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Hormel Foods Corp. (HRL)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Hormel Foods First Quarter 2021 Earnings Conference Call. All participants will be in 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 for the first 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 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 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 to the company of the COVID-19 pandemic, and a perspective on the balance of fiscal 2021. Jim Sheehan will provide detailed financial results and commentary regarding the company's current and future financial condition.

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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 877-344-7529, and the access code is 10152030. 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 5 through 9 in the company's Form 10-K for the fiscal year ended October 25, 2020. It can be accessed on our 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. As we approach the one-year mark of the pandemic, I want to express my gratitude to our plant professionals for their continued dedication, energy and focus. They continue to be the true heroes of our company during this time.

On our last earnings call in November, we were witnessing an increase of COVID-19 cases in the United States. Our number one priority has been to keep our team members safe, and we have been very focused on our best-in-class preventative measures and on educating our employees through our awareness campaign KEEP COVID OUT! As the pandemic evolves and the vaccine becomes more widely available to our team members, we'll continue to keep the health and safety of our team members as the top priority.

We were among the first to offer a COVID pay program to allow those who were ill or had symptoms to stay home from work and still be paid. Additionally, we paid $11 million in fiscal 2020 in unconditional bonuses to our team members to provide further financial security.

Our program has resulted in minimizing the spread of COVID in our workplaces and our communities. Recently, we've been encouraged to see cases decline and the number of team members on our COVID pay program drastically decrease. This gives us increased optimism as we head into the second quarter.

We were pleased to announce the entry into a definitive agreement to acquire the Planters business last Thursday. We have many leading brands at Hormel and the acquisition of the Planters snack nut business will be an excellent addition to our company.

Over the past 10 years, we've made numerous acquisitions, all of which are meeting our strategic objectives. The performances of MegaMex, Wholly, SKIPPY, Applegate, Justin's, Ceratti, Fontanini, Columbus and Sadler's give us a high level of confidence in our ability to successfully integrate, operate and grow the Planters business.

The acquisition of Planters is the perfect strategic fit. The addition of this iconic brand and high-margin business continues our evolution as a global branded food company, moving us further away from a commodity-oriented, meat-centric company.

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As one of our biggest brands, we will give it a high level of focus and attention. Our core competency and brand stewardship will be key to our success in unlocking the power of the Planters brand. We know how to manage brands, and Planters is right in our sweet spot as we know Planters is more than simply peanuts in a jar.

Planters also perfectly complements, enhances and expands our existing snacking business, joining brands like Hormel Gatherings, Columbus, Wholly and Herdez. There are numerous opportunities to leverage the consumer insights from both portfolios to drive further innovation and improve growth for our entire snacking business.

The Planters business gives us another iconic brand to grow and increases our scale in key areas such as center store and convenience stores. Integration into our direct sales force is a high priority, and we know there are immediate opportunities to improve distribution and drive sales growth.

Another priority for us is to integrate the business into our One Supply Chain and Project Orion platforms. We expect synergies from this integration for the Planters business and for our existing business. There is a lot to love about this acquisition, and I'm excited for the transaction to close so we can begin to give the Planters business the attention and focus it needs to grow.

Now, turning to our first quarter. Our team generated strong top line growth, with sales increasing 3% to a record $2.5 billion. All four segments delivered sales growth, an achievement that hasn't been accomplished since 2016. Incremental supply chain costs related to COVID-19 of $15 million were the primary reason for a $13 million decline in pre-tax earnings. Net earnings and diluted earnings per share declined 9% due primarily to incremental supply chain costs and higher tax expense.

As in prior quarters, we continue to strike a balance between the consumer demand we are seeing and our supply chain's ability to meet that demand. We increased production levels this quarter through a combination of improving efficiencies, bringing on new capacity and further leveraging our strategic supply chain partners.

We expect this steady improvement to continue throughout the year. We have been successful in a number of critical categories, and we will continue to make progress across the portfolio.

Our retail business continued to perform extremely well, with sales increasing 13% for the quarter. Brands such as SPAM, SKIPPY, Hormel Chili, Hormel Black Label, Applegate, Hormel Pepperoni, Lloyd's, Hormel fully cooked entrees and Justin's all delivered very strong growth.

Most encouraging was the sales growth we saw from the Jennie-O brand. Every major retail category, including Jennie-O lean ground turkey burgers, oven-ready items, bacon and marinated meats grew. The Jennie-O brand continues to resonate with consumers, and the efforts we have made on gaining back customer distribution are paying off.

Our e-commerce business continues to be a bright spot as it almost doubled in the last 12 weeks according to IRI. We grew share in several key categories and have a high level of momentum in online grocery pickup, delivery and direct-to-consumer.

Our deli channel sales increased 7% this quarter. Columbus branded products led the way with exceptional growth from grab-and-go items. The opening of our new plant in Omaha this quarter, which produces Columbus Charcuterie products, will provide much-needed capacity for this business.

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While the Columbus brand was the clear leader for us this quarter in the deli, our team generated growth in every deli segment they compete in, including grab-and-go, prepared foods, behind-the-glass and fresh sliced deli meats. Our Party Tray business also grew volume and sales over the holiday season despite fewer group gatherings, a testament to our team's ability to keep this brand relevant.

We saw positive signs of recovery in foodservice this quarter, even as the business declined 17% compared to last year due to the continued impacts of the pandemic on the industry. We continue to see strength in our business within important segments such as pizzerias, QSRs and convenience stores. Our direct sales force also made excellent progress pivoting to high-growth areas such as commissaries and ghost kitchens as they secured new distribution with both distributors and operators.

Turning to the segments; Grocery Products delivered very impressive results this quarter. We saw top line strength across many of our brands, including SPAM, SKIPPY, Hormel Compleats and Herdez, which led to volume increases of 4% and sales increases of 7%.

We implemented a price increase for our SKIPPY business this quarter, once again demonstrating our ability to price in our categories. We are also encouraged with the performance of our recent innovative new items, including SKIPPY Squeeze, SKIPPY No Sugar and SKIPPY with added protein spreads.

Our MegaMex joint venture had a strong performance this quarter as well, with equity and earnings increasing by 31%. This growth was led by our retail brands such as Wholly, Herdez, Chi-Chi'S and La Victoria. In addition to the MegaMex results, the 35% increase in segment profit was driven by higher sales and a favorable mix.

Refrigerated Foods volume declined 2%, and sales increased 1%. Our retail and deli teams overcame steep year-over-year declines in our foodservice business to deliver growth for our value-added business. Applegate had a particularly strong quarter, with growth fueled by both category momentum and share gains across core categories such as frozen breaded chicken, breakfast sausage, bacon and hotdogs.

I continue to be optimistic about the momentum we are building in the Applegate business. We also delivered excellent results in our Hormel Pepperoni business both in foodservice and retail. Our teams continue to optimize the brand by focusing on our core products in the category and simultaneously leaning into our new Cup N' Crisp innovation. We plan to maintain our advertising efforts for Hormel Pepperoni to ensure we retain the households we gained during the initial pandemic buying.

Refrigerated Foods segment profit declined by 16% due to lower foodservice sales, a significant decline in commodity profitability and increased supply chain expenses due to COVID-19. Profitability was also impacted by one-time start-up expenses related to our new plant in Omaha.

Jennie-O volume decreased 2%, and sales increased 1%. We saw exceptionally strong retail and whole bird sales, which overcame significant declines in foodservice and commodity.

Our retail business grew double digits this quarter, with growth coming from almost every category in which we compete. We have taken price increases across our portfolio and expect those to be effective late in the second quarter. Whole bird volumes increased by strong double digits due to a very positive holiday season.

Our foodservice business was impacted by lower K-12 and college and university business in addition to continued weakness in the foodservice industry. Jennie-O Turkey Store segment profit declined 30%. Lower

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foodservice sales, increased supply chain costs related to the COVID-19 pandemic and higher freight expenses were key drivers to the lower profitability.

Grain prices increased significantly during the quarter but only had a modest effect on earnings. We expect the primary impact of higher grain prices to affect the coming quarters. In addition to pricing action, we have taken additional actions to manage higher corn and soybean meal costs.

International volume decreased 5%. Sales increased 13%, and segment profit increased 61%.

Once again, the strong sales and earnings performance was led by our retail and foodservice business in China. SPAM, SKIPPY and beef jerky were all key drivers to growth in China. We remain very positive about the short- and long-term prospects of our China business.

We also saw strong branded exports for brands like SKIPPY and SPAM. Similar to prior quarters, our affiliated businesses in the Philippines, South Korea and Europe continue to show high levels of growth.

Looking to the balance of the year, I am increasingly optimistic about delivering sales and earnings growth. As such, we are establishing fiscal 2021 guidance for the full year at $1.70 to $1.82 per share. As a reminder, this guidance range does not include the impact of the acquisition of Planters.

Similar to prior quarters, we believe there are three key drivers to our near-term and long-term performance: retail dynamics, the recovery in the foodservice industry and the performance of our supply chain.

Our retail, deli and international teams need to maintain their momentum and outperform their respective categories. Our brands continue to gain new households, and our repeat rates remain very strong.

The depth of repeat, those consumers purchasing our brands multiple times, is incredibly positive with almost all new buyers for our brands making two or more repeat purchases during the first quarter.

As a whole, our brands continue to make household penetration gains with brands like Herdez, La Victoria and Columbus increasing household penetration by over 20%.

For the foodservice channel, we are optimistic about a foodservice recovery and confident in our ability to gain share during the recovery. During the pandemic, operators have been looking for products to simplify their food preparation, save time and minimize labor, all while preserving the flexibility to add their own unique touch to a menu item.

Our direct sales force continues to meet their needs with products like Hormel Fire Braised meats, Sadler's authentic smoked barbecue and Hormel Bacon 1. The recent trends we are seeing in our foodservice businesses are positive. We have been able to react quickly to increased demand as cities and states have eased dining restrictions, allowing patrons to return to their favorite restaurants. We also anticipate our non-commercial business, such as K-12 schools, colleges and universities and healthcare, to recover as the pandemic subsides.

The most encouraging signs we are seeing are in our supply chain. We made excellent progress on increasing capacity to meet the high levels of demand from our customers. Steady week-over-week improvements, lower levels of absenteeism, new capacity and a continued vaccine rollout are all reasons we have a positive outlook.

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Our supply chain team hit two major milestones this quarter: with the opening of our new dry sausage production facility in Omaha, Nebraska; and the opening of our pizza toppings expansion at Burke. Both projects were on time and on budget, which is truly amazing considering both projects were constructed primarily during the pandemic. Our plant teams have made progress on labor availability and in almost every location, our labor situation has improved.

We expect that trend to continue into the second quarter and beyond as the vaccine becomes widely available for our team members. We now have a higher level of visibility into the coming quarters and remain confident in our team's ability to deliver our sales and earnings guidance this year.

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. Record sales for the first quarter were $2.5 billion, an increase of 3%. COVID-related direct expenses of $15 million were the primary driver to pre-tax earnings declining $13 million or 5%. Absent the COVID expenses, pre-tax earnings would have increased.

Total COVID expenses have started to decline from the prior quarterly run rate of $20 million. This was driven by higher volumes through our production facilities and improved efficiencies in our logistics network.

Earnings per share for the first quarter was $0.41 compared to $0.45 last year. On an after-tax basis, first quarter results reflected approximately $0.04 per share in incremental COVID-related costs and higher tax expense.

SG&A excluding advertising was 6.6% of sales, down slightly compared to the prior year. Advertising spend for the quarter was $34 million compared to $35 million last year. We continued to invest in our leading brands, including SPAM, SKIPPY, Hormel Pepperoni, Black Label and Jennie-O.

Operating margins for the quarter were 10.9% compared to 11.8% last year. The decline was driven by COVID-related expenses and the continued impact from lower foodservice earnings. Unallocated expenses included deferred compensation, expenses related to tax settlement and deal fees.

Our effective tax rate for the quarter was 19.7%. Last year's rate of 16.3% was affected by the large volume of stock options exercised in the quarter. Excluding the impact from the Planters acquisition, we expect the full year tax rate to be between 20% and 21.5%. Cash from operations was $206 million during the quarter, a 9% increase. Even with record sales, inventory levels continued to gradually improve throughout the quarter due to improvements in operations, labor availability, internal capacity expansions and increased use of strategic manufacturing partners.

We expect inventories to continue to build throughout the second quarter. There is a risk for inflationary pressure on freight expense both domestically and internationally. However, we expect improved efficiency factors to offset some of the higher freight costs. We paid our 370th consecutive quarterly dividend effective February 16 at an annual rate of $0.98, a 5% increase over the prior year.

During the quarter, the company repurchased 200,000 shares for $9 million. Capital expenditures were $40 million in the quarter. We opened the pizza topping expansion of Burke and the new dry sausage facility in

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Omaha. Work is also underway to expand our pepperoni capacity. The company's target for capital expenditures in 2021 is $260 million.

Last Thursday, we announced the definitive agreement to acquire the Planters snack nut portfolio for an effective purchase price of $2.79 billion. The transaction was structured as an asset purchase and included a $560 million tax benefit. The adjusted 2020 EBITDA multiple on the effective purchase price of $2.79 billion was 12.5 times.

This acquisition is financially attractive. Our disciplined approach to valuation allowed us to secure a leading brand at a multiple below the industry average, take advantage of historically low rates, increase our company sales by 10%, improve the profitability of the portfolio with accretive margins and responsibly leverage our balance sheet. We expect to finance the transaction with cash on hand and a combination of long-term and short-term debt. We will be able to borrow the funds at approximately 1.5% and expect to be able to significantly deleverage the debt in 18 to 24 months.

We are targeting a 1.5 times leverage by 2023 and are very focused on retaining a strong investment-grade rating. The cash flows from our existing business along with Planters allows us to maintain our long-term capital allocation strategy. We will continue to prioritize returning cash to shareholders in the form of annual dividend growth.

Industry operating efficiencies, labor availability and production levels continued to improve during the first quarter, driving less volatility in the hog market compared to the back half of 2020. Hog weights are currently at historically high levels, which have led to balanced market conditions. In 2021, the USDA is projecting pork production to increase 1%.

With an expected recovery in the foodservice industry and higher grain prices for the balance of the year, we anticipate hog costs to increase. Our balanced mix of hog and pork supply contracts will help us manage the risk of higher prices. The USDA composite cutout was in line with last year during the first quarter.

Recently, we have seen strength in the cutout, supported by strong demand for pork domestically and internationally. We continue to monitor export demand and ASF in China, Southeast Asia and Europe. ASF continues to be a risk in the pork industry. We have seen the disease could be successfully managed in areas with modern agricultural practices. We expect higher prices for pork with less volatility than last year. The strength of our brands and balanced approach to procurement continue to be a competitive advantage.

Pork trim markets are expected to remain higher during the second quarter of 2021 and decline in the back half as labor availability and processing plants improves. Beef trim prices are expected to be lower in 2021. We anticipate belly prices to be volatile in the near term, driven by strong demand and foodservice industry growth.

Strong Chinese demand and drought conditions in South America continued to generate higher grain prices, which is expected to negatively impact Jennie-O Turkey Store. Like the pork industry, we are closely watching the fundamentals for grain. The primary factor we are watching are global demand, planting intentions for the coming season and weather conditions in South America. We manage freight costs through a combination of spot buying, derivatives and adjusting feed formulas.

Additionally, we have announced pricing action across all Jennie-O products to protect our profitability. We are prepared to take additional actions as conditions change.

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Fundamentals in the turkey industry remain mixed. Egg sets, poult placements and cold storage are below year-ago levels, while prices for commodity breast and thigh meat remain depressed. Poult placements have been declining recently, which will likely lead to lower levels of supply.

Because the foodservice industry is a key outlook for breast meat, as the foodservice industry recovers, breast meat pricing is expected to improve.

We are finalizing the implementation plans for the Planters business. We will have the HR and payroll functions integrated by the closing date. The finance and supply chain will be fully implemented within one year of closing.

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 come from Ben Bienvenu with Stephens. Please go ahead.

Ben Bienvenu
Analyst, Stephens, Inc.
Q

Hey, thanks. Good morning, everybody.

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

Morning, Ben.

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

Morning, Ben.

Ben Bienvenu
Analyst, Stephens, Inc.
Q

I want to start -- you called out the comments related to grain cost pressures in Jennie-O. And I want to focus there, if we could, for my first question. You talked about your actions around pricing. I'm wondering, to the extent that you're able to talk about how severe or meaningful the higher costs are expected to be for you and as you think about pricing increases, what you think the receptivity from the market is of higher prices and how meaningful that offset could be to the higher prices?

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

Yeah, thanks, Ben. Obviously, this is a high priority for the Jennie-O Turkey Store team going forward. But they have been working over, really, the last month or so to implement pricing, and while they're not entirely done, would tell you that there's been a lot of success in terms of getting pricing through.

Obviously, the rationale that we have in terms of what's happened in the grain market supports -- very strong underlying support. So the team has done a nice job there. And as we go forward, the idea of elasticity with

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pricing is something that has been difficult to measure given the pandemic. What we do know is we've continued to see exceptional demand for the Jennie-O Turkey Store retail products. So we remain very optimistic on the success that this business can have for the balance of the year.

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

So Ben, just to give you some type of scope. Cornmeal's up about 40%, while soybean meal is up about 15%. Now we have a significant position, it's less than half of our corn, hedged at a lower price than the current markets. And we have the ability to change the formula. So as you can imagine, we're moving the formula to more of a soybean meal-based formula away from corn. That will offset a portion of the costs. So really there's multiple approaches we've taken to mitigate the risk around these increases.

Jim talked about a very effective approach on price increases, along with the shifting of the [ph] feed formula and the positions that we've taken. And we took these positions probably six -- more than six months ago.

Ben Bienvenu
Analyst, Stephens, Inc.
Q

Okay. That's very helpful. Thank you. My second question is related to the supply chain. And obviously, you've made a number of investments over the last several years. You've gotten a few capacity expansions stood up here in this first quarter. And Jim Sheehan, you made some comments that you expect some of the freight -- higher freight headwinds to be offset by supply chain improvements.

Can you talk about the -- as you get through some of these enhancements that you've made with Orion, some of the capacity expansion starting to mature in terms of fixed cost absorption, the benefits that are afforded you on the supply chain cost equation relative to any cost inflation you might see? That would be helpful.

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

Yeah, Ben, I'll go ahead and start on the freight cost and I'll let Jim finish with Project Orion. But one of the things that we have been challenged with is – our supply chain has battled over last year and early this year is that we've had a number of inefficiencies in terms of how we've been able to ship trucks. And so because of that, we've had some higher freight costs and haven't had the opportunity to optimize our loads like we typically do.

So we have seen some higher freight costs. And while there are expectations that freight rates will increase, we see a pretty significant opportunity for us to be able to offset a good portion of those as our supply chain continues to pick up momentum and we're able to fill trucks in a more optimized manner. So yeah, there'll be some [ph] flip freight (0:34:40) inflation. But again, we think there is going to be a really good opportunity for us to offset that with some internal efficiencies.

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

Ben, I'll talk a little bit about your second portion of your question, and that's how Project Orion will benefit us in this area. First of all, we have visibility across all of the businesses under one platform. And that's given us great insight as to where our costs are coming from and how we can manage those costs from a purchasing aspect, the -- having all purchasing done under one platform, giving visibility into the cost.

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The other thing is that on freight, we're able to do some significant analysis as to where we can provide benefits on freight and how we can improve our load levels, what our load levels are actually running across our business organizations. So it is providing a significant benefit as we go through. And it's very timely as we're hitting probably a bit of a period of inflation going forward to understand what our actual costs are and what levers we can pull to manage those costs.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Okay. Thanks so much for the color and best of luck this year.

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

A

Thank you.

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

Erica Eiler
Analyst, Oppenheimer & Co., Inc.

Q

Good morning. This is actually Erica Eiler on for Rupesh. Thanks for taking our questions.

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

A

Hi, Erica.

Erica Eiler
Analyst, Oppenheimer & Co., Inc.

Q

So first, I actually wanted to quickly follow up on last week's Planters acquisition. I was just hoping maybe you could give us some more insight into the private-label dynamics in Planters' categories and the gross margins there. And then lastly, Kraft also made reference to Planters as a commodity. So how do you think about its categories in terms of being a commodity?

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

A

Yes. Good morning, Erica. I'll go ahead and I'll take that one. I think the other thing that we talked about last week was the items that you just mentioned. I mean, those were at the top of our list in the due diligence process. And our team did a phenomenal job not just identifying those risks, but really putting together an action plan for when we do own the business, how we can offset that.

When we think about private label, when we – across our existing categories, private label shares can range across the board. And right now, what we're seeing is the average center store range is about 20%. And the Planters brand, as they face private label, they're seeing about the same percentage of private label. And again, that's across the board, there's different subcategories. So the idea of a private label being a risk, a threat, a competitor, not new to us at all. So obviously, we're prepared to manage our business accordingly.

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From a gross margin perspective, I think what we had talked about last week was probably a little lower down in terms of profitability. But without giving too many specifics, it's safe to say that Planters' gross margins are -- they're well above our total company average, and they're also above our Grocery Products average.

So – and then the other thing, just in terms of the category, we know how to manage brands. We've said that multiple times. And so when we think about commodities and pricing and price elasticities, this brand is very similar to all of our other large brands. So yes, not new to us. We know how to manage it.

And when you roll all those things up, from our perspective, this business is not a commodity business. I would go so far to say, again, from our perspective, we know a commodity business when we see one. And this is not a commodity business. So hopefully, that's helpful.

Erica Eiler
Analyst, Oppenheimer & Co., Inc.

Q

Yeah, no, that's very helpful. And then just switching gears to Grocery Products. I mean you're obviously facing some challenging comparisons here the next couple of quarters. Can you maybe again just talk a little bit more about your confidence in lapping this growth? Any puts and takes you can share with regards to how you're thinking about these laps, I think, would be really helpful.

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

A

Sure. I think that there's going to be a lot of puts and takes across the entire portfolio for the balance of the year. We know in the second quarter, we saw the significant run-up in Grocery Products. But we also saw the significant collapse of our foodservice business. And so -- and then in Q4, if you recall, we talked about the difficulties we were having in our supply chain in meeting the absolute demand that we were getting from our customers.

So there is a lot of give and take for the remaining three quarters. As we've laid out the business with our business units and reviewed how we think the business is going to flow – and it's their optimism that obviously fuels my optimism, and then also the results that we are seeing in the supply chain – [ph] in all of this, do not discount the impact of supply chain in (0:40:05) allowing us to achieve our goal this year. So as they've run so much better it's really made a difference in our business.

So all those things together, Erica, has really what has allowed us to reinstate our guidance and become increasingly optimistic about the business for the balance of the year.

Erica Eiler
Analyst, Oppenheimer & Co., Inc.

Q

Okay, great. Thank you so much. I'll pass it on.

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

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

Hi. Good morning, everyone.

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

A

Morning, Ken.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

I wanted to take you up on the capacity side of it, and kind of, explore that a little bit. Can you talk about what products were capacity-constrained, which products are not capacity-constrained now and which ones won't be capacity-constrained in the future and then what you think was the scope of the cost that was associated with that?

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

A

Well, I'll take the first part. And I'll let the CFO take the numbers part, Ken. The biggest constraints that we saw, and we talked about this in Q4, was really in our Grocery Products business. SPAM at the time was one that was capacity constrained. We knew that we had a capacity expansion that we were in the process of and we saw that capacity come online in Q1, and that's really helped our SPAM business, [ph] what we (0:41:44) call our general canning business which would be chili, stew, hash. That is one where we've most recently identified co-packer opportunities. And we expect -- we're still not meeting demand, but we expect that to continue to improve over the balance of the year.

I think we did also talk about pepperoni in Q4 that we had a new line that was getting up to speed. And that has done just that and that's really afforded us the opportunity to expand both our retail and foodservice pepperoni business.

So as we look to the future part of the optimism is we're far less capacity-constrained. Clearly we're not out of the woods. We've got to meet customer demand. But I think everything that we said we were going to do, and that we knew that we needed to do in Q4, has happened. Jim -- I don't know from a cost perspective.

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

A

Sure. Good morning, Ken.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

Good morning.

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

A

The last half of 2020 was, as Jim said, tremendously impacted by supply chain challenges. So as we look at it from a financial standpoint, the first area that we should talk about is foodservice. And we've seen some very interesting trends in the last, let's say, few weeks on foodservice. And we have idle capacity in foodservice. So we have no problem filling that foodservice need. So any growth in the foodservice category is unrestrained and a great opportunity for us as that business, we're confident, is going to continue to improve.

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In the Grocery Products category, we talked about a tremendous Q2 that we had. But Q3 and Q4, I think it's safe to say were crippled by supply chain challenges that really are not existing anymore. The availability of labor is much better than it was last year. And so that's going to be able to allow us to grow Grocery Products in the back half of the year.

Jim talked about Refrigerated Foods, how we've had some constraints in the pepperoni business. And that's – we have additional capacity that's come online there, and we're doing a very nice job of recovering the pepperoni business and actually seeing some very significant growth in pepperoni in the foodservice category.

So I think it's hard to underestimate how much of an impact the constraint had in 2020 and the opportunity that we have in 2021. And one of the other things that we haven't talked a lot about is that during this time of constraint, we've still found some very significant efficiencies in our operations that have helped us produce product even in a difficult time period. Now, as we increase it, we'll be able to take those efficiencies and actually drive cost issues and efficiency issues throughout the operations.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

I fear I might underestimate the capacity. Can you give us some dimension to how we think of -- how that could actually add, not just to this year but really to 2022 and 2023? And I'll leave it there, and I appreciate it.

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

A

Well, I think as you've seen the growth in some categories, you see our ability that if we could fill that full demand, there would be some important improvements. I think -- as I've talked about in -- Grocery Products, I think, is a good benchmark, where we see growth in the back half of 2021 in Grocery Products strictly based on improvements in the supply chain.

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

A

Yeah. And Ken, I would just add, I mean, the other factor that's unknown at this point are really the channel dynamics. And so, as perhaps retail -- as people are looking to get away from home and eat out, as Jim mentioned, our foodservice capacity is ready, willing and able to meet that demand. So I think that's going to be an even more important part of our story as we get to the back half of 2021 and into 2022 as we see foodservice recovery continue.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

Great. Thank you, guys.

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

A

Yeah.

Operator: And the next question will be from Eric Larson with Seaport Global. Please go ahead.

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Eric J. Larson
Analyst, Seaport Global Securities LLC

Q

Yeah, thank you, everyone. Thanks for taking the question. So Jim Sheehan, quick question for you. You talked about the financing rates for Planters. And just for clarification, is that 1.5% just on the incremental debt that you're going to borrow? Or is it the blended rate between the percentage of cash and debt that you're going to use to finance the transaction?

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

A

It's a blended rate of the debt, including the $1 billion that I took out in June of last year. And for instance, we'll be retiring $250 million worth of debt in April that has a 4.25% rate. So if you think about that interest and the current interest rates, we'll be retiring some reasonably high level interest rate debt and replacing it with much lower interest rate.

Eric J. Larson
Analyst, Seaport Global Securities LLC

Q

Okay, got it. Thank you. And my second question is for Mr. Snee. Jim, the pandemic has obviously impacted the foodservice turkey markets pretty significantly. And the oversupply in that industry has been pretty significant for a while.

We just haven't seen that -- the industry recover like I thought we would have a long time ago. Will the current pandemic maybe rationalize the industry a little bit more? Will you come out of the back end of this potentially with a stronger, maybe lower supplied -- structurally supplied industry?

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

A

Yeah. Eric, I mean, I don't know and wouldn't want to comment on, what some of our competitors might do. From our perspective, we feel really good about the work that we have done, leading into the pandemic, if you go back to some of the stumbles we had.

But then, the effort and the strategic focus on growing distribution in lean ground turkey, right before the pandemic hit, I believe that a lot of the success we've had on the retail side is directly attributed to that expanded distribution that the team was able to achieve.

In terms of what inventories look like, I mean, clearly, a lot of breast meat. Turkey breast meat is used in the foodservice industry. And so that collapse has had a dramatic impact. And obviously, there are implications to that across the entire industry.

What we have seen is continued strength in the retail business, some recent increase in our Jennie-O foodservice business. And so we believe, that there's a lot to be positive about with our Jennie-O Turkey Store business heading forward.

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

A

Eric, the item that I would add would be that we've been looking at the fundamentals in this industry for a long time and reminding others that that's probably the best indication of where the business is going.

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We've seen decreases in poult placements for several months now. But in January, egg placements are down 9% and poult placements were down 12%. I think that's a strong indication of where the industry is going from a capacity standpoint.

Eric J. Larson
Analyst, Seaport Global Securities LLC

Q

Yeah. I agree. Thanks, guys; appreciate the comments.

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

Peter T. Galbo
Analyst, Bank of America

Q

Hey, Jim and Jim. Good morning.

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

A

Morning, Peter.

Peter T. Galbo
Analyst, Bank of America

Q

Thanks for taking the question. Jim, just the first question I wanted to ask about the color you gave around pork inflation. And maybe it's a bit of a two-parter. The first part of that being, I guess, the inflation that you're seeing now would appear to be more, I guess, tangible versus 2019 when it seemed like it was more speculative around ASF and whether or not there was going to be a lot more shipment of pork out of the US. I just want to see if that's, A, a fair statement or at least how you're thinking about it internally.

And then B, you mentioned a bit around consumer elasticity on turkey, but just is there anything from your consumer insights team on the pork side that you're seeing any changes in consumer behavior that would make you feel more confident maybe this time around in your ability to get pricing on bacon, pepperoni, those types of items?

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

A

Well, I think the first issue, Peter, is part of this is going to depend on the recovery in foodservice. So if you take the bellies, bellies [ph] are up $.0195 (0:51:23) right now. They have been rutting in the mid $1.30 range. I think that's an indication that there is some recovery in the foodservice, that there is an expectation that that demand is going to pick up. We expect these prices for the full year to run in the mid $1.40s, somewhere in that range, which is above last year's levels.

One of the other things that you're seeing, though, is that you're going to have some probably pressure taken off of certain markets. Trim markets are in the $0.90s right now, and I still think that's a component of the fact that there's not enough labor to do the boning. As labor returns into these facilities, those prices are going to go down. That's just a labor issue. So we think the bellies are going to be volatile as we go through. And demand is going to be impacted by the foodservice recovery.

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

A

Yeah. And Peter, I mean, we remain very confident in our ability to price. Already this year, we've taken price on SKIPPY, we talked about the Jennie-O Turkey Store pricing. We've had bacon pricing, Columbus, and really our total deli business has taken pricing as well. So as we obviously follow the inflationary factors and see what's happening in the business, we feel very confident in our ability to price.

Peter T. Galbo
Analyst, Bank of America

Q

Okay, no, thank you both. That's very helpful. I guess just two quick clarifying questions here. One, on Grocery Products, just -- there was an acceleration, right? And some of that was the capacity unlocked. But I just wanted to make sure, was there any inventory -- like retailer inventory rebuild in that first quarter number? And then on the investment income, the rabbi trust, that was up quite a bit. So how do we think about that maybe in 2Q and for the rest of the year? Does it reverse? Just – we have to put something in the model. Thanks very much.

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

A

Yeah. Yeah, Peter, I would say that no, there really hasn't been any retailer inventory rebuild. And I say that just based on the demand we're seeing and our ability to fulfill that demand. And so I do think it -- obviously, there's still very strong consumer demand. But then it also speaks to the fact that at some point, we are going to have the opportunity to fill the pipeline as well.

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

A

And thanks for the question on the interest income. That's coming from our rabbi trust, which backs up our deferred compensation program. Any gain that we have in interest expense, if you look at our corporate unallocated line, that's up so much this quarter; that is an expense that offsets the gain in interest expense. So when you look at the net of the additional deferred comp expense I incurred in unallocated and the gain that I've seen in the interest income, they offset each other. They appear at two different spots on the financial statements, but there is an offset there. So there is no benefit on an EPS basis of the increase in investment income. It's offset in the above-the-line unallocated line. Does that help you at all?

Peter T. Galbo
Analyst, Bank of America

Q

Yeah. No, it does. I guess just as we think about that number going forward, it can be pretty volatile from quarter-to-quarter. And so I guess just what's the best way to think about it?

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

A

Sure. The best way to think about it is it has no impact on the company's results because whatever gain or losses accrue in interest income are offset by gains and losses in corporate unallocated. So it has no impact on my P&L.

Peter T. Galbo
Analyst, Bank of America

Q

Got it, no, thanks very much. That's helpful.

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

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

Good morning. Thanks for the question.

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

A

Hey, Tom.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

First, I just wanted to ask on the CapEx side. You cut your outlook, I think, by $90 million this morning. Just curious what drove the reduction? Is this to free up some CapEx for Planters? Are there other specific projects that maybe were halted or pushed into 2022?

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

A

Yeah, great question, Tom. And there is a – one big project that we've gone ahead and pushed back later in the year, and we expect the majority of that expense to fall into next year. So it's not a cancellation, it's not a need for additional capital. It's just a delay in a project that we will still complete.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

Can you disclose what that project is?

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

A

No. We haven't announced that yet. It hasn't been approved.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

Okay. And then on the Jennie-O side, I just wanted to make sure I understood the timing of costs versus pricing. Should we think about the second quarter as being the toughest margin quarter, just given that pricing is being instituted during the quarter and we're seeing that input cost inflation now? And then a quarter ago, you mentioned, Jim Sheehan, 9% EBIT margin as maybe an outlook for this year. Do you have an updated outlook how we should maybe be thinking about that full year?

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

A

Sure. You're exactly right, Tom, that the second quarter is going to be the biggest challenge for Jennie-O as they absorb the cost. But as you know, when you bring pricing on, there is a ramp-up period and a wait period for that pricing to be effective. So that will have an impact in Q2, and it will slightly impact what we talked about previously as far as margins but not significantly, but it will have a minor impact on my expectations for Jennie-O.

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Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you. I'll leave it at that.

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

A

Okay, thanks, Tom.

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

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey, thanks, a couple questions. Jim and Jim, you mentioned some interesting trends in foodservice demand over the last few weeks, and I think you mentioned pepperoni being one of them. Can you give us a little more color on what type of restaurant change you're seeing that from? And do you think that's just a response to declining COVID rates? And then secondly, there is a lot of pricing in the International division during the quarter. Can you give more specifics as to what that pricing was for? And mathematically, is that – should we expect that level of pricing throughout the year?

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

A

Yeah. Rob, I'll go ahead and start. I mean, from a foodservice perspective, I mean, it is your more traditional restaurants, fast-casual pizzerias like we mentioned, QSRs, where we're seeing strength in the business. We haven't seen the pickup in some of the travel venues in terms of hotels. But as we've seen this business continue to improve, towards the end of the first quarter into the second quarter, really some of our best weeks since the pandemic began. So we had also seen some increased business, it would have been probably end of October, early November before the second wave began.

So we know that it's not new and that the trends are real, and we believe that we're going to be able to sustain this going forward. And then the pepperoni business has really been ongoing throughout the pandemic because that is an area that really never slowed down. Any slowdown for us was just capacity-driven, which now we have our new line up to speed, and we're meeting those expectations.

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

A

Yeah. Good morning, Rob. Regarding our International business, it is a broad-based improvement in our business. There isn't an area of this business that hasn't improved, and it's certainly not a result of pricing. It's better results in our operations in Brazil and in China. It's more profitability within our exports, both branded and fresh pork. So it's an improved mix, but it's really no – I mean pricing isn't the driver here. This is just a broad-based improvement in business internationally in all aspects of International.

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

A

And we expect our International business to remain strong for the balance of the year, Rob.

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Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. But maybe if I could, am I reading this wrong? I thought volume was down in International, but sales are up 13%, so is it a mix driver?

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

A

That's a mix issue.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. What's driving the mix? Is it SKIPPY and SPAM drives the mix positive?

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

A

Yes. Yeah, I mean, it's the branded products that are – that have a high demand internationally that is driving the better mix.

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

A

Yeah.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay.

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

A

Thanks, Rob.

Operator: Okay. And the next question is from Michael Lavery with Piper Sandler. Please go ahead.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Good morning. Thank you.

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

A

Morning, Michael.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

I just want to make sure I understand some of the trajectory for Refrigerated Foods and the margins. You've called out some of the headwinds, and those are clear. But it looks like the margins might have been the lowest since around 4Q 2015. I know you mentioned some of the second half catalysts or benefits that should come

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through. Does it get worse before it gets better? Or are we – should we expect an upswing already from here? What's some of the puts and takes maybe between now and into the second half?

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

Yeah. I mean, the positive for Refrigerated Foods, obviously, are the strength in the foodservice recovery. And so if we expect to continue on the path we're on, that will be a very positive impact. Refrigerated Foods also gets hit the hardest in – with COVID costs. And so as we see COVID costs hopefully mitigate over the balance of the year that will continue to be – or have a positive impact on Refrigerated Foods as well.

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

Okay. Thanks. And just a follow-up on the second quarter to date what you've seen, just any color maybe you can give. And is there – it's sort of in the moment, but any maybe weather watch-outs or any impact on Sadler's production? I know we've also seen some reports about maybe some risk to things like cattle, but it doesn't seem like maybe hogs are affected. So just any update on maybe kind of what you're watching now.

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

Yeah. I mean, obviously, this week was a difficult week for a lot of people. We saw a large spike in spot prices for natural gas. We've made some quick decisions to mitigate the increase. And the other thing is not all of our locations are impacted. So, any of the impact, Michael, is really short term and nothing that's going to have a broad-based, longer-term impact on the business.

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

Okay, great. Thanks so much.

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

Yeah.

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

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

Good morning, Jim and Jim. Just one-and-a-half quick ones. So, first of all, could you elaborate a little bit on how organic growth was versus inorganic, because if I remember right, still the first quarter did benefit from Sadler? You used to give those data points in past earnings releases, but I couldn't find it in this one. So, just to understand like the underlying dynamic without Sadler, how was the performance here?

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

Well, without Sandler's -- and obviously, Sadler's is not a large sales volume business, but it's still up without Sadler's. So, on an organic basis, our sales are up.

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

Q

Okay.

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

A

Okay. Perfect. And then just following up quickly on the commentary around the International piece, I think you've mentioned earlier as well some of the headwinds on the freight side. So just to understand what your expectations are when it comes to freight on the International business, just to serve those markets because clearly, international has been a surprisingly good market in most recent quarters. But obviously, there needs to be the delivery of product as well; just to understand what you're seeing on the freight side in the International context.

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

A

Yeah, I mean, the most difficult part, Ben, is really just making sure that we secure the containers for that business. And so that's really been the focus of our team. When we talked about overall freight, we talked about low single digits. I mean that's inclusive of International. So that's our total company purview of how we're thinking about freight.

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

Thank you.

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

Sarah Davis
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. This is Sarah Davis on for Adam. Just a quick question around the guidance for me. I guess, thinking about the ranges, so on the sales side, kind of implying between 1% and 7% growth year-over-year, so I guess, anything you can provide, just helping us think about what state of the world gets you to the high versus low end of the range would be super helpful. Appreciate it.

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

A

Yeah, it's a great question, Sarah. I mean, it really is – as long as there aren't significant downturns in any of the channels – I mean, you might expect some softness as one picks up, it's going to have an offsetting impact to another. But we believe that our foodservice business is really going to be the key driver for us for the balance of the year. And so, what that recovery actually looks like I think is going to play a large part in where we fall in the range.

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But we also do expect to see our retail business, whether it's Grocery Products or our Refrigerated Foods retail businesses, still provide some growth. So as I said, I think the biggest thing for us is what happens with foodservice. We do believe it's going to recover. It's going to improve. The rate and the scale at which that happens is really going to have a big impact on that outlook.

Sarah Davis
Analyst, Goldman Sachs & Co. LLC

Q

Super helpful. I'll go ahead and pass it on.

Operator: And the next question is a follow-up from Ken Zaslow with Bank of Montreal. Please go ahead.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

Hey guys, I appreciate the follow-up. Two parts: one is, when you're taking the pricing increase, is it covering the current environment? Or is it anticipatory? And the increase in volume from Jennie-O, was it any sort of pre-buying ahead of the price increase? And thank you.

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

A

Yeah, no, great questions, Ken. Yeah, that pricing is to cover the current environment. And then no, none of the performance at Jennie-O would have been buying.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

Great. Thank you.

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

A

Yeah.

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. Well, I want to thank all of you for joining us this morning. As we discussed, there is a lot of momentum across all parts of our business. We also know there is work to do to deliver our sales and earnings guidance this year. But we also know that we have the right people, the right portfolio to deliver the results that we need. Thanks again for joining us. Stay warm and stay safe.

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

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