass it on. Thanks.

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

Thanks, Adam.

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

Peter T. Galbo
Analyst, Bank of America

Q

Hey, guys. Good morning. Thanks for taking the question.

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

A

Hi, Pete. Good morning.

Peter T. Galbo
Analyst, Bank of America

Q

Just to maybe expand on that last question a little bit on the, I guess, away from home business, just what percent of the total Planters is away from home and if you could split that kind of C-store? And I would imagine there is probably an on-premise component here, right, bars, restaurants, maybe even like airline peanuts, that sort of thing. Just any kind of color there would be helpful.

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

A

Sure. I mean if you combine the C-store and we'll call it the foodservice or vending away-from-home business, it's just shy of 20%. So, it's a meaningful business. We've got the expertise on the foodservice side. The C-store business, as I just mentioned, where we'll have the opportunity to really learn.

Peter T. Galbo
Analyst, Bank of America

Q

Okay. That's helpful. And, Jim, maybe just more of like a philosophical question. As you've talked about M&A, not that snacking wasn't in the purview, but maybe had a less emphasis as you guys talked about bolt-ons or even larger acquisitions, thinking back to the Wholly Guacamole and Herdez brands that you guys had a lot of success, maybe more on some of the ethnic flavor side. Just why pursue, I guess, this avenue overlooking at more deals in faster-growing categories like ethnic foods or flavors? Thanks.

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

A

Yeah. I wouldn't say we overlooked them, Peter. I mean it's one of those things where you have a number of opportunities in motion simultaneously. And if we go back, we talked about our Investor Day in 2019. But if you go a little further back, when we've laid out some of our M&A priorities, we had talked about, as you mentioned, our desire to become bigger. It was an ethnic portfolio. We've always talked about our desire to become internationally. We talked about healthy and holistic.

But the fourth part there that we've talked about many times in the past is on-the-go or snacking. And so, the idea that it's new to us is not new. We've been very interested in this space. We remain interested in all those other areas as well. And I think a key takeaway here for us is, yeah, we've got work to do on the Planters brand, but as we're able to quickly deleverage, as we showed in our slides, we're going to find other bolt-on opportunities as they become available.

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So, I wouldn't say we at all overlooked any other opportunities. This was the opportunity that we've had on our radar and we were able to capitalize on it. And like I said, there's a lot to like about this transaction, both financially and strategically.

Peter T. Galbo
Analyst, Bank of America

Q

Thanks very much, guys.

Operator: And 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

Morning.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Can you just elaborate a little bit on some of what you think it takes to really get the growth in line with your expectations? The business had some share losses over the last couple years and it sounds like you've got some higher hopes for what the growth levels should be. How long does it take to get there and what kind of spending level do you need to get to versus where it was?

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

A

Yeah. I mean, Mike, I think it does start, right, with the focus on the brand. And I know we've said that before and it sounds somewhat repetitive, but that's a key part of what has to happen. Again, you go back in time and think about the SKIPPY acquisition we made. And we're not saying this is a perfect match, but it's a pretty good model. And that business was experiencing share declines when we bought it. And so, then the focus, the investment in advertising, applying innovation, having our sales team working on distribution opportunities, which I skipped over in one of the previous questions, we do believe that there are distribution opportunities here as we've gone through the portfolio.

So, those are the things that we have to do to make sure that this business grows. And all of it's right in our wheelhouse. It's what we do as we laid out for you all of those iconic brands that we have in our portfolio. This is another one. And as I said, we know that it's more than just peanuts in a jar. And our key here is that we will unlock the value of this brand. That's absolutely what we will do. We plan to invest in the business and advertising. We'll modestly increase that going forward. So, we're going to do everything that we have to do to unlock the value of the brand.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Okay. That's helpful. And, yeah, I think the SKIPPY precedent is certainly as relevant. I just want to go back to one other thing you said, mentioning how you've said like you've got a lower cost basis than the previous owner.

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Obviously, Kraft Heinz is known for cost cutting and running some things pretty lean manner. So, curious what metric you have in mind or how you're thinking about that when you make that comment.

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

Well, obviously, we've looked at this business significantly from a due diligence standpoint. We've looked at how they allocate expenses as opposed to how we would allocate expenses. And I mean as you look at the financial results, we have a significantly lower SG&A as a percentage of sales than [ph] the seller (00:43:14) and that excludes advertising. And we run a very lean operation. And I think that it goes back to our history of coming out of the business that watches margins very closely, that watches the expenses around running the business very closely, and to some degree, I think that we do that quietly on a regular basis. But I think if you go back and model our SG&A, you'll see that we run a very tight operation.

Michael S. Lavery
Analyst, Piper Sandler & Co.
Q

Okay. Thank you very much. Very helpful.

Operator: Yeah. The next question will be from Robert Moskow with Credit Suisse. Please go ahead.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC
Q

Hi. Thanks for the question. Jim, you probably touched on this in your comments about all the things you want to focus on, on Planters. Factually, if you look at the Nielsen data, it indicates that private label is probably the biggest challenge that Planters faced. Market share increased from 31% three years ago to 40% today. What do you think of the product quality of Planters versus what you could find in the produce aisle for snack nut? It seems like there's a lot of offerings that are now available today that weren't there years ago. Have you looked at that as being one of the reasons maybe that share has declined?

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

Yeah. Rob, it's a great question. And as you'd imagine, it was one of our top diligence items. And the reason it was is because we knew exactly what you just laid out that there had been some conversion, especially in 2018. As we've looked at the business since then, shares have been stable. And obviously, we'll have work to do into really getting into additional details.

As we think about private label, it had an impact here. It's not new to us. We're going to treat it like any other competitor. It has a role to play and our job is to deliver growth in the category through brand building and innovation. When you think about what you described about Planters nuts versus the bulk nuts or what's available in the produce aisle, I think there are some opportunities for us. Because when you go back to snacking and when we think about snacking in the context, even our Columbus brand, the grab-and-go element for consumers continues to gain traction. And so, there's still a little bit of work to do when you get into the bulk nut area of maybe portioning them out, getting them ready for the next day. The grab-and-go element isn't quite there. So, we do believe that there's still an opportunity for Planters in the grab-and-go area.

Obviously, we'll be doing a lot of work around packaging and product quality and all those things as just what we do, Rob. But private label was at the top of our diligence list. And we understand that we compete against it every

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day. And we know that we have to deliver innovation and we have to do what we say we're going to do when we unlock the value of the brand.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you.

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

A

Yeah.

Operator: And the next question comes from Tom Palmer with JP Morgan. Please go ahead.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

Hey. God morning, and thanks for the question.

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

A

Hi, Tom.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

I just wanted to clarify base EBITDA expectations for the business. Based on the number that Kraft provided this morning, it sounded like EBITDA grew over 10% in 2020 versus 2019. So, from the sidelines, I would think a lot of this is pandemic. But I think your comments earlier suggested that that might not really be the case. So, could you maybe help with some detail about what improvements the business has shown over the past year in terms of maybe operational improvements?

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

A

Yeah. I think one of the things that we've seen from 2019 to 2020, the business grew, but they also experienced some lower nut costs. And as I said earlier, like our business, there were some offsets with gains in retail, probably some declines in C-store and foodservice.

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

A

One of the other things that we saw in this business, Tom, is that the benefit of an investment into the brands because they made larger investments into the brand in 2020. And I think the business reacted well to it. And I think that also supports our theory of running this business with a higher level of investment is going to pay a dividend on the long-term. So, there have been the changes that we've talked about in demand. We've also seen a drop in the C-store and foodservice. But I noted that this reinvestment into the brand has really paid off in 2020.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

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Okay. Thanks for that. And then I just had a clarification question from earlier. You mentioned synergies would be relatively evenly split between supply chain, SG&A and revenue. And I apologize if I missed this, but were revenue synergies part of that $50 million to $60 million synergy figure or would that be incremental to the $50 million to $60 million?

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

A

It is a part of the $50 million to $60 million.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Operator: [Operator Instructions] The next question comes from Ben Bienvenu with Stephens, Inc. Please go ahead.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Hey. Good morning, guys.

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

A

Hi, Ben.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

I want to ask, you noted that you intend to nurture the brand and invest in the advertising and marketing to support growth in line with your long-term targets. Assuming you get that outcome, when we think about the asset capacity of what you bought, how are these assets positioned to give you a runway to grow and to hire capacity utilization? And do you foresee on the back of sales growth needing to invest incremental CapEx into extending capacity?

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

A

Yeah. Ben, we do not. I mean, we believe there is adequate capacity to support the growth for the foreseeable future. So, we'll have some typical maintenance CapEx like we do at our own facilities, but really nothing that we're going to need to do to support the growth of the business.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Okay. And then one quick clarifier question. On slide 15, the 12.5 times 2020 EBITDA multiple, it's characterized as pro forma 2020 EBITDA. What constitutes pro forma, just so we're clear?

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

A

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The base of the EBITDA is the same base that the seller used when they came to the [ph] 15th (00:51:00). So, we've used the same base. So, obviously, we don't have audited financial statements on this business at this point, but based on the due diligence, we feel that that's the correct EBITDA for 2020. Does that answer your question?

Ben Bienvenu
Analyst, Stephens, Inc.

Q

That's totally fine. Thank you, Jim, and I appreciate it.

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

A

Well, it doesn't have any of what we see are lower operating costs with them.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Okay. Perfect. I think that's how I received your answer and that's what I assumed, but perfect. Thank you.

Operator: Ladies and gentlemen, 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, all, for joining us today. This is an exciting day in the history of Hormel Foods. As we've said many times this morning, there is a lot to like both financially and strategically about the Planters acquisition. We know there is a lot of work to be done and we look forward to getting to work on this iconic business. Have a great rest of your day.

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

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