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Hormel Foods Corp. (HRL)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

David W. Dahlstrom
Director, Investor Relations, Hormel Foods Corp.

Good evening. Welcome to the Hormel Foods Conference Call to discuss our Recast Financial Statements Associated with our Go Forward Initiative. Earlier today, we filed a Form 8-K with the US Securities and Exchange Commission that included supplemental segment financial information for fiscal years 2021 and 2022. We have posted a copy of the Form 8-K to our investor website, investor.hormelfoods.com.

On our call today is Jacinth Smiley, Executive Vice President and Chief Financial Officer. Jacinth will provide a perspective on our Go Forward initiative and additional color on the company's segment financial information. In addition to Jacinth's comments, we have posted slides to our website, which outline the Go Forward initiative and main disclosures from today's call.

There will be no question-and-answer session following Jacinth's remarks. Any questions regarding the information presented today can be directed to me or our Investor Relations inbox, ir@hormel.com.

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 our most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, which can be accessed at hormelfoods.com, under the Investors section.

I will now turn the call over to Jacinth.

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

Thank you, David. As of October 31, 2022, with the beginning of our fiscal year, we transitioned our business to a new strategic operating model through an initiative called Go Forward. Go Forward is the next step in our evolution as a global branded food company. Said simply, this initiative better aligns our structure with our strategy. We have a long history of evolving our business. Over the last decade, we have taken numerous strategic actions to evolve from a meat-centric company to a protein centric company to where we are today as a global branded food company. Our new operating model is a culmination of these strategic actions, which includes a series of portfolio building acquisitions, the creation of one supply chain, the modernization of our technology and e-commerce capabilities, and most recently, our transformational efforts at Jennie-O Turkey Store. As part of the Go Forward initiative, we transitioned from four operating segments: Grocery Products, Refrigerated Foods, Jennie-O Turkey Store, and International & Other to three operating segments, Retail,

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Foodservice, and International. Earnings will be reported under this new structure beginning with the release of our fiscal 2023 first quarter results on Thursday, March 2. As a reminder, these changes to the company's operating segments have no impact on historical consolidated results of operations, financial position or cash flows.

Before I give an overview of each new segment, there are two items of note. First, our legacy Jennie-O Turkey Store segment has been fully integrated into our three new segments. This is a major change in terms of how we manage our turkey business, and as previously disclosed, is expected to result in $20 million to $30 million of savings annually. We expect to achieve this savings on a run rate basis by the end of fiscal 2023. Second, consistent with our long-term strategy to better align resources to drive value-added growth, we have continued to rationalize lower margin fresh pork and turkey sales, most recently resulting from the company's new pork supply agreement and the transformational efforts within our turkey business.

Our portfolio today reflects the progress we have made. For the total business, sales of value-added products [ph] are (00:04:28) approximately 90% of total net sales. Commodity sales, those that make up fresh pork, fresh and frozen turkey and international commodity exports make up the remaining portion of net sales, [ph] or (00:04:41) approximately 10%. Our commodity sales are down significantly from where they have been in the past, and we expect to continue these efforts in the future. In the Go Forward structure, all of our new segments have exposure to commodity, pork and turkey.

As a result, we're evaluating disclosures that better represent the progress we are making to drive value-added growth. There will be more information on this in the future. I will now provide an overview of each of our segments referencing full year 2022 results as a baseline.

Our largest segment, Retail, represents approximately $8 billion in net sales or 64% of total company revenue. The segment houses our leading retail brands, including Planters, SKIPPY, SPAM, Applegate, Justin's, Hormel, Black Label, Columbus and Jennie-O. In addition to our MegaMex Foods joint venture, our brands hold a number one or number two position in more than 40 categories across the retail marketplace. We expect long-term benefits to our retail business from the scale which we will achieve by combining all our brands under one single management team and direct selling organization. The segment is directly aligned to three of our strategic priorities, protect and grow our core brands, amplify scale in snacking and entertaining, and enhance growth of our ethnic and food forward portfolios.

Under the new structure, we will manage this business in six consumer-focused verticals. Convenient meals and proteins, snacking and entertaining, Global Flavors, bacon, emerging brands and value-added meats. The convenient meals and proteins vertical accounts for approximately 25% of total retail segment and sales. At a high level, this vertical contains many of the brands and products from our legacy Grocery Products segment, including SPAM, SKIPPY, Justin's, Hormel Chili, Valley Fresh. Dinty Moore, Mary Kitchen, Hormel Compleats and House of Tsang. Additionally, the vertical includes many of our convenient, refrigerated brands and products such as Lloyd's, HORMEL SQUARE TABLE entrees, Hormel Natural Choice and our Side Dishes business. It also houses our contract manufacturing business.

The second vertical snacking and entertaining brings together the Planters, Columbus, Hormel Pepperoni and Hormel Gatherings brands and accounts for approximately 20% of our total retail segment net sales.

The third vertical is Global Flavors, which accounts for approximately 10% of total retail segment net sales. Our MegaMex joint venture with brands such as Wholly, Herdez, CHI-CHI'S, La Victoria reports through this vertical.

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The fourth vertical, bacon, accounts for approximately 10% of total retail segment net sales. Our bacon business is comprised of raw, fully cooked, microwave, toppings and turkey bacon products. These items go to market primarily under the Hormel Black Label, Hormel Natural Choice and Jennie-O brands.

Fifth, the emerging brands vertical which houses our Applegate business is approximately 5% of total retail segment net sales. The Applegate business has leading positions in the natural and organic channel across numerous categories, including bacon, sliced meat, breakfast sausage, hot dogs and frozen breaded chicken.

Finally, the value-added meats vertical represents approximately 30% of total retail segment net sales. This vertical is expected to help drive growth across the meat and deli case with value-added seasonal and commodity solutions. It also helps optimize the use of raw materials across the organization. Included in this vertical are the following businesses. The majority of legacy Jennie-O Turkey Store retail business, which sells lean ground turkey, fresh and frozen burgers and other items at retail under the Jennie-O brand. Our value-added fresh pork business, which sells Cure 81 value-added hams and Hormel Always Tender marinated meats. Our value-added deli business, which sells behind-the-glass deli meats and prepared items for the deli case. Our [ph] Jennie-O (00:10:19) Turkey business and our commodity pork and turkey businesses.

Our next segment, Foodservice, is focused on delivering long-term growth by supplying high quality, innovative culinary solutions to operators across the foodservice industry. Our approach in the Foodservice channel remains highly differentiated due to our scale, direct selling organization and diverse product portfolio. This segment aligns directly with our strategic priority to expand leadership in Foodservice. Fiscal 2022 total net sales were approximately $3.7 billion or 30% of total company net sales. This segment combines the Hormel Foodservice, Jennie-O Foodservice, Burke Marketing, Heritage Premium Meats and Hormel Health Labs businesses.

The third segment, International, is focused on aggressively developing our company's global presence by accelerating growth across international markets and business models. Today, we go to market through our legacy export business, multinational businesses in China and Brazil and through partnerships in the Philippines, South Korea, Europe and Indonesia.

Fiscal 2022 net sales for the International segment were approximately $800 million, or 6% of total company net sales. This segment saw little change with the implementation of Go Forward. However, the segment is now responsible for all commodity export sales, including pork and turkey.

As we further support the strategic efforts to continue transforming our company, we're also standing up a new center of excellence called Brand Fuel. Over the last several years, the company has focused on the importance of leveraging its innovation, consumer insights and technology to enable connections with the consumers, both where and how they shop. Brand Fuel is expected to be a food forward hub, housing brand management expertise and insights-led innovation. This center of excellence will also house the Digital Experience Group, the company's e-commerce and digital content team that supports our brands and businesses in the virtual marketplace. Brand Fuel will support all of our segments and report up through the Retail segment.

Before turning the call back to David, I have a few closing comments on our Go Forward initiative. We are still in the early days of this initiative and our teams continue to work extremely hard to adopt and develop new processes, ways of working and accountabilities. We have made tremendous amount of progress and I am encouraged by many of the initial wins as a direct result of Go Forward. I remain confident that once fully implemented, our new strategic operating model will better align the businesses to the needs of our customers, consumers, operators and the shareholders to deliver a sustainable long-term growth. I will now turn the call back to David.

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Thanks, Jacinth, and thanks to all of you for joining us this evening. As a reminder, any questions regarding the information presented today can be directed to me or our Investor Relations inbox, ir@hormel.com. We look forward to speaking with you again on Thursday when we discuss our fiscal 2023 first quarter results. Have a wonderful evening.

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