Hormel Foods Corporation | Barclays Global Consumer 2021, September 9, 2021

Benjamin Theurer:

Good afternoon, I'm Ben Theurer, and I'm pleased to introduce now Hormel Foods, which is a global branded food company with over 9 billion in annual revenues across 80 countries worldwide. Its brands include Skippy, Spam, Hormel Natural Choice, Applegate, Justin's, Wholly Guacamole, Columbus Craft Meats, Hormel Black Label, and its most recent edition, Planters.

Benjamin Theurer:

Joining us today from Hormel are Jim Snee, chairman of the board, president and CEO, Jim Sheehan, executive vice president and CFO, as well as Jeff Frank, vice president for grocery products. Jim Snee is the 10th president and chief executive officer in the company's 130 year history. He joined Hormel Foods in 1989 in the meat products division and Jim was named president and chief operating officer in October 2015, chief executive officer in October '16 and elected the chairman of the board in October 2017. Jim Sheehan oversees all financial areas of Hormel foods and joined Hormel back in 1978 and assumed his current role in 2016. Jeff Frank is currently leading the strategic integration of the Planters and Corn Nuts brands into Hormel. Jeff began his career with Hormel Foods in 1998 in sales and has held various leadership roles, including at the company's Megamex Foods joint venture and as a vice president in the company's food service division.

Benjamin Theurer:

Given the most recent closure of the Planters transaction, we'll focus a lot on Hormel's prospects here, but won't overlook impacting industry dynamics affecting the other businesses. So with that, Jim, maybe to begin with your recently reported third fiscal quarter results and gave an update and a narrow guidance, now still a range of roughly 8% just for the final quarter implied. Could you elaborate on what your assumptions for the final quarter are, and what could go right or wrong within that new guidance range?

Jim Snee:

Sure, we can do that. First off Ben, thanks for having us, it's always great to be part of the Barclays conference, so thank you.

Jim Snee:

We did report our third quarter earnings and we're very pleased with the top line sales results that we were able to report. We talked about how it's the highest quarterly sales that we've ever reported in our company's 130 year history. So really, quite an accomplishment, especially in this very complex dynamic operating environment that we're in. And so, while we were very pleased with the top line results, clearly we had some bottom line implications as we continue to battle inflationary pressure, supply chain disruptions within our business, but also within our suppliers' business, and that's largely driven by the labor challenges that really are so widespread across the industry.

Jim Snee:

Now, as we've looked at the fourth quarter and you're right, we still have a little bit of a range there, and the biggest reason we have that, Ben, is the volatility that still exists in the marketplace. We've seen cost pressures from the second quarter to the third quarter really accelerate and while we took a lot of very strong pricing actions, costs continued to accelerate or move away from us. So we know that we have to take into account the potential risk there.

Jim Snee:

We were able to talk about the labor issue that we and so many others are facing. That's a big deal for us and so as we're able to improve our labor situation, we know that our results will continue to improve, but we don't know today when that will happen. So as you think about some of those things and the volatility that still exists in the marketplace for so many of them, that's really the reason for the range, but we remain very optimistic on our ability to grow top line sales, to continue to improve margins through the pricing actions that we've taken and continued strength in many parts of the business, like our food service business that saw incredibly strong results in the quarter.

Benjamin Theurer:

Okay. Now, one thing that just back still relating to most recent earnings from last week. So, one thing that really stood out was the top line growth you've just talked about, specifically the ability that you have to grow across all the channels you were essentially competing in. Now, could you talk a little bit about why you were successful in the quarter and why you believe you are well positioned going forward within the different channels?

Jim Snee:

Sure. There's a couple of things at play there. The first is the consumer and as we've been able to segment the consumer, we are seeing a number of different things. We're seeing value consumers, who really still are driving the at home consumption play, where we've seen probably more middle-tier and higher-end consumers. They're the ones that you're seeing a slight drop in the at-home consumption, but they're the ones that are now returning to the food service industry, so it starts with the consumer. The second thing is, that means the channels are holding up, because you've got a segment that's driving the at-home or the retail segment, but then you've got other segments that are driving the away-from-home or the food service part of the business. And for us, we can't ask for a better outcome in that consumer behavior because we've got a great retail presence and we've got a great food service presence. So we're able to participate in all of that business.

Jim Snee:

The other thing is the brand strength, and as we think about the brands that we have, so many of them are recognizable. You mentioned them in our introduction, but having those brands that are strong and that consumers recognize and trust really is important as we've undertaken so much significant pricing activity. So consumers are still going and buying the brands that they know and they trust, even though we're taking pricing and that pricing is being reflected on-shelf. So all of those things really figure into our ability to drive that top line number because of the pricing that we've taken, the brand strength, and then of course, the way the consumer's behaving.

Benjamin Theurer:

Okay. Now let's transition to Planters. Obviously that's the transaction that just recently closed. You're now a few weeks hands-on, it was part of the results already. What have you seen? How's the brand been performing? How does that initial performance, I know it's just a couple of weeks, but how does it compare to your assumptions when you presented the acquisition back a few months ago? [crosstalk]

Jim Snee:

Yeah, this is a big deal for us. And even though it's eight weeks in, we've had a chance to look at the business and we say, well, it's early. It's meeting all the assumptions that we set into place during the evaluation and acquisition timeframe. And we also talked about how we're seeing the benefits that a brand like that can bring to the organization. And I'll let Jeff Frank talk a little bit more about the detailed performance, but one of the examples we like to use, and we talked about when we announced the acquisition was the ability for Planters to help us add scale and a presence in the C-Store channel.

Jim Snee:

We've never really participated in the retail portion of the C-Store channel, and Planters gave us that immediate presence, and we've now been able to piggyback on that presence with other parts of our retail portfolio and have some early success. So it's those kinds of things that in addition to running the core business that we acquired, making sure that we capitalize on some of those synergies that we identified is going to make sure that we're able to deliver on the value that we told you about and that we told our shareholders about. But Jeff has done a great job leading the integration to make sure it's as seamless as possible, and I'll maybe let him elaborate a little bit more.

Jeff Frank:

Sure, thanks Jim. You're right. I mean, it has been a smooth transition overall, and I think that's really a testament to the project teams that we're working on, the integration. Since we've taken ownership, we've seen consumption remain strong in the marketplace, which we were very pleased with. And I think a couple of other things that have been going on since we took ownership are really around customer collaboration. Making sure that we finish this fiscal year strongly, but set the stage for a strong fiscal '22. And I also think another area that we've really been diligent around is culture. We're bringing together a team to focus on this business and we want to make sure that we're really leveraging the strengths of everyone who's coming into that team to really drive the business into the future.

Benjamin Theurer:

So back in February, you laid out the seven to 20 cents accretion for next year. Still confident to reach that level? And how much actually do you think can already contribute in the current and the last quarter?

Jim Snee:

So I'm going to start and then I'll turn it over to our financial wizard here, Mr. Sheehan. Yeah, we are confident in that number for 2022, Ben, and the biggest reason is clearly the business is off to a good start, not only running the core business, but then being able to execute on some of those, those synergistic plays that we identified as well. But it all had to start with a smooth and seamless transition integration that Jeff described. So we've been able to check those boxes all the way along, which is really what gives us that confidence for 2022. I'll let Jim provide a little more clarity on the rest of the year.

Jim Sheehan:

Ben, we're very confident about the accretion model that we gave in future years. That smooth start and that ability to start with minimal problems and minimum amount of disruption in the marketplace really gets us off to a fast start. As far as this year and the remainder of this year, obviously we have transactional costs that are in the model and we also have some transitional costs, those costs that you have with any company, as you bring into the organization. Those are being handled in the third and the fourth quarter, we saw most of it in the third quarter, you'll see a little bit more in the fourth quarter, but we're very confident of our accretion model.

Benjamin Theurer:

Perfect. Now, I remember in the past, you've laid out a couple of pillars, and one of that was always around the topic of snacking. And clearly the nuts business, I mean, it fits within snacking, but at the same time, it's pretty tough business and private label is obviously something you have to compete against, and I think it's being raised a lot back when you announced the deal. So maybe that one's for Frank, but could you give us a few examples of what you think what you can be doing with the brand, how you can position the brand going forward, particularly in the context of your broader snacking portfolio?

Jeff Frank:

Yeah, absolutely. I think, first of all, we're no stranger to categories where private label plays a role. And I think that ultimately we've got a great track record of brand stewardship in those categories, and I see Planters and Corn Nuts really as no different. So just a few examples. First of all, I think you're going to see us really invest marketing to continue to rejuvenate the equity of the brand. The Planters brand in particular has near-universal awareness among US consumers. And so for us, it's really around just staying connected with that consumer and keeping the messaging relevant for them, so you're going to see certainly some rejuvenation of the brand through that aspect. I think another way that we're approaching that is through thinking about the product portfolio, so you're going to see some innovation, you're also going to see some renovation. Clearly the Planters brand brings us some scale that we didn't have before, particularly in certain channels like convenience as Jim mentioned, and so we've got strategy work underway right now to really determine how we can leverage that strength for the broader Hormel portfolio in the snacking space.

Jim Snee:

Right. I think, Ben, the other thing to consider is, we're thinking about this entire business as more than, and I've said it before, more than just peanuts in a jar, right? So the watch-out for us is to make sure that the commoditization of the Planters brand or the portfolio doesn't happen, and so that again is one of our top priorities right out of the gate and Jeff and the team are working on that. So as you start to think, how do you battle private label in some of these categories, you can't allow your brand and your portfolio to be commoditized, right? You can't go down that rabbit hole.

Jim Snee:

And so I think being able to rejuvenate the brand, the portfolio through innovation with new products, but then also that rejuvenation of the core and the collaboration with retailers, right? I mean, let's not forget Planters is the number one brand. And so there's a value that we bring to the retail community that we're going to continue to leverage and collaborate with them as well. So we know how to run

these types of businesses and that's what's really made us so confident about acquiring the business and the success we expect in the future.

Benjamin Theurer:

Just coming back to the topic of innovation, which was one of the questions I wanted to ask you. So, clearly in the past, frequently, you've acquired brands, invested in those, and then started working around innovation and we've seen it with Skippy, we've seen it with Columbus Craft Meats. Even with staples, like Spam, you continue to be on the innovation front. So where do you actually see the potential with Planters? I'm pretty sure it's going to be a similar success story that what we saw in the past [inaudible], but could you maybe give us a couple of examples of what could be done on the innovation side where you can kind of run through and, and get a home run with that brand, just because of the equity of the brand value.

Jim Snee:

Yeah. I'll let, I mean, Jeff and his team are already hard at work. They were hard at work before the acquisition even closed. So Jeff, why don't you share some of the work that you're doing?

Jeff Frank:

Sure, yeah, so the exciting part about this brand is that there's a long pipeline of products that are in the development process right now, and so I think when we talk about fiscal '22 in particular, there's a couple of angles that we're really interested in. The first is around some packaging innovation and so, we've got an eye toward environmental sustainability, and you're going to see some work in that space as we move forward. We've also got some packaging form change that's coming, and then I think you'll also see some innovation in, in the flavor space. When we look at the snack nuts category, flavors seem to be an area where consumers are really re-entering the category, and so we've got some things that we're doing there as well. So that's sort of the short-term plan and then longer-term, there's really some exciting things coming into the pipeline.

Jim Snee:

And as you think about flavors, right, and think about what the category has looked like historically, it's looked like salted, lightly salted and honey roasted. And so, we've got an eye to that space because we know that the consumer profile has changed over time. We see that in our Hormel core portfolio, you mentioned some of the work we've done with Spam. So really accelerating that work around flavors is something that I think consumers are going to appreciate and recognize.

Benjamin Theurer:

You're just gonna have to do pumpkin spice peanuts or something like that. No, let's shift gears a little bit and talk about the more broader strategy for Hormel at the outlook, maybe for you, Jim, just, I mean, it's a complex [inaudible] environment and you spoke about it last week about the complex business environment in general you're in. Could you just give us a few examples that help us better understand what is actually causing issues and how you've actively been working in order to overcome those issues in the near-term?

Jim Snee:

Yeah, I mean, really the there's two big issues and then there are some subsets within them. So as we talk about inflation, I mean that exists in so many places, so we know what's happened with raw

material market markets, seeing the run-up in Belize in pork trim and beef prices, all have been a headwind. We've talked about labor as a separate item, but when you think about the inflationary impact of labor and what has happened with existing wage rates for our team members, that's been a significant inflationary headwind, but that's okay because those are the people that we're keeping and are running our facilities. And then supply chain, and supply chain again has so many different parts because there's our supply chain, and then there's our suppliers' supply chain as well. And we're all facing the same headwinds if you will.

Jim Snee:

But as Jim Sheehan said on the call last week, we've got great visibility into our supply chain. What we don't have is that same level of visibility into our suppliers' supply chain, and that's packaging, that's the ingredients, that's freight, that's logistics, right? That's a very complex supply chain and we're having to be able to pivot and adjust on the fly sometimes where we've got a product scheduled, only to find out that the supplier doesn't have what we need available. And we don't find out til the last minute, and then we have to react and in many cases we're able to solve the issue, but when you solve it, it comes with even added costs. So that's the complexity, that's the world that we're living in.

Jim Snee:

And as we think about 2022, the thing that we don't know is what happens to the inflationary pressure, what happens with packaging, what happens with raw materials, what happens with freight and warehousing. And then the other side, of course, is the labor pool. And when does that labor pool return. Does it return? So those are some of the things that we don't know, but as we said, what we do know and what we can do to fix it is we can price, right, because you've got the added cost, and where I think we've demonstrated that we're able to do that successfully. We have to be cognizant of categories and elasticities and all those things, and we will be very diligent about that. But then on the labor front, we have to be more creative in terms of how we attract talent, how we train them, how we retain them, how we simplify, how we automate.

Jim Snee:

Those are all things that on an enterprise level we're working on and I also said, it's really our number one priority because that's a game changer. If we're able to perform better with our labor force, our business immediately responds to that improvement. Jim, I don't know if there's anything that you would add.

Jim Sheehan:

No, I think the fact that we've had the pricing power, we've paid the... taken the pricing action that we took, and there's still a strong demand for our products. Many of the products, we're capacity constrained, and that is the real issue. Inflation we've managed well, we've always managed inflation well. The real wild card in this structure is what is going to happen with labor, because labor is the issue that is affecting the entire supply chain, as Jim said, from the animal production to the packaging supplies, our production, and finally in freight.

Benjamin Theurer:

That's one for you, Jim Sheehan. You always like to talk about Project Orion, so I have to squeeze that one in. If you would have not done the investments in your One Supply Chain and Project Orion, how bad would it be?

Jim Sheehan:

I think it would be much worse. One of the things that has paid a significant dividend is the implementation of Project Orion within Planters. The Planters transition was really almost seamless and that was done because of Project Orion. That was the big win that Project Orion has provided us, plus the amount of data that we've been able to attain and that we have been able to use and expand our analytics around the business has been very helpful during this very difficult economic cycle.

Jim Snee:

And then I would add, I can't imagine... I've said this publicly in our offices, I can't imagine where we would have been without the creation of One Supply Chain and the work that they've done going back 18 months at the onset of the pandemic with COVID and having that messaging and that structure across the entire enterprise. And now as you fast forward and enter this next phase of the pandemic that's been marked by the inflationary pressures and the labor pressure, can't imagine not having One Supply Chain. And then to Jim's point, can't imagine not having Project Orion to support those efforts.

Benjamin Theurer:

Perfect. Now, coming back to the price increase, and you've just said it around one of the things you were successful in implementing across the different areas of your portfolio. So you've done already a big part in Q3. You announced last week that there's more planned for Q4. Can you talk to us a little bit about the actual strategy behind how you pinpoint down where and when and how to do those price increases to remain successful?

Jim Snee:

Sure. And it does vary across the portfolio. We've got some businesses that are just closer to the market conditions, so if you think about some of our food service business, and even some of our retail refrigerated businesses. So as those raw material markets fluctuate, we're right on top of those, we're always ready to move pricing. And so in this scenario, pricing has run up drastically and we've moved drastically in refrigerated retail and food service. The issue always is the lag, right? I mean, you're never out in front of it. You're still always playing catch up, and that's okay because we know that on the other side, we're going to lag as well. And that is what we talked about last week also, is that we have a history of being able to expand our margins through these inflationary cycles, and we don't expect anything different in this cycle.

Jim Snee:

On the grocery products portfolio, which really does act, a large portion of it, more like a consumer packaged good franchise, you're probably just a little slower to move, and the reason is because when those prices go, they stay and they stick. And so we are very cognizant of that. But as we've seen, again, cost of raw materials, we've seen packaging costs, we've seen labor costs. We have had multiple rounds of pricing where we thought the first round of pricing would take care of it, and it did. And so now we've come back with the second round of pricing, and in some cases, a third round of pricing that is poised and ready to go that will be reflected at the end of the fourth quarter into the first quarter.

Jim Snee:

So, I mean, as you would expect, right, we're watching all of the leading indicators and then just trying to make sure we balance that against the category performance and the elasticities that we expect. And we also said that the elasticities that we've historically seen, our businesses have all performed much

better. And I think, again, it goes back to the consumer and the way that consumers behaving across all the different segmentations of the consumer.

Benjamin Theurer:

Okay, so within that profitability context, maybe just to quickly follow up, so you said definitely there should be some sequential improvement into [inaudible] this last quarter. But thinking of the first half of 2022, is that just continuously as well, going up, is that a fair assumption as those price increases come through, particularly where one you're planning for the end of 4Q. I mean, obviously we don't know what, on the cost side, I mean, that's not something in our control, but just assuming it stays where it is, it's like fair to assume that there's that sequential improvement, correct?

Jim Snee:

Yeah. That's a very, very fair assumption, and I mean, that's how we'll plan our business, is assuming that we don't have the same type of cost acceleration that we saw from Q2 to Q3, that we would see benefit in Q4 then certainly into the first half of 2022. And again, going back to our portfolio and how the consumer behaves is, regardless of what you see, whether it's if something happens and you have at home consumption escalate, we're prepared for that. If the other, if the inverse happens and we do see more of the food service industry or food away-from-home takeoff, I mean, we obviously are prepared for that as well. So that, I mean it speaks to the balance in our portfolio, and the balance across channels that we've worked so long and so hard to build, and we think that's what sets us up for success for the balance of this year and into 2022.

Benjamin Theurer:

Okay. Then my last question for you, and that is a few years ago, you presented the 5% top line, 10% bottom line growth target, and you all back then said, you need M&A to get to the 5% top line. Now, you did the M&A, and here's the good news, I did the math. Over the last five years, if we think Planters to be closed, we actually get to 5% top line growth. Now at the same time, we also come only to 5% bottom line growth. So, what needs to be changed or what needs to be implemented to actually get that bottom line growth at a higher level than top line growth?

Jim Snee:

Yeah, I think there's two parts to that, Ben, and you're right. We've said five and 10 with M&A, and I mean, clearly we've been able to achieve that per this year. You mentioned in our introduction nine billion, we've gone past 10 billion and we're forecasting 11 billion for this year. Would expect obviously with the full year impact of Planters next year to have very strong growth, but it's the successful integration and execution of Planters, right? We still have a number of recent acquisitions that we're innovating against, and that we're continuing to invest in capacity. So when you think about Columbus, something like that, that's on trend where we've invested in our Omaha facility to support the growth in that gathering occasion, to support our charcuterie business. I mean, those are the businesses that we need to continue to grow at the rates that we've had.

Jim Snee:

The other investments that we've made in capacity, so we think about the Burke business to support our pizza topping growth. After we announced the Columbus expansion, we quickly announced phase two of that facility with our pepperoni business that will support both retail and food service. And so we

need all of those on-trend businesses to continue to perform, and the nice thing is we're building that capacity around them to support that growth, to support both the top line and bottom line growth.

Jim Snee:

And the other thing is, you think about a business like Spam, and obviously we're going to have another record year of sales growth from Spam, and as we think about the capacity needs for that business, we're going to have to make some additional decisions in the not too distant future to support the amazing growth that we've seen. So it's not just the acquisition portfolio, we're actually seeing some really, really strong, continued growth from great iconic legacy brands as well. So you're right. I mean, we said with acquisition, but we've still feel really, really confident that we're going to be able to achieve both the organic growth rates and the acquisition growth rates that we put forth.

Benjamin Theurer:

Okay, perfect. Well, we're right at the 30 minute mark. Jim, Jim, Jeff, thank you very much for being with us and participating. Hopefully next year, we're going to do this in person, fingers crossed. Wish you all a nice rest of the day and thank you very much again.

Jim Snee:

Yep. Thanks for having us Ben and yeah, next year we hope to be doing this in person. Have a great conference. Thank you.