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Hormel Foods Corp. (HRL)

Bank of America Consumer & Retail Conference

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OTHER PARTICIPANTS

Peter T. Galbo
Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Peter T. Galbo
Analyst, BofA Securities, Inc.

All right. Good morning. Still morning, actually. My name is Peter Galbo from the Food and Beverage team here at BofA. This morning we're delighted to be joined at the conference by Hormel Foods. $12.5 billion in revenue, market leader in all things pork, turkey, snack nuts, peanut butter, as well as Mexican foods. Hormel recently reported its fiscal first quarter and it shifted to its go-forward operating model, which now aligns the business across three segments Retail, Foodservice and International. The company also offers a unique perspective and then it's a bit more balanced channel mix versus some of its peers. About 65% of sales to Retail and about 30% through Foodservice.

Please join me in welcoming to the stage Jacinth Smiley, Executive Vice President and CFO; Deanna Brady, EVP of Retail; and Scott Aakre, SVP of Brand Fuel; as well as David Dahlstrom from IR in the back. Thank you guys for being here today.

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

Thank you. Thanks for having us.

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QUESTION AND ANSWER SECTION

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

So, Jacinth just maybe just to start off, was hoping you could give us a quick recap on the first quarter results. Anything coming out of the call that you've been getting questions on before we kind of dive a little deeper?

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

A

Yes, certainly. So, we came into the coming off of a pretty good year, navigating the challenges of COVID and high demand for our products coming into Q1. That demand continues to be very strong for the company. And so fundamentally really feeling good in terms of where we are.

If you've listened to the call, certainly one of the challenges that we've had is just the build of inventory coming in as we saw demand coming off of the year, we really leaned in a big way. And in some aspects, there are some areas of the business and I'm sure the team will talk a little bit more about it where we did see some of the softening of the demand. And so that created some of the overbuild that we saw and talked about as we went through the quarter. And so, we are focusing very heavily immediately on a couple of things to address those. Planters is one of those areas where we saw softness coming into the quarter. And so, we're really heavily focused with the team on what we need to do strategically.

And as we came out of a really strong year, Planters delivering on what we said from a valuation standpoint, we did deliver in 2022, but really seeing some challenges coming into the first quarter and we're doing a lot of things around innovation and repositioning the brand to be successful coming out of what we saw this quarter.

The other piece we're doing is really focusing on inventory in a few different ways and really bleeding down that inventory to get us back to where we need to be. And as we talked about in the fourth quarter, what we expected to see this quarter was really realizing the benefits from markets coming down and we haven't been able to do that because of this overbuilding inventory.

And if you think about it, where that's challenging us is in terms of double-handling the inventory, the internal freight transfers that causes additional costs to us, the additional warehousing that it takes to store the inventory and then markets coming down from a commodity standpoint, we haven't been able to realize that because we've built the inventory with additional costs or the higher costs in the markets, and we're not seeing the benefit as quickly as we expected. So certainly having the team focused on rightsizing the inventory, but also fixing Planters to get it strategically back on track.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Terrific. Thanks. Thanks for the recap. And maybe just to move over to Deanna. To start off on the consumer, at least at a high level, you've run a lot of different parts of the portfolio for Hormel. Just broadly, what are you seeing from the consumer at this point? Elasticities – maybe elasticities by channel, and then across the different business units.

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Deanna T. Brady
Executive Vice President-Retail, Hormel Foods Corp.

A

So, at a high level, our brands are resonating exceptionally well with a few exceptions that Jacinth's touched upon and we'll probably talk more about those and should. But there's good demand across our brands. Our consumers are staying engaged. What we're seeing, though, is consumers moving within the portfolio or within categories. So as we've talked about the benefit of having a diversified portfolio as well as diversified businesses across channels, specifically within Retail.

But also having a really robust Foodservice business that is also diversified across portfolio and value price points is exceedingly important in today's environment is showcasing that. We are seeing demand in some cases exceed, I'll say, elasticities and some consumers seeing a higher price, but reaching for the product anyways. In other areas of the store, we're seeing some pullback.

And so – and really it's things that are either a hiring or maybe viewed as a bit more discretionary. When you walk in the store with a certain amount of money to spend on a meal or on groceries, some consumers are making some trade-offs, if they are up against a certain dollar amount. So think of everything over $20. We are seeing some – a pullback if it's not maybe the center part of a meal. I don't know, Scott, if you and your expertise and your team, if you want to add anything else there.

Scott D. Aakre
Senior Vice President-Brand Fuel, Hormel Foods Corp.

A

Yeah. And I think there's still some consumers that are looking at shopping by channel. And so, they may be moving between grocery and club or grocery and dollar. The good news for our portfolio is, we have distribution across all of those channels. We think about it in terms of price pack architecture, variety and selection in those channels to make sure that the consumer, regardless of where they're going to shop, has access to our products. So, we feel like the coverage is good. To Deanna's point, the categories have some ebbs and flows, which isn't unusual in an inflationary time. We've seen that before.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Great. And maybe just to switch over, let's talk about go-forward, obviously, from the analyst side, we see it as a re-segmentation of the business and our excel models, but obviously there's a lot more that's happening. So maybe – it's kind of as an open-ended question to anybody. Just what are the benefits you see from go-forward now that you've combined the company and you're reducing kind of operating segments from four to three?

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

A

Yeah. And maybe I'll start, Peter, before we go there and dig into that piece. Just to level set in terms of the why, behind why the – why we have done the re-segmentation and this change in operating model and what we have actually done. Fundamentally, what it does is really just invest. If we just say it simply, I mean, this was our investment in the company for the long term, not just in the company from a product and consumer standpoint and retail standpoint.

But also when we think about our people. And so, this was an investment in our people to say, okay, we have over time made multiple acquisitions, continued to evolve the company from a protein-centric company to where we are today to a globally branded food company. And so, it really required us to think differently about how do we go to market and set this company up for success in the long term.

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And so, this is what this model does, harness the power of the brands that consumers love so much, the brands that play so well in so many different channels. But then also how do we get our people to another level where we can leverage their talent, build their talent, and continue to have them have a career for the long term with this company.

And so, go-forward wasn't about taking cost out and we see that so often when companies go through operating models and restructuring, it's about taking cost out. This was truly about investing in the company and investing in our people.

Deanna T. Brady
Executive Vice President-Retail, Hormel Foods Corp.
A

I'll hit it from maybe the sales side and I'll have marketing and have Scott touch on his area of the business and really the value that the new Brand Fuel organization brings. When you think about all of the brands across retail and in our former structure, we had refrigerated grocery, which could be retailing, could be foodservice, we had Jennie-O and then we had International. All of those four businesses had Retail business and Foodservice businesses embedded within them.

So what it does is it takes these four silos of retail and brings them all under one umbrella and one go-to-market strategy, whether it's from a marketing, from a consumer perspective, from a customer perspective. And so, one selling organization representing all our brands at Retail, in my case, and in Foodservice and [indiscernible] (09:33) case, really allows our customers to look at us as a strategic partner and think about all the different options and solutions we have as a number one, number two brand category leader, both in Retail and Foodservice, and how we truly can help them achieve their strategic objectives.

And so in the past, we might have walked in the door at different appointments throughout the week, throughout the month, if you can imagine someone coming in to talk about Jennie-O, someone coming in to talk about our Hispanic portfolio, for example. But really we're there now to talk about the consumer needs, right? What are the consumer needs of that particular customer and how does our portfolio help them achieve that? And then, Scott, I'll let you talk about Brand Fuel, how that helps unlock the power that we have.

Scott D. Aakre
Senior Vice President-Brand Fuel, Hormel Foods Corp.
A

Yeah, Brand Fuel was a very intentional effort to make sure we had a collection of people with specialized skills. So in Brand Fuel, our – the Insights team, which is consumer, category, shopper. Our Innovation team, our digital team, brand design, integrated brand experience.

And it was really the sense that if we could organize them together and then take that aggregate and apply it against the new business structure and within retail against the verticals, we would have all of the people at the table at one time to really understand all the diagnostics of the business, what are the critical issues? How do we make sure we have alignment against those? And then we can make decisions much more quickly and much more informed with the same data sets.

And we're quickly seeing that that's the case. The ability to react, the agility, the flexibility has been significantly improved with the new structure. And then within that aggregate, we have the ability to flex resources where we need to. So if we see certain opportunities for growth in one area, we now can move those resources in that direction to make sure that we're taking full advantage of where that opportunity might exist.

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So, at the same time, looking for efficiencies, we now have control over with the way Deanna described one retail. We can look at our media investments differently. We can look at it with the scale of one retail unit versus business units. We have different scale then when we come to negotiations. We have different scale when we come to conversations with our agency partners. We look at data differently. We have different data sources coming into the organization. There's some that may have overlapped that we can eliminate and find efficiencies.

And at the same time, there's ones that maybe were underutilized. So how do we push that information deeper into the organization to make sure we take full advantage? So to Jacinth's point, we added staff. We wanted to make sure we were covered for the growth of the company that we had already gotten through, as well as the growth that we see in the future and have the ability to again align resources correctly, incentivize teams against the same objectives, and then redeploy as needed if there was a flexibility that we wanted to take advantage of.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Great. And maybe we can flip over to the segments. And Deanna, just starting with Retail, had a particularly difficult 1Q, around snack nuts, peanut butter, higher inventory levels, some of the things Jacinth already mentioned. But maybe you can just take us a little deeper on kind of what happened and how you see that playing out over the next couple of quarters, particularly as we think about the perishable side of your portfolio versus non-perishable. And how you think you move through some of that inventory?

Deanna T. Brady
Executive Vice President-Retail, Hormel Foods Corp.

A

Sure. So I think there's probably three or four things embedded there. So I'll just start with, we had a lot going on in Q1. We planned behind the scenes for the go-forward model, most of last year, August of last year, we announced the new operating structure. But on November 1, we flipped the lights on and we stood up the operating structure.

In addition, we merged through that transition of go-forward, Jennie-O became a part of the Retail and the Foodservice. So we integrated Jennie-O from a sales and marketing and supply chain aspect all in Q4 of last year as well. A lot behind the scenes from an IT perspective, a finance perspective and recasting the business.

So there was just significant heavy lifting, biggest change in the company's history, frankly, outside of probably acquisitions was standing up the new operating structure. So that – I want to give the team credit for some amazing work. We really are walking, I would say, by half-two, we'll be walking faster. But really this transition will take us through the balance of the year. So the team has done a lot of work and still more work to be done.

Specifically, as we think about Q1, I'll just talk about Planters and you think about – we acquired Planters midway through 2021. And so really 2021 and 2022 was about integrating the businesses and integrating the business from a strategic standpoint. We also had to integrate the business and integrate it into the new operating structure.

2023 is about executing the business, so starting to execute against really the strategies as we understood it. So a few things there as we look at Q1, our execution is not where we need it to be. So I want to acknowledge that.

A couple of factors that played into the quarter, though, that I think are important to see through because and then I want to talk about where we're heading is, last year, Q1, we transitioned while we bought the business in 2021, the actual inventory and the TSA cutover happened in Q1 of last year. And so, any time you cut over inventory from an operating system or from one company to the next, the customers know what those experiences are

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typically like and 9 out of 10 would say they're not good. So you'll see a buy-in of inventory to make sure they're secure while we get that transition cut over.

Secondly, we were up against a price increase that we took last year. So seeing price elasticities come into the marketplace as well as into that category. And then the third piece was as we acquired the business, we did inherit some major distribution losses that are playing out in Q1. So that's kind of what happened, if you will.

Where we're headed as Jacinth said, we felt good about our execution last year on the integration piece. We're off to a slower start, both because of what I described as well as the consumer has shifted within the category because of, I'll say, the economic and inflationary factors. So we have seen a shift which did cause some build-up in inventory in some areas that we're working through.

But what the rest of the year continues to be about is gaining new distribution. We're feeling very optimistic about distribution gains. When you think about shifting away from a branded player in a category like this, if you don't have a category leader and the consumer is making decisions, it's really hard to grow. And so, we have a lot of excellent conversations happening around the Planters brand, around the category and the category leadership position.

We have turned on advertising and relative to peanuts, in particular, which is where the consumer has shifted. So if any of you watch Super Bowl, you might have seen or might be seeing the commercials of Mr. Peanut getting roasted. And we're talking about it in a fun cheeky way, but really the value of our dry roasted peanuts, as well as some of the flavors that we launched last year that are playing out this year.

So execution against new distribution and turning on advertising as well as we're also posting a lot of promotions to make sure that we're at the right price point based on our price pack architecture work and studies.

And then we also have innovation that we've – we'll be introducing and already have acceptance on in the marketplace. So we'll be seeing that play out. So it's a lot of blocking and tackling, not anything new to this group or what you've heard, but it really is about being a category leader, making sure you're gaining distribution that you've got good promotions in the marketplace, you're advertising not only for the product, but for the category and reminding consumers why the Planters brand is important and why it's valuable and what the products can do for their livelihood.

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

Yeah. And just maybe Scott can add from a strategic standpoint as well, when we think about innovation, right, in addition to the tactical things we're doing at the moment to really get to where we need to be from a margin and sales perspective this year, then we also have a lot going on strategically.

Scott D. Aakre
Senior Vice President-Brand Fuel, Hormel Foods Corp.
A

Yeah. I think it goes back to our ability to flex resources. So we have pushed a lot of resources in the direction of Planters in different areas. One is around the analytics that Deanna was talking about. How do we – what do we know about the category? How do we make sure that we're helping the category growth for our retail customers? And we look at that by different consumer segments that we can go in and talk about the importance of the leading brand as well as private label, as well as the third tier brands.

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From an innovation standpoint, we've also pushed a lot of resources that way. When we purchased the brand, the pipeline was there, but it wasn't maybe as robust as we were hoping for. So we've really pushed a lot of energy into making sure we've got the innovation in terms of both packaging, new products, Planters as well as Corn Nuts and across channels. So we're looking at grocery, innovation and then how does that play out in the club store and in the convenience, where we have growing opportunities to elevate the brands there as well.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

So maybe – and before I forget, I just want to plug that Hormel has brought Corn Nuts and Planters products that are over on the side table, so please grab on your way out. I know they're a personal favorite. I'm getting validation from the audience members as well. Deanna, maybe one of the things and Scott, this is something I've spoken about with David, but there was a bit of confusion, I think, coming out of the call around Planters and the idea of adding capacity.

Now, that was my understanding, was it more on the packaging side. So I just wanted to clarify that first and foremost? And then specifically on packaging, what needs to be done? Like what specifically, are – you have too many canisters and not enough tubs. Is it not in club channel? Like what are we going to be seeing on shelf?

Deanna T. Brady
Executive Vice President-Retail, Hormel Foods Corp.

A

So when you think about Planters, I would just want to step up – step back and say, we really love this brand Planters, as a fun brand. As we talked about from the advertising, it's a nostalgic brand. And when we thought about this business, we weren't thinking about peanuts only. We were thinking about the brand, we were thinking about plant-based protein, we were thinking about snacking and snacking and entertaining.

Under our new operating structure, one of the six strategic priorities as a company is snacking and entertaining. Planters is a really important part of that, not only why we acquired it, but where we want to go with the brand. And you think about snacking and entertaining, it encompasses under the new vertical, our Columbus brand and our Columbus charcuterie platform, it encompasses Hormel pepperoni as a flagship of our company, and it encompasses our gatherings and entertaining. So there's kind of four vehicles that are going to help us drive snacking and entertaining into the future and growth for the company. So Planters really is an important part of that.

When we acquired the business, we knew there was work to be done. We like – everything we liked, we also knew what we didn't like and where we needed to make some changes. So there's parts of the portfolio that are growing and the demand is exceptionally strong and parts that are becoming maybe less relevant. And packaging is one of those components.

So think about tube nuts, which is a really important vehicle for a multipack for club store, which is a growth vehicle area for us. And another reason we're really interested in this business was for C-store. So roughly 15% of the business was in C-store, which lives within our Foodservice business today, that's how we've chosen to approach that channel in the tube, so think about when you walk into a C-store and you see snacks hanging on pegs, that's where you're going to find the Planters products. So we have added capacity this year for tube nuts. We've also done some things for Corn Nuts and hopefully you'll enjoy some of those things in your bags.

And so, we continue to think about what additional packaging. So for innovation, in particular, we've got some flavored cashew products that are exceptional and they're in a standup bag. So we've also approved some capital

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to continue to expand the capability to deliver the – in the innovation space that is going to require some different packaging.

When you think about how consumers want to approach product, they want to feel it, they want to touch it, they want to open it, and then they want to zip it shut and they want to put it in their pantry and then come back added if they're not going to consume it all on the single portion. So where we need to continue to make progress is continuing to look at our capacity and I'll say re-engineer it towards some of those growth spaces that we talked about, which is the work we're focused on now.

Scott D. Aakre
Senior Vice President-Brand Fuel, Hormel Foods Corp.

A

I would just add to that. One of the first things we launched was a new bottle with the intention that it was more sustainable. We're taking some plastic out, because we think that's important for the consumer, for our customers, and for the world, frankly.

And then just to build on some of Deanna's comments around entertaining, we actually even look a little bit below that. What does entertaining look like for consumers siting? We know that from COVID, a lot of that entertainment has shifted from out-of-home to in-home. And it shifted to, what do I want to do on a Thursday, Friday, Saturday night with a few people coming over to the house? And when the consumer is in that mindset, what they want are solutions, they want things that are still special that they can put out for their guests.

But it's, again, against a smaller profile than maybe a Super Bowl party or a March Madness party. And that's where our portfolio really blends itself together between the Columbus, the Planters, our Mexican foods, our Chili, things that are easy to make, recipes that we can now provide to the consumer and to our customers in a meaningful format and then collectively build them in stores in unified platforms, whether it's shippers or communication with our retail media formats, where we can start to communicate the idea that it isn't only about those big parties, it's about those weekends where people are going to collect together, but in a different way than they maybe did before. So really trying to match up what the consumer trends are with the way our portfolio can balance against that.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Great. Maybe we can see if there's just any questions in the audience. If not, I'll keep going. Jacinth, maybe just to touch on the other parts of – big parts of the portfolio. You've seen some input cost relief on certain raw materials. It seems like, pork bellies are down pretty significantly. It seems like trim is still kind of a stubborn headwind. But maybe you can just talk to us a little bit about what you're seeing on the input cost side, particularly around raw materials, how we should think about that flowing through the P&L really around pork.

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

A

Yeah. And that's – I mean, you summed it up. Basically, we continued to see volatility in the commodity prices. Some have come down, like you've mentioned, but they're still at historical highs. And so when we think about trim and bellies, certainly we're also exposed on the turkey side, significantly to grain costs, think soybean meal and corn. And so, those continue to be headwinds for us and those haven't come down enough. And we talked about the inventory, the elevated inventory that we have. And so that's actually causing us not to be able to realize some of these benefits and expand the margins the way we could if we have the inventory at the appropriate levels.

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So certainly, as the markets continue to abate and we get the inventory down, we will see the benefits from that. But if there is continued volatility in the commodity markets, that becomes an area of difficulty for us to manage as we think about a margin from a margin perspective.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

And maybe just to wrap up on retail, I think MegaMex doesn't get enough love in the portfolio. It's been a lot of volatility in avocados. Just curious kind of what you're seeing there. And then just a broader question is, would you ever buy out the other half of the JV? I mean, if somebody – what were the conditions you would need to see to kind of make that a wholly-owned piece of the business?

Deanna T. Brady
Executive Vice President-Retail, Hormel Foods Corp.

A

Well, I'm going to actually turn it to Scott. Scott's been a part of the board and the internal board of MegaMex and sits alongside the partners and has been a key part of that relationship for 20-plus years. It is a very rewarding portfolio, very exciting and a really solid relationship that we've had and continue to have. And I'll let Scott talk about some of the strengths of the partnership and what they bring as well as what we bring, as well as how relevant the portfolio is for consumers today.

Scott D. Aakre
Senior Vice President-Brand Fuel, Hormel Foods Corp.

A

Thank you for asking that. I share the [ph] needs more love (27:02). It's a very important part of the portfolio. It's about 10% of our Retail business in sales. And it's definitely a part of our growth platform.

When you think about Mexican food within the United States, it's one of, if not the fastest growing cuisine, both at home and away from home. And we have the benefit of some very powerful brands in that space and the focus of a joint venture where that's what they do. It's not part of Hormel. It's a joint venture that stands alone.

HERDEZ brand is a brand that's the fastest-growing salsa in the salsa category. It has the ability to stretch into new categories. We recently launched Guacamole under HERDEZ brand, and it's one that has done a nice job of being covering the gamut of consumers. So it covers general market and it covers the Hispanic consumer at the same rate. So that is important to us.

The Wholly brand is the leader in refrigerated guacamole, and we've been able to expand that brand into more avocado solutions. The pipeline of innovation is really, really impressive. We have an internal competition and they've won the last three out of the four years. In terms of real true innovation coming into the marketplace, that's changed the way that consumers think about Mexican foods.

The mantra of the company is reimagining Mexican flavors, and that's why our partnership is so important. What we get from the partnership is state-of-the-art production facilities. We have the ability then to understand the culture of the food and the culture of the Hispanic consumer. And I'll just go back to the origin of the HERDEZ Guacamole. Our partners have a foundation where they've collected recipes from all over Mexico, and we discovered this guacamole recipe in their archives and that was the one that we used to launch HERDEZ Guacamole. And it's now the fastest growing product in the category, because it brings that level of authenticity into the market.

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So very important, our partners benefit from Hormel in that we have a direct sales force. We've got the scale of an $8 billion portfolio that we bring forward. We have the order-to-cash system. We have all of the things that Brand Fuel does for the Hormel brands. It also does for the joint venture partnerships. So very important for us. We're not – there's no conversations around how do we buy out the partner. They're important. We're important. And it's set up in a way that we both benefit from each other. But we've also created some great friendships and relationships that are really important to the success of MegaMex as a joint venture.

Deanna T. Brady
Executive Vice President-Retail, Hormel Foods Corp.

A

I'd just tuck into the expansion of foodservice and so our foodservice expertise and really there's a ton of upside potential within the Hispanic portfolio, within the foodservice industry. And we've seen that unfold over the course of the last few years, and we think there's additional runway there as well to benefit on our capabilities.

Scott D. Aakre
Senior Vice President-Brand Fuel, Hormel Foods Corp.

A

And you'd asked about avocados. And certainly that there is volatility in the avocados. And we've done, I think, some really important work around how do we mitigate that volatility year-to-year. And there is a growing cycle with avocados that we're much more aware of. There are mitigation efforts that are in place for us in terms of the way we manufacture, the way that we procure avocados. So we're working really hard to try to blend that out over time and to take some of that volatility out. And again, it happens because you have a joint venture that's focused entirely on the Mexican food space in all those key important areas like salsas and avocados.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Great. And I think [ph] Brian (30:37) has a question, so.

Q

Thanks. So question actually for [ph] all (30:42) is, if you look at the stock price today, right, and let's forget about COVID, right, just kind of look where it is versus where it was pre-COVID and where it's been historically, it's at a depressed level, right, and valuation is compressed a bit. And I think what the markets are questioning, right, is whether the value creation model at Hormel still creates value, right?

There was a point in time where the stock traded at a real premium, right. And I think part of that was the acumen the company has had in making acquisitions and integrating those acquisitions was also partly the kind of the stability, if you will, of the cash flows and the profits. But it seems like the market is questioning, right, whether the model that sort of created so much value over time is still able to create value.

So could you just maybe talk about, A, is that a question you asked yourself internally? And, B, has the market changed in a way that Hormel has to shift? And maybe that's the re-segmentation is part of that. But just really trying to understand where the disconnect is, right, between what's been such a great value creating model over time and now kind of the market is questioning that.

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

A

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So I'll start. And I'll say there isn't any question or shouldn't be any question about whether or not the company creates value today and will continue to create value in the future. I can't imagine the company being any stronger than it is today. I mean, historically, the company definitely has been in a different place. It has evolved to where it is today and it's right for the time that we're in and the dynamics that we're in. And that's exactly why the go-forward model makes sense today.

Now, I think we – right, we still trade to a premium to the market and that makes sense. I believe where the stock price is today is really a direct reaction to Q1. I mean, that's my perspective. And I think the market will adjust as we see 2023 play out. And I don't feel like it is a long-term reflection of what people are thinking about Hormel Foods, because this is an absolutely solid company. We are investing for the long term and I understand that the market reacts in a short-term manner to results on a quarterly basis, but that's not how we run this company, right?

And I think the difference that we have here as Hormel Foods in terms of our structure, part of it being the fact that we are 47% right – our biggest shareholder is the Hormel Foundation. It gives us this ability to not have a knee-jerk reaction to a stock price because of the short-term view that someone may have as a reaction to a quarterly results and what consensus was and how that played out in the market.

Were we disappointed with where we came out and how we performed in the first quarter? Absolutely. I mean, there is no question about that. But we're also very committed and do not feel any differently about what the value is of Hormel Foods in the long term, the portfolio and the strength of our brands and where they play and how they play in the market and what the company has done to invest in the company. And this cash flow that this company continues to throw off, and where we sit is really, in my mind, still, right, second to none.

Deanna T. Brady
Executive Vice President-Retail, Hormel Foods Corp.

A

Yeah, very well said. For my time with the company, which has been a bit the biggest transformation and change we're doing because we needed to reorganize the company for growth. It's extremely exciting and motivating for me, despite where we're sitting today, where the quarter was. Yet, I can look at that quarter and we roll up our sleeves. Our team knows how to execute exceptionally well. It doesn't mean we shift gears and make sure we're blocking and tackling. And as I described, both on a Foodservice and a Retail perspective, thinking about where we got hit, but also thinking about where we have runway for growth.

So we've not only invested in mergers and acquisitions, we've invested in our structure, we've invested in capital and we continue to add capacity in areas where we see long runways for growth. We opened up Papillion down in Omaha, which we're already – will be fully filled, if you will, from operating for additional Columbus capacity, additional pepperoni capacity for Retail and Foodservice, some flexible space there for plant-based pepperoni, and then additional baking capacity, which we've added multiple lines, both in our retail pack, our Bacon 1 and for Foodservice and then microwave-ready.

And so we've got capacity to grow with, we do have some areas that we need to address. I feel really bullish about the structure, in particular, the Brand Fuel team that we've embedded to help support the organization from a very specific areas of unlocking growth. And then standing up our foodservice, as a standalone unit to demonstrate really the power of that. And when you think about foodservice, you're probably going to ask me a question about it. We have a very different viewpoint on foodservice than most companies do. And it's something to really pay attention to.

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

A

Yeah. And probably just a quick to add as well, in terms of level set, over the last couple of years, we have grown this company by $3 billion. $1 billion of that was Planters, right. Outside of Planters, we grew $2 billion. In this environment where our peers and others were pulling back, right?

We still continue to invest over $300 million a year in CapEx spend. And we are growing and investing in so many different areas in our people and in our brands. So – and the complexity and the dynamics of what we were doing, where we're doing all those things in parallel with integrating Jennie-O, right, continuing to build out our portfolio, continuing to innovate. So, I have no apologies in terms of where I think we need to get to and where we are. The apology is okay, we missed the quarter, but absolutely feel good about our ability to continue to execute and grow this company for the long-term.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Okay. We've got about 90 seconds. And I want to hit on two topics. First, being AI. So just what's the latest on avian flu and what you're seeing? And then secondly, China, you have a decent-sized international business. You just made an investment in Indonesia, but just kind of what's the latest, then I'll leave that in any order?

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

A

Yeah.

Deanna T. Brady
Executive Vice President-Retail, Hormel Foods Corp.

A

You want to hit China first?

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

A

Yeah. Well, so we can hit China, I think – I feel like China is almost like the avian influenza or flu. I mean, it's anybody's guess as to what happens with China. But I mean, that's the biggest piece of our international portfolio and we've seen what's happening there, where it's almost kind of a start and stop. And so it really depends on if it continues to stay open, we feel good about where we are with the International business.

But I mean, we continue to grow International. We – you would have seen the latest investment with Garuda Foods in Indonesia. That's a $400 million investment that we made. And another comment that adds to what I was talking about as well, Peter, as we continue to invest to grow this company. So, I think, depending on what happens with China, we'll dictate how international really plays out for the rest of the year.

Deanna T. Brady
Executive Vice President-Retail, Hormel Foods Corp.

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And then on high path avian influenza, really anyone's guess. We're well prepared. We know how to manage through it. It's not easy. It's extremely difficult. Probably one of the hardest situations our employees who deal with the live production side of the business have had to deal with, not once, not twice, but – so right now, I'll say it's a bit quiet, but it's still out there in other parts of the world. It's possible it could be back at us this spring. We believe it's a different world with high path. It's not anywhere as predictable as it once was.

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So really having a robust way of managing it, knowing how to hit it hard, fast as well as how to think about then how do you react with your customers, your consumers, and the portfolio with the meats that you have left. But honestly, our biggest – are things we think about when it hits is obviously animal welfare and employee welfare because it is exceptionally difficult. And we're so grateful for the leadership of that business as well as the teams who've had to manage through that, because it is exceptionally difficult. We have the other part that's I won't say easy, but figuring out then how to navigate that from a business perspective.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Great. Well, I think we're out of time. And thank you all for being here.

Jacinth C. Smiley

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

Thank you.

Peter T. Galbo

Analyst, BofA Securities, Inc.

And with that, we're going to take a break from the company presentations for lunch. For everybody to join us actually in this room to hear from David Tinsley, who's the Senior Economist from the Bank of America Institute, who's going to be giving a presentation at lunch, so.

Deanna T. Brady

Executive Vice President-Retail, Hormel Foods Corp.

Thanks, Peter.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Thank you, guys.

Jacinth C. Smiley

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

Thank you.

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