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# Hormel Foods Corp. (HRL)

Investor Day

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**James P. Snee**

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

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

**Deanna T. Brady**

*Executive Vice President-Retail, Hormel Foods Corp.*

**Scott Aakre**

*Group Vice President & Chief Marketing Officer-Retail, Hormel Foods Corp.*

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## OTHER PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

### David W. Dahlstrom

*Director-Investor Relations, Hormel Foods Corp.*

Well, good morning, everybody and welcome to the 2023 Hormel Foods Investor Day. Great to be back in New York and hosting this four years and two days from the last time we were able to gather here and have an Investor Day. So, really good to be back in person. And this is by far, I can tell the largest group that we've had here before.

My name is David Dahlstrom. For those of you who don't know me, I'm the Director of Investor Relations at the company today. We have a fantastic line-up of speakers. And as I mentioned to most of you in the countless e-mails I sent to make sure that you had everything you need to get here today, come hungry. And so, the breakfast, as you can see, that's just the start. And the bags that we put out there, that's just the start. Make sure you grab a bag and fill up. But we're going to have multiple snacking items put out here on the first break. We're going to showcase some of our Foodservice items during our second break. And we're going to conclude the day with some local New York pizza from one of our great customers here in the city. So, fantastic day. Hope you came hungry. Don't overeat right now. It's going to be a marathon.

Couple of housekeeping items before we get started today; you'll find on your table a card with the Wi-Fi information from the New York Stock Exchange. Everybody should be able to get on to the Wi-Fi. Slides are posted. We'll be posting momentarily on our Investor Day site, [investorday.hormelfoods.com](http://investorday.hormelfoods.com). You can also access them on our company's investor relations website. And if you have any questions throughout the day, make sure you find me. I'll be sitting up front here and then Steve Borgerding, he's probably roaming around right now, but he can certainly help with any questions you have today.

We also have a team of about 30 people here today. This takes a village to put on. It's truly a team effort. So, thank you to the 30 individuals here today from Hormel, as well as our 20,000 inspired employees around the world.

Full agenda, so we'll get started here in just a minute with Jim's opening remarks. So, Jim and Jacinth will speak first today. They're going to go about 50 minutes and then we'll break for Q&A. So, Q&A with Jim and Jacinth. We'll take that break and have some of our great snacking items. The second part of the presentation will be all about One Retail. So, our Retail organization, which is now come together underneath our GoFWD structure. Deanna will be speaking. Scott will be speaking. And then, we'll do another Q&A session, really focused on Retail. And then, the final presentation will be Foodservice and some detail on One Supply Chain. And right before we get to that, again, we'll try those great Foodservice items, wine with some great pizza.

Last thing before we get started today is, as you'd expect, we'll be sharing some forward-looking information today, and results may differ materially from those that we implied today. You can see a detailed list of our risks in our 10-K and our recently filed 10-Q, which is available at [hormelfoods.com](http://hormelfoods.com) under the Investors section. Invest, transform, grow, that is what today is all about.

And with that, it's my pleasure to introduce Jim Snee, Chairman of the Board, President and Chief Executive Officer of Hormel Foods.

[Music] (00:03:10-00:03:14)

## James P. Snee

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

Well, good morning, everyone. Thanks for taking the time to be here with us this morning. We know it's a commitment, but I think we're going to make it worth your while. David made the opening comment about the food and we heard your feedback. So, for those of you who are with us here in 2019, some of the feedback we got was your food company, focus on the food, let's see more food. We took that to heart and we've already started this morning. And so, to David's point, you will not leave here hungry, because we are a food company.

The second thing before we jump into the presentation is that, all of you know that we've been very open and very candid about how challenging 2023 has been for us as an organization. [ph] Then (00:05:04) some things that we imposed on ourselves, there's been some headwinds in the business, but more than anything, you just know that we're wrapping up our year here in a couple of weeks, and that will – we'll be providing more clarity on the full year, the quarter and the full year in our fourth quarter earnings call. And the reason I say that is because we want today to be all about the future. The future and the opportunities in front of us, because these opportunities are real and you're going to hear that from the team today. And as you sit here and listen and think and process and even after you leave here today, there are several key messages that we want you to leave here with.

The first is that we have made significant progress as an organization, we're stronger, we're more balanced, we're less volatile. The second thing is that you'll be hearing some updated priorities from us, really focused on retail and supply chain and that we have made investments in our business and when we think about – sorry, we're here.

So, when we think about how we are investing, transforming, and growing, there are several things to know. The first is that we do consider ourselves an uncommon global branded food company. That's really who we are, and we'll spend a little time walking through who we are. The second part is, we want to update you on what we've been doing. We haven't been standing still, right. All the things that we have been doing to make us that stronger, more balanced and less volatile company. And then, what I want to do is leave you with the path, the path for our three-year plan to grow earnings. And it's a path that will come from growing existing business, that'll extract value from transformation and modernization, but then also, thinking about how we will continue to capture value across the businesses that we have.

So, let's start for those of you who aren't as familiar with who we are. We're a 132-year-old company that is just over \$12 billion in sales, and we're fueled by incredibly strong brands; over 40 brands that hold number one or number two share positions in the categories in which they compete. And the performance of that business has allowed us to pay dividends for 57 consecutive years, a dividend aristocrat, if you will. And we're now in a position where we have aligned our business structure with the strategy of our business going forward.

And when we call ourselves an uncommon global branded food company, it's important to think what that structure looks like today. And so, we have a Retail business that has incredibly strong brands that are relevant with today's consumer. But we are a bit uncommon in that we have such a strong Foodservice business and the Foodservice business is almost a third of our business, and it operates from a very advantaged position. And you'll hear more about that from Mark Ourada later in the day.

And I do want to be clear that we are operating and building from a position of strength. Whether it's the brands, whether it's the balance that we talk about so often in our business, the structure that we've now put in place, the experience of our team that you'll see and hear from today, right, the solidness, the stability of this organization, and then, all with a pension for making sure that we're doing the right thing, because we know that we can make a difference.

And we're also a company whose strategic focus is crystal clear. The strategic focus is crystal clear. We have made and we will continue to make investments in our business, investments in our people, our processes, the technologies, never losing sight of the fact that we have to make investments in our brands as well. The continued transformation of this business, knowing that we have to modernize processes, we have to modernize our portfolio, all so that we can continue to create value as an organization and ultimately grow this business, grow net sales, grow net earnings, and as I said a little while ago, grow the impact that we can have by doing the right thing.

And you're going to hear more about the strategic focus and our ability to execute on that from this talented team of leaders, right. This is the team that is executing against a strategic focus, talented and experienced. You'll see and hear that today. And then, we're also a company that wants to make sure that we do the right things and that we have a positive impact where we can. And we have demonstrated that we're doing just that, the work that we're doing to positively impact the environment, the work that we're doing to help with hunger and food and security initiatives, the work that we're doing to elevate our team members and others through our education initiatives, we're doing a lot to have an impact. And I want to share with you a video that talks even a little bit more about what we're doing.

[Video Presentation] (00:11:30-00:12:48)

And so, we don't do this for the recognition. We do it to have a positive impact, but we're certainly proud of the recognition that we have received from some of the most reputable organizations in the world. And so, again, a testament to the great work being done by our company and by our team. So, now, let's talk about what we have been doing to make our company stronger, more balanced and less volatile, what we've been doing to really execute against our business.

And it's this vision of becoming an even more balanced and stronger global branded food company. So, when we think about our high watermark for operating income in 2016, since that time, there have been a number of different macro issues facing the company. We've had the decline of our Jennie-O Turkey store earnings, we've all been through COVID, the pandemic. But I think what this chart really demonstrates is the resilience, the resilience of our business and our ability to get back to, in 2022, right, that high watermark. Now, as I mentioned, 2023 has been a challenging year. But I think the point here is that we have a business, we have a portfolio that is resilient.

We also have the right long-term focus on our business. And to make sure that we continue to focus on building this stronger, more balanced, less volatile business, there really have been three strategic initiatives that we've been working against; how do we restore the portfolio to become more profitable, how do we continue to modernize our capabilities, facilities and systems, and then, always thinking about the right organization, structure and initiatives to support it.

So, let's take a deeper dive into each of those points. When we think about how do you improve the portfolio to restore profitability? Well, we've been on this value-added march or this value-added journey for a really, really long time. And for those of you who have been with us on that journey, you've heard us talk about how we have incrementally increased the amount of value-added products or sales in our portfolio. And today, it stands at about 90% of our sales. That's an impressive number. And this isn't just going from pure commodity to a value-added product. This is increasing the value of an already value-added product. And our team does an amazing job in that regard.

And then, the other part I would highlight is how we've really focused on trying to create more balance in the key inputs. So, it's not just a pork and turkey business, when you think about the percentage of inputs now tied to non-meat inputs. This is a significant shift that we've seen over time. And then, we've also made a number of dilutive, volatile divestitures. And then, we've countered that with a number of stable, more accretive businesses and the numbers, the swap, if you will, of divesting over \$1 billion in sales with operating margins less than 10% and replacing it with sales of almost \$2 billion, with operating margins greater than 10%, right, meaningful impact on our business.

And then, when we think about how do we modernize our business, modernize our capabilities and our facilities, well, the first is a capability and the work that we've done to put in place our Digital Experience Group. And we did that at the right time as e-commerce was on the horizon. But then, it came over the horizon in a hurry during COVID. And so, we were positioned well to take advantage of that and our sales now, we have over 10% of our sales coming from e-commerce. And then, the other part was really a step up in our revenue growth management capabilities. It's not a scale that was brand new to us, but it is a scale that we were able to modernize and enhance.

And then, we've also made significant investments in our facilities. And this is an important part to think about, because we've essentially doubled our CapEx spending from the period of 2012, 2016 to 2017 to 2022. Now, yes, some of its scale, size, the acquisitions that we've added, but a lot of it, a lot of it is making sure that we have the capacity, the value-added capacity to grow the business the way that we want to. A lot of it is also cost savings, extracting costs from our system, and then also focusing on automation. As labor becomes more and more difficult to acquire over time, making sure that we're doing everything we can to automate our processes. And so, really good efforts in terms of how we think about our ability to modernize our processes and facilities and systems.

Then, our third action really is how do we organize this business? How do we organize it to make sure that it's set up properly for our long-term sustainable growth? And most recently, we did that with our integration of our Jennie-O Turkey store business. We announced that project, and that is something that's been in process, making sure that we could bring in Jennie-O Turkey Store and create a more demand-oriented portfolio. With that, we expect to capture a value of \$20 million to \$30 million, and that project continues to be in process.

And then, the other thing that we've done is we've been able to right size our pork supply chain. Through a number of different strategic actions, we've been able to reduce volatility, guarantee supply and redirect about \$150 million of capital to other strategic priorities. And then, of course, in 2023, we announced our GoFWD initiative, the biggest restructure we probably had in our in our company's history. But it's the structure that was necessary to make sure that we had our strategies and our structure aligned, making sure that we could capitalize on all of our strategic priorities.

And so, a lot of work that's been done in this organization, but all of it very thoughtful, very intentional, very strategic, leading us to our three-year plan to be able to deliver strong earnings growth. And it's going to come from three areas. We need to be able to continue to grow our business, we need to be able to extract value from this transformation and modernization, and then continuing the strategic value capture that we've always been able to do.

And so, as we dig into this area, it's fair to say that we see ourselves as entering this next era of growth. It was our – when we think about our past, there was a time when we were meat centric, focused more on a commodity business. And then, we've seen the evolution in our business, in our portfolio, as we've talked to so many about – as we've talked to so many of you over time about how we want to increase our value-added portfolio, how we

want to become more balanced, how we want to be less volatile. And we've done a lot of that work. And so, now, as we think about our future, what is this next era of growth for our company, what does it look like? And it really is about accelerating the growth of our organization through this transformation.

And we believe that we can generate over \$250 million in operating income growth by the end of fiscal 2026. And so, we see the path to get there. We see the path to get there. We have our goal. We have our objectives. We have our priorities, the platforms, enablers and we're going to take a second and walk through all of them, because it all starts with our culture. It starts with our uncommon culture of corporate and personal accountability. A formula for success that we've had for years, knowing that we have to build brands, we have to innovate, we have to make accretive acquisitions and maintain the balance across the portfolio and a culture that we live and breathe every day, a culture of accountability, making sure that we're holding each other accountable.

And then, making sure that we're competing in the right platforms, right categories with the right brands and we believe we've set ourselves up to do that, platforms where we have earned the right to compete and to win. These aren't new categories or new platforms, things that we've been doing for a long time and doing them successfully. So, the right culture, the right platforms, the right priorities. And so, again, we've updated our strategic priorities, not overhauled, not revolutionized. We've updated our strategic priorities to make sure that these priorities align with where our business is today.

So, our last set of strategic priorities talked about our Retail business like this; we need to protect and grow our core brands. Today, we're saying, [ph] now (00:23:41), we need to drive focus and growth in our Retail business. This Retail enterprise is a significant engine for this organization. Expanding leadership in Foodservice is not anything new, something we've been doing for a really long time.

And then, the third thing for our segment priorities is our desire to aggressively develop our global presence. And while we don't have our International team presenting here today, we do have a brief video that gives you an update on some of the great work that they're doing.

[Video Presentation] (00:24:19-00:27:20)

So, we've made some great investments in our International business. Swen mentioned the most recent one in [ph] Garuda Foods (00:27:26). And so, we believe, again, that we've got the right investments and the right structure in our International business to be able to develop that in a more aggressive way.

And so, those are segment strategies. Next thing is, we want to think about what are the strategies across the entire enterprise? And so, we've talked a lot about entertaining and snacking. And entertaining and snacking covers all parts of our business and making sure that we're executing against that, because we've made significant investments there as well, making sure that we have future-fit our One Supply Chain. And you'll hear more from Mark Coffey at the end of the day. But there is work to be done in our supply chain. But there is also a willingness and a plan to make sure we're making those investments to extract that value as well.

And then, a strategy that's not new is our desire to continue to transform and modernize our company, never, ever, ever losing sight of that. So, the right culture, the right platforms, the right priorities. Now, we've got to make sure that we've got the right objectives, to be able to deliver on this \$250 million – over \$250 million in operating income growth by 2026. And I want to spend a little bit of time here, because the way we've set up this slide is rather intentional, that there is a sense or a level of dependence as we think about these objectives, but at the same time, they're also very independent, meaning that we will be executing against each one of them independently.

The first one being that we have to restore sustainable and dependable bottom line growth from our current business, right. And we know that we can do that across the entire organization. And what gives us that confidence? Well, I've talked several times already about the number of relevant, reputable brands that we have, and a lot of them have emerged stronger post-pandemic. The work that we're able to get back to on the innovation front, that's really, really important. And we're seeing a rejuvenated innovation pipeline. We've talked about the capacity that we've invested in. So, we're set up to take on this new value-added growth and still maintaining a focus on a more balanced, less volatile portfolio. And so, we know how to grow the business, and we're set up to do that.

The next part is our ability to drive savings by minimizing complexity and reducing costs. Again, Mark Coffey will be here to get you into some more of the details and how we're specifically going to do that. But what gives us the confidence that we're going to be able to do it is that we have identified those savings opportunities in all facets of how we operate our business, whether it's the way we plan, the way we buy, the way we make, or the way we move it. We have realistic and achievable goals in all of those areas. And this isn't just an inside view. We have partnered and gotten an external view with Accenture, and they've done a great job and they have the expertise to support this initiative.

And then, the third thing is, we are going to be able to execute against this, because we are seeing a normalization of our industry-wide supply chain. It's not perfect, but it's a heck of a lot better than it's been. And so, we'll be spending less time on having to just react in our supply chain and more time on being strategic in our supply chain and across the entire business.

And then, this third part is our ability to capture strategic value. Again, this isn't new to us, but it is something that we need to be able to execute and deliver against. And again, there are specific opportunities for us to be able to do this. We've still got value to capture on the synergy front from Planters, the integration of our Jennie-O Turkey store business. There are benefits that are yet to be realized from our GoFWD initiative, the restructuring of our Retail business, the continued – continuous improvement programs across our supply chain. And so, these opportunities, again, nothing new to us, but they're identified, they're realistic and they're achievable.

So, we have this path. And when we bring growing the business, transforming and modernizing this supply chain across the enterprise and continuing our strategic value capture. This is our opportunity. This is our future to be able to do what we say we're going to do. And so, what does that mean for us? Well, it means that we will be able to return this business to its historical earnings trajectory. And that's important, because we need to get back on that track.

The second thing is, we need and want the fuel for incremental investment in branded, value-added growth. I mean, our advertising budgets, our investments in our brands haven't suffered. They've continued to increase. This is the incremental piece above and beyond where we can really drive our business. And then, of course, the increased cash flow just supports so many other things that we want to do for dividends, capital and, of course, we have some debt pay down. But the impact of achieving this plan is real. And you'll hear more from the rest of the day on how we're going to do that with more specificity in each of the areas.

So, in summary, we are a stronger company today because of the strategic actions that we have taken since 2016; not accidental actions, thoughtful, strategic actions that we've taken. We do expect this three-year plan, this three-year vision to deliver meaningful earnings improvement to our organization and most importantly return us to our historical earnings trajectory. And we do this because we have the right strategy, the right people and the right culture to make this happen.

So, I'll be around throughout the day. As David mentioned, I'll be participating in all the Q&A sections for continued conversation. But at this point, it is my pleasure to introduce our Chief Financial Officer, Jacinth Smiley.

## Jacynth C. Smiley

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

Hello and good morning, everybody. I am super excited to be here for my first Investor Day as part of this wonderful company and to share this platform with such an incredibly talented leadership team and to share the journey that we're on, to truly transform and grow this company.

So, Jim talked about the \$250 million-plus that we're going to drive in operating income over the next three years. I will hone in on the largest portion of that, which is \$200 million or more from transforming and modernizing. We think about these in four buckets, and that's how we're focusing the work that we're going to do over the next three years.

First and foremost, in our mind and in my mind, as I've gone through and led multiple transformations and been part of multiple transformations, is what's critical to form the pillar [ph] that is (00:36:55) successful transformation is built on is around our people and processes. Hormel Foods has been the hallmark of ensuring that people comes first. People and processes are the fabric of what forms this company. And if you think about when we were through the pandemic, if we didn't know it then, we knew it after we came through the pandemic and saw how our people showed up and knew that they were really the backbone of this company. So, our HR team has done an amazing job thinking through what's that employee proposition and what are the skillsets we need to upskill our talent to truly compete in this environment, but also to enable and support the growth of where this company is going and where we are today needing to modernize.

The other component is around processes. Because if you have great people and want them to do good work, they can't do that if the processes aren't what they need to work with. And Jim talked about the evolution the company has gone through. And what I can tell you is that our processes have not kept up with that evolution. And so, that's the work we're undertaking to ensure that we're streamlined, automated where necessary to ensure our team is doing value-added work, but so that we can also foster an environment that they feel good about the work they're doing every day and contributing to grow the company.

The second area of focus is around data and technology. We started this journey pre-COVID when we started with Project Orion, and Jim touched on that a bit, and we have done the work on the finance side of the house, the HR side of the house, and the intent was supply chain. We paused it for good reasons as we integrated Planters and also integrated Jennie-O into the business. And now, we are continuing that journey to modernize our supply chain, build the underlying infrastructure for technologies to support the company, but also accelerate and enhance our capabilities around data and analytics, so that we can make data-driven decisions in a faster manner with the right insights externally and internally for the business.

The third area is around supply chain efficiency and Mark will spend a lot more time going through here. But it's around thinking through from an end-to-end standpoint. You think about demand planning all the way to getting it to the customer. How can we become more efficient and how do we take waste out of the process inside our plants, streamlining that? I mean, this company has had a history of continuous improvement, and that's a culture that we live every day. I mean, the team is there on the floor always thinking through, how do we get better yields? How do we automate? How do we recognize where there's a bottleneck throughout the process?

However, again, with the evolution, with our culture of really thinking about doing everything we can for the customer, there has been waste that's entered into the supply chain. And so, we're going to do the work to get that out, not just for us to be able to expand margins that's great, but it also makes us a better supplier to our customers and to our consumers and really, truly enhance value.

The last area is around portfolio optimization. We have a very complex portfolio. You can see a lot of those, right, sitting here on your tables and outside in terms of the level of products that we offer. And again, our culture of really wanting to be uncommon and focusing on delivering what the customer wants and what the consumer wants, it has really morphed into a really complex portfolio, different pack sizes, in different channels. And so, it has also created complexity for the supply chain. So, we're going to spend time segmenting the portfolio, understanding how we drive strategic value, having targets and investing in the [ph] SKUs (00:42:04) that we believe we need to focus on to really get it to the profitability as we expect it to. And then, also, weeding out the ones that don't, that we have spent the time understanding that that's not driving the right value. And ultimately, what that will do, it will get us to a right-size portfolio that drives the margins that we expect and ultimately overall, enhance the growth and value of the brands.

So, we will go into just listening to what our teammates that are closest to this really think about where we are. And so, you can hear that from them in this video.

[Video Presentation] (00:42:54-00:46:41)

So, hopefully, you've heard the pride and passion there from our teammates about their belief and commitment to the work that's absolutely necessary for us to undertake here. And we will drive more than that \$200 million of benefit from focusing on those areas, and get us back to our – and get us back to chairing our long-term algorithm of – did I skip a slide? Get us to back to our long-term algorithm. And as we think about what does that look like in the near-term here, it's – [ph] are 2 to 3, or 5 to 7 and 15 (00:47:40) back to the foundations of which this company is built on, which is innovation. And that's not something we talk about a lot, but it's certainly a focus for the company and continues to be so.

And what does that look like in the near-term here? As we think about 2024, 2024 is going to be a year of significant investment as we think about what's necessary to enable the transformation and modernization work that we're undertaking. 2025 is when we will start to see some of those initiatives being completed and starting to see the value fall through to the bottom line and then accelerating into 2026 and beyond. And we talk about 2026 as being a point in time for this. But the intention and expectation is that we'll have continued growth into the future beyond 2026.

So, I'll close by saying, this is incredibly exciting to really be part of this journey with this company. And we continue to be focused in the areas of managing the portfolio and capital allocation is one of those questions that I get asked very often by a lot of you, Jacinth, you started with the company, what's your approach in capital allocation? And what have I said? Nothing's changed. The approach the company has taken historically has served it well. I believe it's the right one. I'm very much aligned. We are focusing these areas first required, then strategic, then opportunistic, with a big focus, of course, on the dividends. That's a priority for the company and it continues to be and I endorse that.

Jim talked about us being our 57 consecutive year of dividend increases and the fact that we're proud dividend aristocrat. I like to use the bigger number. We paid our 380th dividend last quarter, 380. And so, that's a trend we want to continue in addition to ensuring that we have a very strong balance sheet. We maintain a very strong discipline around how we manage our financials, part of what drew me to this company, quite frankly, as a CFO,

you want to know that you're with a company that's very disciplined about their financials and I feel we're in a very enviable position here to a lot of our peer set. You look at where we sit relative to our EBITDA from a debt perspective, this gives us optionality to do things, as we think about the steady cash flow that we continue to generate, and then, again, on top of it, ensuring that we're very disciplined about capital allocation.

So, I am super excited to just continue on this journey with the company, knowing that the company is very resilient, part of the reason I came here, seeing for over 130 years-plus, this company have been able to navigate all the cycles, continuing to stay relevant to the market, to consumers, but also, ensuring that they're thinking through what's ahead and how do we see around corners. And so, to be part of that journey and knowing that I will have a hand, in our path to the next chapter of this company is really, really exciting.

So, with that, I'll turn it over to David.

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## QUESTION AND ANSWER SECTION

### David W. Dahlstrom

*Director-Investor Relations, Hormel Foods Corp.*

A

So, we have about 15 to 20 minutes for Q&A, right now. We have three microphones around the room. And I know it's not ideal, but we do want to make sure that everybody speaks in the microphone as everything is being webcasted today. So, find a microphone, and then well go. Michael, we're going to start with you.

### Michael S. Lavery

*Analyst, Piper Sandler & Co.*

Q

Thank you. Michael Lavery from Piper Sandler. Just wanted to walk through the math a little bit for the next three years and make sure I know how to put the pieces together. You called out the \$200 million transformational savings and the \$25 million strategic synergy and investments, savings. That obviously gets you very close to the \$250 million already. How do we think about either the cadence? Is the 5% to 7% just coming towards the end? And putting in that last little bit, does it overlap? Like, can you just maybe walk through a little bit, excuse me, unpack slide 51 a little bit more perhaps that's got the kind of the calendar arch – I mean arc.

### James P. Snee

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

A

Yeah. I'll just start, Michael. I mean, I think the key takeaway is, 2024 is, Jacinth mentioned, it's a year of investment. I would say it's a year of continued investment, probably accelerated investment in the business, because we're not starting this project today. It's something that we have been working on. And the key thing for me is this acceleration of this transformation as we get into 2024, 2025 and 2026. And then, maybe Jacinth, I'll have you elaborate a little bit on that cadence over that three-year window.

### Jacinth C. Smiley

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

A

Yeah. So, I'll say, I'll put it this way. I mean, we have those three, right, three circles, because there is, right, overlap in terms of what's going on. So, at the back end of it, the \$250 million in our mind gets us to the higher end of that algorithm, but there is going to be work going on. At the same time, we're continuing to grow the business, the focus on the [ph] five to seven (00:54:32), doing the transformation, while we're doing the value capture.

**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

Q

And if I could just maybe follow up, I'm sure you don't want to be too specific about 2024 just yet, but when you talk about the accelerating investments, it's clear that that's the front loaded bit of the three-year trajectory, but would we take that to mean that 2024 might be flat or down from an EBIT perspective and then, it really kicks in, in kind of the 2025 and 2026 more towards the end?

**James P. Snee**

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

A

Yeah, I would say, 2024 TBD, but as we think about 2025 and 2026, that's absolutely how this will play out, so that we ultimately get to that number. And I think you saw that on the chart. And so 2025 will show obviously growth and then 2026 will get us to where we need to be.

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

A

Rupesh, we'll go to you next.

**Rupesh Parikh**

*Analyst, Oppenheimer & Co., Inc.*

Q

Good morning. Thanks for taking my question. So again, going back to the algorithm 2024 to 2026, any guidance you can give or just thoughts in terms of how to think about the top line? Do you expect the top line to be below trend, and I guess, [indiscernible] (00:55:42) 2024 and 2025?

And then, as we look at the current business, it implied very minimal operating income growth. Is that simply because of all the investments? Is that just weighing on that bucket in terms of why we don't see much operating income growth in the current business?

**James P. Snee**

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

A

I'm sorry, I missed that last part, Rupesh.

**Rupesh Parikh**

*Analyst, Oppenheimer & Co., Inc.*

Q

Yeah. So the current – if you look at the current business bucket, it doesn't imply much operating income growth in the coming years, because all your growth is coming from the \$200 million in the other the other two buckets. So is that mainly weighed down by [ph] early (00:56:08) investment?

**James P. Snee**

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

A

So what we're saying is over time that existing business will grow at our historical levels of 5% to 7%. Clearly, as we think about the bottom line performance for the overall business, 2024 will be impacted by investment, and then, we'll expect to have the returns on that as we accelerate into 2025 and 2026.

From a top line perspective, we're going to be running the business. And so this isn't a take-your-eye-off-the-ball, and what we need to get done from a retail segment, from a foodservice segment, from an international segment.

And so we expect our top line to perform. It's the investments that obviously will impact some of the bottom line performance.

**Jacinth C. Smiley**

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

A

Yeah. Just to add a – this isn't we're going to do this instead of growing the business. We're going to continue to run hard with our operating businesses and we're going to also add on top of it the value that we're going to capture from doing the transformation modernization. So I want that to be clear.

**James P. Snee**

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

A

And just to reiterate, what I was trying to say is, they're both dependent.

**Jacinth C. Smiley**

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

A

Yeah.

**James P. Snee**

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

A

And then, they're dependent and independent at the same time, because we're going to be continuing to focus on all of them. But it's when you bring them together that we really are able to achieve that number.

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

A

Tom, why don't you go ahead since you're right there?

**Thomas Palmer**

*Analyst, JPMorgan Securities LLC*

Q

Perfect. Hi. Tom Palmer, JPMorgan. Wanted to ask maybe just on the costs to realize some of these initiatives, should we think about – I mean, you guys traditionally report more of a GAAP earnings. Could we be heading towards more of an adjusted-type earnings to exclude some of these costs? How do we think about some of the capital costs that might be elevated in terms of capturing the savings over the next year or two?

**Jacinth C. Smiley**

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

A

Yeah. No, that's a good question. And so we are thinking through how we report that and segregate it in a way that's visible. And so that is, in my mind, as I sit here today, the expectation that you will reflect it in that manner.

**James P. Snee**

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

A

So to say – what you're saying, Tom, is correct?

**Jacinth C. Smiley**

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

A

Yes.

**James P. Snee**

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

We're expecting that we'll have those adjustments to reflect the cost of capture across the board.

A

**Thomas Palmer**

*Analyst, JPMorgan Securities LLC*

Okay. Thank you.

Q

**James P. Snee**

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

Yeah.

A

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

Peter, let's go to you next.

A

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Thanks. Pete Galbo from JPMorgan – from BofA. I was listening to Tom. Just for pure clarification purposes. So the \$250 million is growing off a base from fiscal 2023, correct? We've just gotten the question from a few people.

Q

**James P. Snee**

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

Yeah.

A

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Okay. And then, the actual, I guess, question back to Michael's first question, I mean, clearly based on that slide, the majority of the capture comes in 2026. But I mean, can we put a finer point around it? Is it two-thirds of the \$250 million capture comes in 2026? A three-quarters? Just anything more to help dimension where that dollar flow-through is?

Q

**James P. Snee**

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

Yeah. I mean, to give you a specific point in 2025 is difficult. But one of the things that I do want to mention, so we've talked a lot about this and understanding what we're putting out there is new for us. And to look at the slope of that line is – it's not something that we're going to say today and then come back to you in three years.

A

The way we're thinking about this is we're going to have a specific – we'll call it a webcast, whatever we want to call it a year from now, so that we can sit down with the group, won't be a formal Investor Day, but something that says as part of this initiative, we're going to tell you how we're doing. And so are we delivering? And as we can narrow some of those timelines for you, we certainly will. So it's not this blind, trust us. We want to make sure that you understand – we're going to make sure you're hearing from us that we're doing what we say we're going to do. But I think the biggest takeaway right now is we are going to see the result in 2025, but we don't have a specific point in time for you.

**Jacinth C. Smiley**

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

Yeah.

A

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

We'll go to Rob.

A

**Robert Moskow**

*Analyst, TD Cowen*

Thanks. Jacinth, can you explain a little bit why the investment timing is lumpy? You mentioned it's going to accelerate investment in people, process, data, tech, modernization. But you've been working on these things for several years now. So what makes it accelerate in fiscal 2024 that requires kind of a profit to be impacted?

Q

**Jacinth C. Smiley**

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

So we have been – that's absolutely right. We have been working on this for some time. We had called pause. And so we invested – for Project Orion, we did the investment and implemented the HR/finance piece. We stopped and hadn't done much work on the supply chain piece. And so that's now being restarted in earnest here. And so that's why that initial year is going to be a lot as we think about the software that we're implementing for the supply chain, the fact that we've brought on now Accenture to help us do some of this work.

A

So there are pieces that needs to be put in place to now start to do the work. And so that initial – there is going to be definitely investment throughout the whole three years, but there is just that initial piece that we have to then put in place to then start some of the work that's going to be necessary to capture the value.

**Robert Moskow**

*Analyst, TD Cowen*

Yeah. Just as a follow-up, you're bringing on Accenture, that's the first I had heard of it. Is that a recent decision? Is it something you realized you had to do or was it part of the plan all along?

Q

**James P. Snee**

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

Yeah. So Rob, I would say, it's not new. They've been part and been a partner as we work through this whole transformation and modernization piece. We always had a plan to make sure that it wasn't just us looking at it, so that we didn't have a completely biased internal view. It's easy for us to sit there and say, oh, our supply chains just enduring some macro headwinds and we'll get better. It's really helpful to have somebody who has a broader purview. So they've been part of the process for a while. It's not anything that's new.

A

I think the key thing in all of this is when – if we were to lay out a timeline for all of you back to 2016, 2017, and you could see really this journey that we've been on, right, and we started with one supply chain, bringing all of our independent siloed supply chains together with a vision of getting to this point, but a lot of work along the way, knowing that we had our Hormel supply chains that were independent and siloed, but we also had this Jennie-O business that was out there that we knew had to be integrated.

And so there has been – this has been a journey of vision that we've been on to get us to this point. But then, even Project Orion as Jacinth said. I mean, we would have been much further along, had we not had to pause for the pandemic, the acquisition of Planters, and intentionally the integration of Jennie-O Turkey store, right? All of that is added burden to what had to get done.

So this isn't something that we woke up one day and said, hey, here's an idea. This has been our vision for some time. We're now in a position because so many of those things have happened. We're seeing a normalization of our supply chain. Not perfect, but pretty darn good. But now we can put our foot on the accelerator and get back to where we want to be.

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**Jacinth C. Smiley**

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

A

Yeah, no, I was just going to add that this just accelerate – certainly we could have just carried on the pace that we're on to say, we'll get this done on our own. What Accenture does is just bring that level of expertise that just accelerates this for us the way we know we need to make it happen faster with really best-in-class knowledge for us to be able to leverage.

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**James P. Snee**

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

A

And then, if I – [indiscernible] (01:05:18) question. But one thing, Rob, I think is important to is probably an added piece is the data and technology part. That was always part of it, but has become an even bigger part of it since we first put supply chain together – was that five, six years ago? And so that obviously is a significant part of the spend as well.

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**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

A

Ben, we'll go to you next.

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**Benjamin M. Theurer**

*Analyst, Barclays Capital Casa de Bolsa SA de CV*

Q

Thank you. Ben Theurer from Barclays. Just a combined question. So obviously, that will require some CapEx. And you've talked about this investment in that and we've seen over the last couple of years more like a run rate, call it, \$250 million, \$280 million. What's that kind of the magnitude you have to elevate CapEx to invest in 2024, maybe 2025 to get to the [ph] 2022 (01:06:07) target?

And how are you going to balance that with what now is, of your earnings per share, a very high dividend payout in order to keep that dividend balance growth maintained given the CapEx needs?

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**James P. Snee**

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

A

Yeah. So we'll obviously give you some better visibility here in a few weeks. But I would say, the one thing to consider, Ben, is when I talked about that ramp-up in CapEx, a big part of that was the CapEx that we've invested for value-added capacity, for our ability to grow the business. And I mean, we'll continue to make those investments, but we've already made along the way some pretty significant investments. And we now have that capacity to support the business.

The maintenance piece of the CapEx that's going to be in every year number. How much we have to spend on the value-added piece or the growth piece? Because we've got the capacity based on the investments that we've made, it may not have to be one on top of another, on top of another, on top of another, because we are in a really good place with our value-added CapEx investments.

**Benjamin M. Theurer**

*Analyst, Barclays Capital Casa de Bolsa SA de CV*

And with the dividend?

Q

**James P. Snee**

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

What's that?

A

**Benjamin M. Theurer**

*Analyst, Barclays Capital Casa de Bolsa SA de CV*

How is it going to be balanced with the dividend growth? What should we expect there?

Q

**Jacynth C. Smiley**

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

I would expect that we would continue. If I can sit here today and say that that – we're in a position to continue to increase the dividends next year. There is no doubt in our mind.

A

**James P. Snee**

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

Yeah.

A

**Jacynth C. Smiley**

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

So no concern there at all. And as Jim said, we're not having to invest in the capacity that we've already put CapEx into. You think about that trade-out that then potentially offset this additional investment in transformation and modernization.

A

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

Adam, we'll go to you next.

A

**Adam Samuelson**

*Analyst, Goldman Sachs & Co. LLC*

Thanks. Adam Samuelson, Goldman Sachs. So, Jim, maybe I'll look back a little bit, right. So 2022 operating profit in line with 2016. We're down this year and it's going to take a couple of years to start building back up based on the way that this has been laid out. The investments in the company in terms of value-added capacity, in terms of M&A have been sizable over the last six, seven years.

Q

So where has the bigger shortfall been in your view? Has it been pricing across different parts of the business? Is it truly the supply chain cost? Just you didn't have the control or the visibility into your operating cost base? Help

us unpack where the business has not delivered the returns on invested capital in the last five to seven years that is going to take more investment to get back to?

**James P. Snee**

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

A

Yeah. I think if you just even go look back at the beginning of 2023, and we talked about in Q1 some of our inventory levels that we had. And clearly, that's had an impact on this year. But then, how that ties back to the work that we need to be able to do in supply chain on the front end of the business from a demand planning perspective. And so I do think, Adam, there's been this kind of culmination of things that have built up. And as we're looking at this, we're saying we can't muscle our way through this like we have in the past.

And so we don't want to find ourselves in a position, nor do we expect to where we say we don't have the right end-to-end planning, so as a result, we have too much inventory. Making sure that we have the right systems and processes along the way will allow us to make sure we have all those right levels, but then extract that cost that we need to.

And Jacinth said it, we've said it several times is over the last three years, for example, this has been a supply at any cost business. And so we haven't taken the time – when we think about the buy pillar and what we buy, we spend a lot of money. It hasn't been about focusing our time and effort there. It has been get us to supply. And so it's a culmination of all those things. It's the planning, it's the buying, it's the making, and it's the moving, where we have costs that have crept into the system.

Jacinth talked about portfolio optimization. So again, our desire to be all things to all people leads to that proliferation. And now it's time for us to look at that in a different way, not in a slash and burn mentality, but in a thoughtful way that says where are we extracting value and where aren't we extracting value. And so it has been – it's gradually and then suddenly where we've seen some of these costs creep into the system.

**Adam Samuelson**

*Analyst, Goldman Sachs & Co. LLC*

Q

And if I ask a quick follow-up to that, is there part of the plan that does involve some material SKU rationalization that will more visibly impact the top line over the next couple of years? Or is that not really contemplated at this point?

**James P. Snee**

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

A

Yeah. It's why we're calling it portfolio optimization, right? It's making sure that we responsibly go through the portfolio and say what are the pack sizes that we have in play that are adding meaningful value and having conversations with customers, right. Or in some cases, maybe we're not pricing appropriately for what the cost is. The true cost is across the enterprise.

And so we're looking at all of that, but our goal is not – and we've actually – in the organization saying, we're not going to use the phrase that you used. I can't even say it anymore. It's been our – we can't say SKU rationalization. It's portfolio optimization, doing it in a responsible way so that we look at it with our best interest and the customer's best interest at heart.

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

While hard to believe, we are at 20 minutes and we have two more Q&A sessions, [ph] and so, Ben, (01:12:27) we'll get to you first and we'll just work our way throughout the room.

So this first break is going to be 20 minutes. We'll open up the doors here and you'll get an opportunity to really sample all of our wonderful snack and entertaining items. So that'll happen now. We'll take a 20-minute break. We'll be back at 10:05 and we'll talk about the retail business.

Thank you.

[Break] (01:12:49-01:34:51)

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## Deanna T. Brady

*Executive Vice President-Retail, Hormel Foods Corp.*

Well, good morning. Jacinth started by talking about being her first Investor Day. And it's actually pretty hard to believe that this is my fifth Investor Day. So 10 years in the making here. And each time I think I've spoken to you about something different. I guarantee that 10 years ago when we were in Minneapolis, we didn't serve you a bento box full of crafted and curated charcuterie and fine bites of snacking and entertaining. And in fact, we likely didn't have most of the brands that are in this box 10 years ago. So when we talk about transformation of the company, you're seeing it, tasting it, and feeling it in action.

And then, another piece I wanted to point to is you might have seen our Culinary Collective, Mark Ourada the foodservice team have stood up. We've had chefs embedded in the business. But as we went through the go-forward transformation, we stood up a Culinary Collective that supports our total business.

And you're saying, okay, so what? It really does inspire us each and every day. And they show us how our food shows up, not shows up in the package, but shows up in how we're going to eat the products and enjoy them, how our consumers are going to enjoy them, how our shareholders may buy them and bring them home to their houses. And so wanted to just talk you through that as well as thank our Culinary Collective, because they truly inspire us, whether we're working with foodservice, we're working with international or retail. And that shows up in our customers. And we'll talk through some examples of that here.

Don't want to get hungry. All right. So I want to start by talking about our new organization and the power of the brands that we've brought together. So when you think about the retail organization in the past, it lived in a variety of different businesses. And today, we're one business with all retail brands. We brought together sales, marketing and Brand Fuel, all of those assets under one roof. And we're going to talk to you today about the power of that.

Can you move forward, please? Thank you. So over the course of the next section, I want to take you through the benefits of our new retail business unit, which brought all of our sales, marketing and brand assets under one roof. And I also want to review the important role our brands play across retail and how we're thinking about growth and profitability.

Today, I'm thrilled to talk to you about our integrated retail business, an \$8 billion powerhouse of brands, exceptional talent and best-in-class capabilities. My message to you is simple, we're bigger and we're better resourced to deliver growth with our brands and to build better margins by leveraging our capabilities and our talent.

To bring the structure together, we aligned under six verticals based on how consumers think about our brands, our manufacturing capabilities, our customer synergies. For example, convenient meals and protein is focused on meeting the consumer's need to put dinner on the table every night, while snacking and entertaining leverages insights and innovation to follow the consumer around the store in search of snacks and indulgence. And value-added meats, well, they're aligned to the retailer's meat case.

And by aligning our brands in this way, we can leverage shared resources, production assets, innovation processes and we can do this all within a vertical. So bacon is a great example of this, where we now leverage insights and innovation ideas across all our bacon brands to determine which brand is best aligned to the innovation, the consumer, the customer.

The same applies to snacking and entertaining. And when we think of snack nuts, nut snacking now has truly left the aisle, and nuts can be found all over the store, both physical and virtual. And we can leverage our brands. Planters, COLUMBUS, JUSTIN'S depending on the insight and the need state.

This past year, we've been busy, standing up the new structure, building our long-term strategic plans and establishing our culture as one integrated retail team, while at the same time, we were fighting inflation, consumer spending shifts and demand dynamics. As you can imagine, this was grueling, but necessary. And we're starting to see the benefits from tighter alignment, resource optimization and added agility to adjust to a shifting economy.

The new structure benefits from the best of seven sales and marketing teams and is augmented by Brand Fuel and financial planning and analytics. A strong structure needs strong brands. And our new structure is designed to unlock the power of our brands. Brands that deliver choice for our consumers like SKIPPY and SPAM as pantry staples and Black Label, Natural Choice as weekday favorites, or Jennie-O and Applegate for health-minded consumers.

There were many lessons during the pandemic, but one of the most important ones is that retail brands remain a mainstay in consumers' lives. This really hasn't changed. But what has changed is how, when and where consumers interact with our brands. The consumer is no longer following food up and down the aisle. They are simply following food in-store and online. And we are fortunate that our portfolio allows us to intersect with consumers on their food journey and we can take a holistic approach when setting a long-range goals with our customers.

The portfolio also resonates across various channels, which is exceptionally important in today's environment, where consumers are shopping across several segments. And we continue to benefit from our earlier focus on e-commerce through our digital experience group.

The brands shown here are purely representation of some of the brands that we sell across channels. Our \$8 billion retail portfolio has many brands in varying size, growth and profitability. Some brands drive the category like Planters, Jennie-O, SPAM, and Hormel Pepperoni, while others are challenger brands going after market share, think SKIPPY and Black Label.

Our emerging brands are responsible for growth that outpaces the categories and delivers innovation. Think Applegate, Herdez and COLUMBUS. These brands are supplemented by a variety of other brands that play an important role in our consumers' lives and our customers' businesses. It's important to look at our brand performance holistically and we are encouraged by the performance of many of our brands to last year and against a four-year snapshot shown here. Our brands remain relevant with our consumers, and our new structure allows us to leverage our brands and capabilities and talent to go further than we've ever gone before.

Having an \$8 billion powerhouse of brands is only the first part of my story. The other part of the story is how we're thinking differently as one retail organization to drive growth and profitability. The retail channel has emerged from the pandemic with 86% of meal occasions being sourced from retail. But how, when and where this happens has evolved. And it was important that we evolve to ensure that we're meeting the needs of our consumers and customers.

The retail leadership team has designed three strategic anchors that will unlock long-term growth. Winning with the consumer and customer, strategic resource allocation, and improving our margins. Easy to say, a little bit harder to do, especially in our old structure.

As a consumer packaged goods company, it's imperative that we start by winning with the consumer as this is the oxygen we need to win with our customers. The current and future operating environment really was the catalyst for evolving our operating model. Said differently, we had to change to align to a more dynamic consumer who's facing economic uncertainty, a consumer who's younger and more diverse, a consumer who is concerned about the environment and their wellness. And finally, a consumer who follows food, not the aisle.

Today, we have a portfolio that is well-balanced and positioned against the current consumer considerations. And Scott, our new Chief Marketing Officer, will talk to you soon about what he's doing to ensure our portfolio continues to evolve to meet consumer needs. But we can't win with our consumers without our customers. Our new structure allows us to harness our \$8 billion scale as we approach our customers with the ambition to be an indispensable strategic partner. We do this by activating leading insights in everything we do and creating an empowered team who leverages resources to exceed our customers' needs and by creating food-forward experiences for our customers like you experienced this morning.

I want to share a few proof points that our changes are exceeding customer expectations and driving growth through innovation and leveraging insights-based selling. I want to start with SPAM, but we have an excellent video coming up. So I don't want to steal the team's thunder, but the piece that I'll add to the video is they're going to talk about some really rich insights. Those insights led our sales team into action and our production team because insights told us that we needed to reactivate 7-ounce SPAM for consumer who's worried about money in their pockets.

They also let us to relaunching our SPAM Singles as the economic environments changed and it led us to the insight to launch SPAM Maple, because it's attractive to different cultures and different demographics from a younger consumer perspective.

So I'll move to Planters and we're going to talk about channel expansion. And I want to highlight the Planters inside, because when we acquired Planters, there was not a lot of channel expansion and club. And when you think about the Planters brand and the CORN NUTS brand joining the Hormel Foods portfolio, we saw a consistent opportunity for sustained growth by penetrating channels, in particular club.

Now, why we're attracted to club is because the customers continue to skew younger, think millennials and Gen X. And we married this up with our new flavored cashews, which I hope you enjoyed, and the holistic performance of the CORN NUTS brand from a consumer demographic perspective.

And in doing so, we were able to articulate that we're meeting the right consumer at the right time with the right products. Flavor continues to be king within snack nuts, and you'll continue to see us evolve with flavors in the snack nuts portfolio. It'll be a bedrock of our innovation strategy. These insights, coupled with direct feedback from

our club customers and our customer teams, allowed us to launch this past year cinnamon brown sugar-flavored cashews specific for the club channel and a multipack of great flavored CORN NUTS all-in-one-box. There's four flavors.

And this step into channel expansion will act as a springboard of innovation initiatives as we penetrate this underdeveloped business as one example.

Next, I'd like to point to significant new distribution on our Herdez brand specifically Herdez Habanero Hot Sauce and Herdez Avocado Dips. By leveraging the consumer insights around snacking and avocado consumption as well as category growth within hot sauce, we secured a projected 6,800 points of distribution between Herdez Habanero Hot Sauce and Herdez Avocado Dips.

Herdez has been growing at double that of the total Mexican category reinforce the power of the brand that consumers trust. The team demonstrated that Herdez brand vision of bringing authentic Mexican experiences to every American table and occasion. And they did this by a food-forward experience like you experienced this morning. And they conducted a full portfolio food-for-an-experience for the particular customer. And this happened in April this last year. These new points of distribution are proof in our approach and bringing food to life for our customers and how it resonates with our consumers.

Our second strategic anchor is resource allocation. And at the heart of the strategy is our modernized brand segmentation, which aligns our brands as flagship, think big and material; rising small differentiated and high growth and foundational, our steady Eddies.

Our flagship brands are larger and more profitable. And as a result, deserve consistent advertising, experienced marketing teams, heavy R&D resources to drive innovation and dedicated supply chain assets.

Meet our rising brands, while smaller, they pack a one-two punch and they're mighty, because they deliver both growth and margin. These brands are thirsty for investments to fuel the growth, and they're attractive to younger and more diverse consumers. And who, by the way, our customers are following these same consumers as well. These brands can be high maintenance. And this is where the resources within brand feel, and you'll hear about this shortly in a video, we bring those assets to bear against these brands. Our foundational brands, well, they pay the bills and they help us turn on the lights every day. And the focus here is to protect market share and cost containment, and this requires experienced product management teams who understand our operating network to drive efficiencies.

Our final strategic anchor is to evolve our margin structure towards our CPG peer set, while remaining rooted in protein. As we've already shared, our brands are relevant with our consumers and we're looking forward to continuing to target additional consumers. These brands deserve our fuel, and expanding our margins for these brands allows for increased advertising, innovation and CapEx to fill growth. While we have good balance across our portfolio, we have clear opportunity, appetite and a path to improve our margin structure. This is our formula for success, and why I'm comfortable declaring our ambition of 30% gross margins across our strategic brands and an improvement in our segment profit of greater than 10% over our long range plans. The formula starts with brand stewardship which optimizes price, mix, innovation and brand. Brand Fuel and our brand teams and our revenue growth management teams are the catalysts here.

Next is our portfolio optimization, which we've already heard about, which focuses on reducing cost and complexity and is directed by our financial planning and analytics partners. Our supply chain team plays a big role in reducing our costs, and we have a path to improve our SG&A as well. As stewards of this new \$8 billion

powerhouse of brands, we're responsible for generating the returns needed to continue to transform our business as a global branded food company. And I can't leave our third strategic anchor without touching on the elephant or maybe the big peanut in the room, Planters. Our journey with Planters has evolved. The first year was purely focused on integrating the business, and the second year was about running the business. And we accomplished those two things, but this year has been more dynamic and we needed to adjust our approach from renovation to transformation.

Earlier this year, we created a tiger team of experts, cross-functional experts focused on transforming Planters. The team is focused in four key areas; brand stewardship, portfolio optimization, supply chain gains and SG&A savings. The team is making progress. The brand is being repositioned with our advertising strategy and we've shifted advertising to an always on as opposed to a more seasonal approach, which is driving better ROI and having everyday impact on the brand. The portfolio is being optimized and modernized to align with the consumer and growth, and you've experienced some of those products that we've launched here recently. Supply chain is working hard on optimizing our plant assets to align with growth and innovation, and while we've made progress, the transformation of Planters remains a top enterprise priority.

In summary, we're consumer focused to drive growth across our businesses and we're better allocating resources to optimize performance with our consumers and our customers. We are committed to improving our margin structure for better support and long-term sustainable growth. In order to do this, we recognized the need for a Chief Marketing Officer through our GoFWD transformation.

It's my pleasure to introduce Scott Aakre, the first Chief Marketing Officer for Hormel Foods.

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## Scott Aakre

*Group Vice President & Chief Marketing Officer-Retail, Hormel Foods Corp.*

Good morning, everyone. It's great to be here today. And it's great to have a chance to talk about our consumer journey and how we are winning with the consumer today and how we're going to continue to win with the consumer tomorrow. There's a few things I hope that you walk away from this part of the presentation with. The first is that, our portfolio is complicated, but it's built for growth, and we consider the complication of our portfolio to be a competitive advantage. The second is the way that we're going to win is built through insights, analytics and innovation. And third, the creation of One Retail is what has enabled this GoFWD path. And so I hope, again, those are the things that we hear as we go through this.

Jim described our company as an uncommon global branded food company. But what does that look like for the Retail side of our business? It starts with our collective branded portfolio being in 85% of all households across the US and covering all generational groups. We think that's important for our customers. We think that's important for our shareholders. The more households we're in, the more opportunity we have to learn about that household, and the greater chance we have to introduce one household that's with one of our brands to other brands in the portfolio and to grow by making each of those households more productive. So the complicated or the complex portfolio really enables us to think about household productivity in a new way.

We're also growing demand by extending the portfolio in our footprint into younger, more ethnically diverse consumer groups. We're thoughtfully watching the changing demographics in America, and we know that millennials and Gen Z are having an impact on the food agenda. Younger consumers want to try new cuisines, they want variety, they want choice, and oftentimes that choice is around a shared experience or the snacking or entertaining space that we look at. So being forward-looking and watching those demographic shifts have had an important part in the way that we've shaped and constructed the portfolio that Jim and Deanna and Jacinth talked about.

An important part of our One Retail was to stand up this thing called brand fuel. What we did was, we built a center of excellence that was allowing team members with specialized skills to create solutions across the enterprise. The Brand Fuel team focused on consumer and shopper insights, data analytics, product innovation, media strategy, creating an omni-experience for the consumers. The other thing we did was, we have an uncommon person on our team Dr. Tanya Rodriguez is part of the Brand Fuel team. Tanya is a social worker, but she's also a cultural anthropologist, and she's on the team to help us coax out the, why things are happening, not just the what things are happening.

And if you can imagine, it's not surprising when we talk to consumers and we go to their home and they say, all I do is eat really good foods, organic, natural, whatever. And then when Tanya digs through the garbage cans, she finds bags of donuts or empty cartons of cookies. So we know that the consumer says one thing, but really the behavior is different. We want her to help us understand that. Finally, the Brand Fuel team and the creation of One Retail has enabled us to scale an \$8 billion Retail business, which gives us leverage in the way we negotiate with our agencies, the flexibility to shift resources from one opportunity to another to find those greatest opportunities for return to the company.

I want to bring the Brand Fuel team to life through a quick story and then a video. So SPAM is an 86-year old brand. But wherever we go as a company and whenever we say we work on SPAM, the reaction from people is, oh, my God, do I have a story for you. And we know that that's important for this brand and for all of our brands. They are built on stories. And we know that there's common threads in those stories that bring out the emotional part of the brand to move it from being a product to being a brand. So when we listen to those stories, what we find is that, we can embrace things, we can find those common threads, and we can completely imagine new opportunities to keep a brand relevant and to find new consumer targets.

So through those stories, we can segment consumers. We can geo target the message. We can innovate new products or new recipes, and that's why brands are important, that's why brands matter. If you think about SPAM as a product, it's canned meat. But that's not what we sell. We sell a brand. And we are out to the consumer talking about a brand that, as canned meat, has had eight consecutive years of record sales. That's what Jim talks about when he says, we are a branded global food company. And when we're done today, if you're still hungry, you can find SPAM on the Michelin-recognized noreetuh restaurant in the East Village. That's how important this brand is. Hopefully the video and the next few seconds here will help show you Brand Fuel and bring even the SPAM brand to life in a bigger way.

[Video Presentation] (02:00:08-02:02:50)

Born in America, raised around the world. We're a food company. Food is at the center of our culture, and brands are at the center of the emotion that brings out the value to that consumer. When Jim talked about transformation, he talked about investing in our brands. We continue to invest in our brands, but we look at it differently. Such as, do we add more money, do we think about the way we're investing in a different way. We use marketing, mix analytics to scale and improve the way that we are increasing ROI with consumers. Deanna mentioned Project Roast, when we bought Planters, one of the things that we knew about the brand is they had a commitment to Super Bowl.

We looked at that from an analytics standpoint, and we realized that if we took that one time, their two week flash and moved it into an all on strategy, we could increase the ROI by 4 times. That's the kind of work that we want to do across, not just Planters, but the portfolio, to make sure that we continue to invest, but we invest in a different and smarter way. Jim highlighted the strategic platforms within our company. I'm going to cover three specific

areas right now; global flavors, entertaining and snacking and natural and organic. All of these are important pieces to our winning strategy and winning with the consumer. Our global flavors pillar is anchored by the joint venture agreement that we have with our Mexican partner Herdez del Fuerte in Mexico.

Through the partnership we created MegaMex. It's a standalone company with the singular focus of reimagining the Mexican food experience in the US. Mexican food is the top ethnic cuisine with millennials and aligns perfectly with the spicy food demands of Gen Z. We see MegaMex as a significant platform for our Retail business growth. The portfolio is anchored by two power brands, Herdez and Wholly. The Herdez brand brings authenticity to the salsa and sauce category with products and flavors that have been developed over generations by the Hernandez family. The Herdez brand stretches equally between general market and Hispanic consumers.

And the brand has effectively extended into refrigerated salsa and refrigerated guacamole, which is important for our customers and consumers by providing a brand solution for the retail deli that complements the Wholly brand, which is the brand leader in the produce set. Wholly is the brand leader in retail guacamole and has extended to provide convenient avocado solutions and is really the one that is providing convenience, versatility to consumers along with a rich success record of innovation. Beyond being on trend, we see growth in the transition of households from fresh avocados to prepared guacamole. Household penetration for avocados is 70%. Household penetration for refrigerated guacamole is 25%, and we know that 95% of the people that buy avocados are making guacamole.

So there's two brand strategies that we have, the deli and the produce that really gives us a chance to surround their consumer in that shopping experience with solutions that make sense in this Mexican food space. Reimagine Mexican food required a strong innovation pipeline, and it's really the cornerstone of the MegaMex success formula and goes beyond the national brands. We also have brands like CHI-CHI'S, La Victoria, Doña María, all are in this innovation pipeline. Our work delivers new ideas for both Retail and Foodservice, bringing authenticity, convenience together to serve both consumers as well as our operators. We're committed to the Mexican food space, and we believe that the strong partnership through MegaMex is the ideal business model to create absolute focus in this space.

With the work of Brand Fuel we also identified that there was an additional opportunity to take the Herdez brand and provide convenient and authentic heat and serve meats, leveraging our One Supply Chain, we could use our network, existing assets, our refrigerated distribution system and the power of the brand. These products are jointly developed between our side and Mexico to make sure that they're authentic and that we have the partnership of MegaMex in terms of the branding and the communication that we put out to the consumer, and we're gaining important distribution across key customers that not only complements our dinner strategy, but helps to bring in new households into the Herdez franchise as well.

Another area for us is snacking and entertaining, which is an important pillar within our portfolio and a behavior that matters for nearly all households in the country. Half of all American snack three or more times a day and that percentage is highest with younger consumers. In addition, 85% of households engage in something called home entertaining. And from the insights work that we've done, we call it casual gatherings, and that could be a Friday night or maybe some friends stop over, or maybe it's a Friday where you're just tired of frozen pizza, you want something else. We look at that and think, okay, here's a big opportunity for our portfolio.

Connecting those insights with some analytics work, we understood that the average household has this casual gathering 15 times a year. So Super Bowl is important. We still promote at Super Bowl, but now we know that 130 million households have an activity called casual gatherings 15 times a year that we can participate in. That's a billion occasions a year and we have a portfolio designed to fill that space. Our portfolio is built for consumer

choice and to serve a variety of occasions and needs states, we provide coverage across income groups and resale groups. We have access to all retail channels and formats. We provide solutions that matter for both winning with the consumer and winning with our customers.

We're using innovation with our legacy brands to extend these franchises to more younger and ethnically diverse consumers. We're addressing the demands for new flavors and new textures, like our pepperoni crisps, and licensing partners like on your table today where we've connected SKIPPY to the Girl Scout Cookie franchise, which is, again, a younger consumer that brings into that franchise. We're seeing some early wins with the Planters' flavored cashews. We're bringing in new consumers to the category, to the brand, as well as to the aisle in that center store, which is so important to our customers. And some of the early work that we've done would suggest that we've doubled the index with Gen Z by bringing out these flavored cashews.

So we know we're on the right path with the portfolio of work that we're doing. Innovation matters here, and we're leading with innovation in this category. We also know that many consumers make food choices based on the demand for natural or for organic, and that many also choose brands based on their social interests, in areas like sustainability and animal welfare. While these interests are important to all of Hormel, they are the focus and the work that we do with the Applegate brand. Applegate has a leading position in natural and organic, in categories that are important to consumers and that makes them important to our customers.

The brand team continues to provide thought leadership in areas like regenerative farming and other environmental practices, all while providing convenient, flavorful meal and food solutions. With the scale of One Supply Chain, we've been able to add manufacturing efficiencies. And through one retailer, we've been able to significantly increase the consumer access to this brand across all retail channels. The breadth of the Applegate portfolio is purposefully and uniquely designed to address all dayparts, food at home, food away from home, and a variety of taste expectations. We've partnered with customers to make sure that we're aligned with their key initiatives, and we've done all this while staying committed to the purpose driven agenda of that brand.

We're committed to winning with the consumer. We've built the portfolio for growth. The complication and complexity of our portfolio is important to us. It's a point of difference. Our winning formula is built on insights, analytics and innovation. And GoFWD, as we've described it today, is really the catalyst that enables us to go forward in the future.

So with that, I think I'll turn it over to Dave and we'll go through some Q&A.

## QUESTION AND ANSWER SECTION

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

A

All right, Ben, we're going to start with you as promised, and we'll continue to work our way around the room.

**Ben Bienvenu**

*Analyst, Stephens, Inc.*

Q

Yeah. Thanks. Ben Bienvenu with Stephens. Deanna, you started your comments talking about all the brands that you've acquired over the last 10 years. When we think about that strategy as it fits into this maybe accelerated CapEx budget over the next several years and sort of the organizational bandwidth being focused on the opportunities inside the companies today, where does M&A fit into sort of your calculus for how you think about growth for the business?

**Deanna T. Brady**

*Executive Vice President-Retail, Hormel Foods Corp.*

A

Well, right now, our top priority is Planters, the most recently and the largest acquisition in the company history. We still have amazing run rate with the Columbus acquisition as you experienced and saw today. We've got our hands full with the current portfolio as well as the investments that the companies made. In addition to M&A, I would just lean into, we've added a lot of capacity for growth for the retail organization over the course of the last two years. So think bacon, think pepperoni, those flagship brands that I put up. We are leaning our investments, both capital, people as well as when we think about trade and advertising into those biggest and most profitable bets that we've already made.

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

A

Michael. Back here.

**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

Q

Thank you. Michael Lavery from Piper Sandler. Just Deanna and Scott, one for each of you. On the slide with the flagship brands, they're the highest margin, your growth outlook has about seemingly 50/50 volume and price. Just would love to understand how you think about pricing there, just given a couple of those that have like sort of bacon as some pass-through component, Planters has pretty meaningful private label competition. What's the thinking in terms of how you generate that consistently? And then just on Scott's slide talking about the growth in advertising spending, how do you see that going forward?

**Deanna T. Brady**

*Executive Vice President-Retail, Hormel Foods Corp.*

A

I'm going to let you go first.

**Scott Aakre**

*Group Vice President & Chief Marketing Officer-Retail, Hormel Foods Corp.*

A

Well, let me, I guess, address both of them a little bit. We look at pricing with a variety of different variables and that each brand is looked at in the same way. We definitely look at the competitive position of the brand. We look at the cost profile that we have for that business. And then we do the analytics with our revenue growth management team and our brand team to see where we think we have the opportunity if there's a need to take price. I think that's a difference from what we've had before. We've been much more analytic in the way that we've been looking at those brands. And then we consider things like, what are we doing with the innovation portfolio and how does that enable us to think about pricing for the mix differently than just by item by item. In terms of the advertising, we continue to expect that we'll spend more and more in terms of the total budget, and then the mix of that budget is going to look different over time. We see more money that's going into digital versus the broadcast. I expect that would continue. But again, it balances differently between the brands and what the brand needs are, as well as what the total portfolio makeup is.

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**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

A

Did you want to comment, Deanna?

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**Deanna T. Brady**

*Executive Vice President-Retail, Hormel Foods Corp.*

A

I'd just comment on bacon. We've done a lot of great work over the last two years, building the Black Label Bacon brand, as well as, I'll say, our expertise in the category. And so our pricing strategies are evolving, frankly, as we continue to gain market share, as we continue to bring innovation. We've got a very robust innovation pipeline that will be unique and different in the bacon area from a convenience standpoint. And so that allows us to kind of lean away from trade and promotion and price and invest those dollars into advertising and into introductory and getting those items into the marketplace. So it's really an evolution. When you think back to refrigerated foods, the evolution of that margin structure, I feel like bacon is on that same trajectory and path.

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**James P. Snee**

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

A

And I think the other part, Michael, is the visibility and the ability to look across the entire portfolio. And you may allocate at the beginning of the year, but then to be able to adjust as you go, historically those dollars lived in business silos, and it was almost more of an entitlement program, if you will. So now the team has total visibility and can react as they progress throughout the year.

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**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

A

Tom?

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**Thomas Palmer**

*Analyst, JPMorgan Securities LLC*

Q

Thanks. Tom Palmer, JPMorgan. Just wanted to ask on the margin bridge to 10% plus. I mean, you gave four buckets and each one was a point of gross margin, and you're running at around 8% operating margin in the business lately. So that would suggest maybe 12% plus. And then, it sounded like, I forget the exact wording, but SG&A, it didn't sound like was going to be a major offset. So maybe just, why is 10% plus the right number, and then just what's kind of the timeframe to getting to that 10% plus, does it align with this \$250 million operating margin expansion plan?

**Deanna T. Brady**

*Executive Vice President-Retail, Hormel Foods Corp.*

A

So to get to the 10%, I think back to refrigerated foods, and there was a day when we were below 8%. So the first goal lying in the sand and that had Foodservice in it as well, so there was a higher margin on that part of the business. So we had the experience of going from sub 8% to 8%, to 8% to 10%, to 10% to 12%. So we've got the experience, we've got the discipline and we understand the path and the work that needs to be done within the Retail side of the business to get there. But I mentioned investing in our brands, and that's going to take some of those dollars because we're going to need to continue to invest in advertising and innovation. We've got plenty of trade dollars, sorry, PJ, but we will want to need to continue to build our brands, as I mentioned so that we become less reliant on price up or down, and that we continue to build the brands, actually, those foundational brands that we talked about.

**James P. Snee**

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

A

And Tom, into the total number, yeah, I mean, that's part of this picture here is that when we say we're going to have more historical earnings growth, it is increasing the margins on the retail business. And I think, what I really like about the approach the team is taking is, it's not linked to any one area. It's that broad based four different pillars where they know that there are opportunities for improvement.

**Thomas Palmer**

*Analyst, JPMorgan Securities LLC*

Q

Thank you. And just to clarify, that timeline for that 10% aligns with the 2026 timeframe or something different?

**James P. Snee**

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

A

It does.

**Thomas Palmer**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you.

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

A

Adam?

**Adam Samuelson**

*Analyst, Goldman Sachs & Co. LLC*

Q

So as I look at the totality of the Retail brands, the company plays in a number of different categories in a number of parts of the store. And you're talking about kind of transforming the supply chain. Is there any thought, or how has potential divestitures played into the thinking, in that you're spread pretty thin across a number of different categories and product types and manufacturing capabilities that you might not have the scale to either produce efficiently or get category captaincy to gain share with retailers. And this unrelated question, the foundation rising flagship brands, there's a pie chart in each of those slides, is that percentage of total company sales or percentage of Retail, because it did not do a hundreds, I wanted to be sure that, are we talking percent of the total company or that there are bucket of Retail that just isn't being discussed here?

**James P. Snee**

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

Do you have that?

A

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

Yeah. And so [indiscernible] (02:20:00) Deanna answer, so that's just retail. And I think, Deanna can maybe answer the first part of your question, then we'll circle back on some of the sustaining brands Deanna that weren't brought up today.

A

**Deanna T. Brady**

*Executive Vice President-Retail, Hormel Foods Corp.*

Yeah. So we've had three of the four buckets. The fourth bucket would be sustaining brands which would be those other brands in the portfolio. And to your question, those are brands that we are always thinking about evaluating from productivity as well as profitability, and do they add value or do they do anything for us either with the consumer or the customer. So those would be areas that we would continue to evaluate, but that would be that kind of get you to your total number, would be the other brands.

A

**Scott Aakre**

*Group Vice President & Chief Marketing Officer-Retail, Hormel Foods Corp.*

I would just add to that, creating One Retail has made us actually more important with retailers, because now we go in with one voice and the scale where we are invited to a different group of conversations. So that's important, not just, again, we have a complex portfolio, but it's scaled to a point where it gives us a different audience. And then, there was a video earlier that talked about the importance of portfolio optimization. That's really in the wheelhouse, I think, of what you're describing. We need to go through and make sure that we have the right items on the right shelf at the right time and the right store and the right channel.

A

There is some complication in the supply chain that we can extract without having significant impact on our sales, because we know that there's consumers who are buying this, but if they didn't have access to it, they would buy the item next to it in our brand. And so the long tail can start to be taken care of in a different way. So there's a lot of work that is going to be described when Mark talks that was described in the video, that all links together for our ability to hit the profit margins that we want to grow to, while keeping the business whole and running it the way we want.

**Deanna T. Brady**

*Executive Vice President-Retail, Hormel Foods Corp.*

And one other thing I wanted to add. We've had several [indiscernible] (02:21:49) last year within the new structure, and I can't tell you how many times the teams have come back and played back, that senior leadership of these customers said, I didn't know that that was Hormel Foods, I didn't know that that was Hormel Foods, and when they bring all of our brands together across the categories and then departments that you described, they are shocked and playing back to us that they didn't know in some cases that we were a top 10 or top 25 customer to the retailer. And that's really powerful and is really changing the conversations and the type of long-term growth strategies when they can see how much impact that we can have. And in today's environment, retailers are looking for partners to help them grow. And so the timing for us has been very fruitful, and I think is going to be one of those additional contributors to helping us achieve the margin structure that we spoke about.

A

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

Rupesh, last question for this round.

A

**Rupesh Parikh**

*Analyst, Oppenheimer & Co., Inc.*

Thanks for taking my question. So maybe, Scott, just on retail media, a number of retailers, Amazon, Walmart, Kroger, all of them talking about growing their retail media business. So curious what Hormel is doing in that area, and whether you expect retail media to be a bigger part of your advertising mix going forward?

Q

**Scott Aakre**

*Group Vice President & Chief Marketing Officer-Retail, Hormel Foods Corp.*

Yeah, we've talked to all of them. I think there's a place for retail media along with the balance of the other media types that we use. There's benefits certainly, in that you can get real-time information back and how it's working and you can test and learn there, maybe easier than you can in some other formats. But it's not one or the other. For us, it's a mix over time, and we need to make sure that we're balancing that mix across our portfolio. Some brands may lean in harder, some might not, but it is definitely a new part of the landscape that we're considering.

A

**Rupesh Parikh**

*Analyst, Oppenheimer & Co., Inc.*

Great. Thank you.

Q

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

We will take our second break. And this break is really focused on our Foodservice portfolio. So we wanted to try to do a couple of things with this break; one, obviously showcase the great items and how operators are using them in their establishments; but also show you how operators receive the items, because I think that is some of the ways that we add value as a company, it's how we actually deliver these products to our operators. So we'll open up the doors here, give everybody a break, we'll reconvene at 11:15 AM for the conclusion, which will be Foodservice, One Supply Chain and closing comments from Jim. Thank you.

[Break] (02:24:15-02:44:30)

**Mark Ourada**

*Group Vice President-Foodservice, Hormel Foods Corp.*

All right. Well, welcome back, everybody. Hopefully you had an opportunity on this break to enjoy some of the Foodservice items that I'll be referring to in the next few minutes here. And really, what we wanted to show you there was not only how those products are packaged going into the restaurant, but to see what comes out the other end with minimal labor, minimal time, minimal prep. And as we look at the industry today and some of the challenges, it's clear why we have had success with those type of products with our customers.

So our next session here this morning is going to be to really provide an update on the foodservice industry. And I'm going to provide some insights on what really differentiates us from our competition. We've had a track record of success and there's a reason for that and talk about what differentiates us from the competitors.

Also, I'll spend a few minutes and talk about what we're focused on from a strategic standpoint moving forward. A few of the key areas. And then, really, how do we bring all of that together to deliver on the goal of continuing to expand our leadership in Foodservice?

So as we look at our business today, it really continues to be driven by several key factors, okay? Leading foodservice brands, we have been successful over the years developing brands that our customers need and want because of the challenges they're facing in the industry so we continue to develop those leading brands. Secondly, those brands make up categories. So our focus has been what categories, in particular, drive the best value for our operators as well as our company. It's a balance there and we continue to focus on doing that.

And then finally, what are the differentiated capabilities that do set us apart? Because it is a competitive industry out there and it's an industry that I'll talk about later that hasn't shown robust growth over the last couple of decades. But how do we win? And that's where the differentiated capabilities really come into place. And I'll say leveraging these capabilities is what really gives us the advantage.

So we talk about strong brands and developing the brands that are going to deliver the value to our operators as well as what we need to the bottom line. And these are brands that offer a great mix of products and we offer great variety and they hit all dayparts. So you think breakfast, lunch and dinner, and how the landscape has changed over time to snacking. Now people literally eat 24 hours a day. So how do we deliver that?

And also value tiers, over the years, we've expanded and gone deeper in our different tiers, so that as things shift in the economy, different areas of the business want different things. We've been able to provide that. We're also very well-balanced, not only in our product portfolio, but in how diversified we are in the market. So when you think about the commercial market, restaurants, lodging, very important, very huge part of the industry. But there's also the non-commercial segments college, university, healthcare.

And those are the segments that we really got into I will say during the 2008-2009 recession when we realized that the commercial business was really struggling and the leadership team at that time recognized the opportunity and we started leaning in there. Most recently, it's been leaning more into convenience stores, okay, commissaries, manufacturers as we've come through COVID. There's been these different – different parts of the business that have come forward and we've got a very well-balanced portfolio moving into that.

And then finally, from a distribution standpoint, if you look across the nation, we're very well-balanced, not only in the big distributors, think of the big ones you know about, but also the thousand independent distributors out there. We're very well-balanced in the markets with our direct sales team to be calling on all of these different folks with all of these different products to offer us that balanced portfolio.

Now, as with retail, we did have a GoFWD initiative in 2023. And from our perspective, what we did in foodservice is we had the legacy foodservice you're all familiar with. But our company also had affiliated businesses in Sadler's, Dan's Prize that made up Heritage Premium Meats and Hormel Health Labs. Now, what these affiliated businesses do is they specialize in different areas, whether it's Sadler's barbecue. You enjoy that wonderful brisket out there, okay? That's authentically smoked barbecue.

And those different businesses are very unique. And we recognize that they all had unique capabilities to help us differentiate ourselves. So our plan going into GoFWD was to really have as little disruption as possible, bring those businesses over under one umbrella and spend the last 9 or 10 months really analyzing that business, finding those synergies, finding those areas where we could really create value. And I think what we did is we found out there were ways to do that. So as we head into 2024, we're beginning to refine that and do certain things with that

business as we head into 2024. We're going to find new ways to unlock value with the strength of those additional businesses.

And as a result to bringing these together, we really do feel like we are a powerhouse of solutions for our operators. So if you think of our branded portfolio, Hormel and Jennie-O, supported by our direct sales team, that is the bread and butter of how we stay close to the operators to understand what we need to be doing.

If you look under the customized solutions, so that's some of our affiliated businesses there, Burke, Dan's Prize, Sadler's, they have the flexibility and the ability to really react quickly for customers. So when you start talking about large chain customers and they have an idea and they want to do a limited time offer, how quickly can we respond, get samples to them, commercialize those products? That's what these businesses offer us and we find as a huge advantage.

And then finally, distributor label, okay? These businesses, Dan's Prize, Burke or affiliate, they've been doing distributor label for a long time and they've been doing it very well. By bringing that under one umbrella now, I think we're going to have much better focus and strategic alignment when we decide how do we balance that between the branded and the distributor label. Because now, we've got an opportunity to really take share in the market versus our competitors doing that. So we're very excited about what that opportunity offers us from just a really powerhouse of solutions standpoint.

And each of these businesses, like I said, they offer versatile, high quality products. And you see some of our brands up there, Café H, Bacon 1, Flash 180 I'll talk about. Having this arsenal of companies really allows us the flexibility to go back and forth and produce exactly what we need to address the needs of our operators.

So now, I just want to take a step back for a minute and give you some insight on how this division was developed and how we've come to be where we are at today, because it didn't happen overnight. It's actually been happening for 30 years, and I have been with the company long enough that I was part of that original group that started this division. And I've seen it progress and evolve over the years, and it's really been amazing.

And as we go back to the 1990s, I call that Foodservice 1.0. That was really the time when we set the foundation, and our leaders at the time made some key decisions around key strategies, many of which are in place today. So that's when we made the decision we're going to be a direct sales organization. We're going to be a branded food company and we're going to be focused on the operator. Those three key foundational decisions at that time remain in play today. And it served us very, very well.

Now we jump to 2000-020, I'll say, 2.0 for Foodservice. And this is really as we got our legs under us and the industry was growing pretty rapidly, things changing I'll say, and this is when product innovation started. That's when as we began to get really good partnerships with the operators. What do they need? Austin Blues barbecue that you tried today, Café H, all the value-added products and categories that we expanded during that time, Bacon 1. That was how we started to take share and outpace our competitors by innovating in those spaces.

Segment resources, in 2000, that's when we really stood up our national account department. We started getting those relationships. There was a time when I was a sales rep out there when we drive past a national account, say we don't do business with them. We're just a small branded company. We're going to the restaurants. Well, that changed. And it's been great for us.

And then beyond that, as I said, in 2008-2009, we got into college, university, healthcare, we started getting into these other segments and standing up business development teams around that and most recently convenience.

So we've seen over time how do we expand into those needed segments, put resources where we need them, and be able to pivot when things are just slightly and we've been able to do that.

Then that brings us to Foodservice 3.0, I'll say, starting here in 2021 and moving forward. A couple of key things. Number one, innovation is accelerating and we've got to accelerate with it. [ph] People's Palace (02:53:49) are just much more diverse now. And when they travel abroad and they come back, they want to experience those global flavors not only at their local restaurant, but maybe on their college campus, right? So as we think about the products we're developing and how we can help, that's very important. And then certainly data-driven strategies.

Foodservice, unlike retail, we haven't had a lot of data over the years coming to us. We don't have the scan data like retail. But I'll say in the last five or six years, it's become much more prevalent that we are getting data now through NPD and we're starting to invest in that. So we're going to be really utilizing that more closely with more resources so we can make the right data-driven decisions moving forward.

And it's worked. It's worked pretty well. So as I talked about those three decades of adjustments and doing things the right way, we have done fairly well in our results. So if you look at this here, the orange line represents our net sales over the last 30 years. And the grey line represents basically the net sales of the industry over that same timeframe. So the industry itself has been relatively flat. What we've been able to do is take share and make adjustments to our strategy and our approach so that we can outpace an industry growth.

And as we look at the industry today, even coming through COVID, the industry itself from a traffic perspective is still not back to pre-COVID levels. Now with inflation, sales have gotten back up there, but they have not gotten back up their own traffic. And we have been able to get back ahead of those numbers and stay focused. So kind of double clicking in and taking a little bit closer look. Since COVID, over the last three years, our volume, our segment profit, and segment profit margin have all increased and are ahead of 2019 numbers.

So again at a time when the industry was really struggling, I think having our direct team staying very, very close to the customers, finding out what they needed, helped us to bring them through the pandemic, and it has continued to show some nice results.

It's not like to spend a few minutes on some of the strategies that we're going to be implementing moving forward. And these strategies include accelerated growth in some key categories, and I'll talk about that a little bit more depth. Really establishing a leadership position when it comes to bringing all of this stuff together, how do we take everything we've done and bundle together and move it forward?

And then finally, expanding our presence in C-store. That's a real big category for us in a segment of the industry that we're very bullish on, and I'll explain why as we move forward.

So on the last break, you did have the opportunity to try products from a few of our key product categories, bacon, premium prepared proteins, and I hope you really saw how good those are and how easy they are for operators to prepare. And then after we finished today, you're going to have the opportunity to try several of our pizza toppings as well. But these three categories, they provide just a great amount of value-added, nicely tiered category products for our customers so that they can continue to deliver a great mix of products for their operators or their patrons. It's about variety and foodservice, and we've been able to expand those categories so that customers can really move and change things on their menu with minimal disruption and, again, minimal labor.

We continue to be a leader in bacon, providing not only the premium raw products out there, but Bacon 1, which has been the number one innovative product in Foodservice. And that's taking a category that everybody just about has on their menu and identifying the key pain points that operators have and let them deliver the experience for their customers that they need with the highest quality product they have.

Regarding pizza toppings, okay, we've had the Hormel pizza toppings for many years. We acquired Fontanini back in 2017, which really elevated our game with the highest quality toppings. And then we've got the Burke organization, one of the affiliated businesses I talked about, it was a great producer of pizza toppings. So with that one, two, three punch, we feel that we can really dominate in that industry and we all know the pizza industry is very resilient. Regardless of what's going on in the economy, usually pizza does very, very well. And with our direct team out calling on the operators with that array of products, it's been very, very successful for us. So we're very bullish on pizza toppings.

And then finally, our premium prepared proteins, including brands like you see, Austin Blues, Fire Braised, Café H. We develop these, we talk to our customers, we have focus groups, we have summits with them and we find out what is really the biggest impact. And we all know that labor is an impact. It was a struggle before COVID. COVID made it huge. And now coming out, it is still – it's still an issue. But these products not only take the labor out of it, the prep time out of it, but quite frankly, they offer high, high quality products. Ten years ago, a pre-cooked product kind of had a bad stigma to it. All right. Now, fully prepared product in one of these categories gives them a fantastic item to share with their customers.

And our fourth category that we're really focused on right now obviously with the integration of Jennie-O is Turkey. We have identified there is some really good ways that we can bring value add to the tricky business. Number one, more profitable mix, okay? We've got a direct sales team out there that's calling on all the segments I talked about. And we've already seen that we can sell a little bit higher mix of the more profitable products, so we're focusing on that.

K-12 channel expansion. So kindergarten through 12th grade, that was an area that Jennie-O has owned, okay? They have a majority of the Turkey business in that K-12. Hormel, we didn't really have that. We didn't have a presence in that segment for bringing the K-12 team on now with ours. We've trained them on key Hormel items that fit in that K-12 space. We're starting to see a value-add get unlocked as they're out talking to their customers, adding Hormel lines to that portfolio.

Certainly cross-functional opportunities from a national account perspective. Again, Jennie-O had some great opportunities. We had great opportunities. We've come together and have started to work cross-functioning collaboratively to expand our business there. And then really the overall goal is really to have Turkey become more of a demand-driven business versus supply-driven. We want our operators to demand it and produce to what they need and make that a more profitable business for us.

So moving to the second key strategy is digital. So as I mentioned, digital wasn't always big or analytics in Foodservice. But today, over 75% of all operated restaurants out there are ordering online. So they're not sitting down necessarily with their distributor sales rep placing an order. They're going online. Now this could be at any time of day or night. So it could be 2 o'clock in the morning when a chef finally gets done with that grind, right? And he thinks of something he needs or she thinks of something that'll work really well. They need to be able to go online, find that product, order it and have it on their next order. So we have got to make sure that we're showing up well when that happens.

So our third key strategy, our key strategy is around convenience and really expanding our presence in the convenience. So as you look at the size of that, 150,000 plus C-stores that are landscape out there. Two-thirds of those are actually more of the independent variety, believe it or not, of chains of 10 or less. So there's a huge amount of opportunity out there from the C-store landscape. It's a \$900 billion industry, a third of which comes from inside the store, so it's not the gas, but it's the food is the stuff that you're trying to sell.

And what's great to see is the key categories in there. Number one is Prepared Foods. It's the number one sales contributor and margin contributor. So when you walk in and you see the pizza, you see the hot case. That's number one. That's a wheelhouse for us. That's where our direct team has been selling for years into the convenience stores. So that's really great. Salty Snacks is number five in revenue and sales. And obviously, our acquisition of Planters has put us front and center in that part of the store.

So by bringing Planters on board, now we look across the store and it has offered a huge unlock value for two different things. Number one, our retail brands within C-store. So think of SPAM, Dinty Moore, those type of things. In the refrigerated case, you saw the Columbus snack tray this morning, even retail bacon. And then the prepared food category. So across the store, we really have presence everywhere. And what has allowed us to do with Planters is get us into many more C-stores who are doing business with Planters and unlock the opportunity for our team to sell under these other categories. So we see some very, very nice runway with the convenience channel as we move forward.

The final area I'd like to talk about is really how do we bring us all together to achieve that leadership position that we're striving to do. And our vision is really simple, it's continuing to outpace industry growth as we have done with our great product portfolio and our direct sales team. It's not overcomplicated, it's not always easy to execute, but that's where our team comes in. So that's our vision, it's going to take collaboration, increased collaboration as we've gone through the GoFWD process. It's going to take investment in our people and processes as you heard about today and continuing to lean heavily into innovation.

So as you think about what does collaboration look like to our customers, that's what it looks like, that's our booth at the National Restaurant Show. So when they come up to us now, they come in, we can bring them across the booth different portfolios, if they have an interest in something else, whether it's MegaMex, Hormel, Jennie-O, we have a one-stop shop for them. And I can tell you this is extremely powerful at the NRA in May and we're going to continue to evolve this each year as we move forward.

And then really Deanna mentioned the Culinary Collective, you've had an opportunity to experience that today. We stood that up this year and I can tell you they have had such an impact not only on our customer interactions and the experiences they've gotten, but also internally from a training perspective. We have a world-class sales team that is now really world-class trained in culinary, and that gives us such a great advantage as we go out.

And the last thing I'll talk about is innovation. We have a robust pipeline of innovative products and I can tell you that's key for us. And if you look up there on the pizza toppings, just two items we've launched in the last couple of years, a cup and char pepperoni. And now, we've launched the sausage. It brings a different texture to the pizza, a different flavor to the pizza. And you're going to be able to try that here after the meeting today.

And then our newest is Flash 180. And this is really exciting for us, similar to bacon. You wonder how you can innovate in bacon, well we found a way to innovate in chicken and everybody has a chicken sandwich. But we've combined the sous-vide cooking with a batter in the bag process that allows basically any operator to cook and prepare an extremely high quality, breaded chicken breast product in half the time that they have to do it today.

And we talk about the expensive real estate in a kitchen is that fryer. And if we can cut down prep time that is goal to those operators. So that's where we keep focusing on from an innovative perspective.

So in summary, the Foodservice division has had a track record of success over the last three decades. We believe the strategies in place today have set us up to continue that and continue to expand our leadership in the Foodservice division.

Thank you for your time this morning. And I'll now invite Mark Coffey, our Group Vice President of Supply Chain to the stage. Thank you.

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## Mark A. Coffey

*Group President-Supply Chain, Hormel Foods Corp.*

Thank you, Mark. Well, good morning, everyone. Well, I'm excited to be here. Supply chain bringing it home. Well, what this has been really fun for me. My first live Investor Day, this historic building. And then yesterday, our team had a chance to participate in the closing bell ceremony, which is a bucket list. But more importantly, to be here with you now and share more details on the transformational work we're doing to future fit our supply chain. We have a long and proud history of controlling our cost structure and operating an efficient supply chain. Our legacy cost saving programs, our culture, and our investments in automation technology have served us well through the years.

But throughout the pandemic, as our nation's supply chains were stressed, we were focused on supply assurance and taking care of our customers. Our mantra was, if we could produce it, we could sell it, procure supplies at any cost, add incremental capacity both internally and through third-party co-mans, all at a higher cost structure. As we were focused on supply assurance, waste and inefficiencies crept into our supply chain.

Earlier this year as our supply chain stabilized, we were able to recover our inventory position and improve customer service levels back to first quartile performance. With that recovery, we immediately shifted our focus from supply assurance back to cost control and began removing those waste and inefficiencies that had crept in. Beyond the legacy cost savings programs and culture, we identified transformational initiatives and investments that would future fit our supply chain.

As Jim mentioned, we didn't let our own bias guide us, but we partnered with Accenture and took a thoughtful and thorough approach by benchmarking our current state against our peers and what best-in-class looks like. We identified initiatives to realize our supply chain vision and close those gaps. We developed an integrated roadmap and timeline across six distinct pillars, and we created a holistic value case for each of those initiatives that would roll up to a total value unlock opportunity.

Of course, as we future fit our supply chain, we know that on the demand side, our consumer and our customer have ever changing expectations. Well, on the supply side, we continue to fight inflation. Although down from pre-Pandemic highs, inflation is still above historical levels, primarily driven by wage inflation as the war for talent continues.

As Jim and Jacinth had mentioned, we will unlock \$200 million in operating profit by 2026 by optimizing our portfolio, investing in people, process, data and technology, which will drive the efficiencies across the end-to-end supply chain.

So let's take a closer look at the value case for the plan, buy, make and move work streams. The plan encompasses demand planning, supply planning and deployment. The best plan starts with the most accurate

demand signal. If we can improve the accuracy of our demand signal, we can build and optimize supply and deployment response. The value we unlock with an optimized plan is we have the right product, at the right place, at the right time, and with the right product, at the right place and the right time, we improve customer service and top line sales while reducing transportation and manufacturing costs.

So let me dive deeper, give you a little more detail on the plan. It truly will require investments in people, process, data and technology, and is the longest runway of value to capture our three-year runway. People, we have stood up centralized supply planning, demand planning and deployment embedded in our supply chain function. Process, along with our GoFWD initiative in 2023, we launched a new integrated business planning process. Others in the industry might refer to that as the S&OP process, we call it integrated business planning. It's a monthly review of our portfolio with a four-step cycle every month by product family.

Step 1 is a portfolio review. Do we have the right innovation coming in? Are there items that should go out to meet our goals and objectives? A demand review. What is demand for the next 18 to 24 months? A supply review. Do we have the supply to meet that demand? And finally, a financial review. This new process aligns all the functionaries of this company around one number. What's the financial number that's going to be generated with this demand plan and this response?

Let's move on to the buy. At Hormel Foods, we source and procure \$9 billion of goods and services annually, raw materials, packages, ingredients, supplies, and the various services we need to run this business. Throughout the pandemic as we're focused on supply assurance, we weren't in a position to competitively bid our business. As supply chains have stabilized, we now are leveraging the buying power of this enterprise to ensure we get the best combination of price, quality and service. The value we unlock is year-over-year productivity by getting more out of every dollar we spend.

Let me repeat that, the value we unlock by better executing the buy is we get more out of every dollar we spend. I'll give you an example. For the last four months, we've been running a formal sourcing initiative around our freight. To put that in perspective, we had never ran an enterprise freight RFP. 6,800 lanes are serviced annually. Over 100 million miles, 100 million miles of freight. By leveraging the scale of the enterprise with best practice sourcing initiatives, we are able to lower freight rates, reduce our fuel surcharge and consolidate the number of carriers we use to more strategic – fewer but more strategic carriers, which will improve on-time customer service.

We've completed the first wave of the buy, the second wave is in flight and waves three and four are already planned. We will have a constant wave of sourcing initiatives into the future, addressing all addressable spend across the categories I mentioned.

We'll move to the make. Our manufacturing footprint includes 40 manufacturing plants and over 100 co-manufacturing partners. We unlock value by improving the efficiency and throughput of manufacturing plants. As we produce more within our four walls, we better leveraged our fixed costs while delaying the need for future capital capacity expansions.

We have developed a Hormel production system playbook, which details new ways of working and the lean manufacturing tools we will use to drive improved efficiencies. We're piloting this in Beloit, Wisconsin, and I'll bring this one to life with a little more detail. The manufacturing plant is all about uptime and throughput, process control, equipment uptime. If we can improve the uptime of our equipment, we can get more volume through our manufacturing plants. As we get more value – volume to our plants, we can lessen our dependency on third-party co-manufacturers, which always come at a higher cost than our internal capacity.

We'll move to the move pillar. Optimizing our distribution network will unlock value by reducing total food miles while improving customer service as we position our inventory closer to the customer. We're in a great position in our shelf-stable network, but we know we need to add additional capacity to support our refrigeration – our refrigerated network. Over the last five years, we've added four new DCs, three in shelf-stable, one in refrigerated. This will be a constant evaluation. Every acquisition changes our footprint. Every acquisition changes our manufacturing footprint and potentially our customer distribution footprint.

Moving onto portfolio optimization. As you've heard today, we have a complex offering of items with a very long tail. A small percentage of our items delivered 80% of our gross profit. Reducing complexity in our offering will reduce cost and unlock value. We are taking a very thoughtful approach to portfolio optimization, not SKU rationalization, portfolio optimization by reviewing every item in terms of its strategic value and its profitability. Items with low strategic value and low profitability will be fixed or rationalized. And this is the yin and the yang, right? We have to have innovation, a point of difference. Stay relevant to our customers, as Scott spoke about. That's the yin. But the yang is we have items in the portfolio that aren't performing that need to be weeded out, the yin and the yang.

So we developed a three-year transformational plan with initiatives and work streams in progress against all six pillars. One thing I would like to emphasize is that these are not one and done initiatives. We are building capability for the future as we upskill our people, implement new processes that are best-in-class, create data governance, and all enabled by new technology solutions.

So in summary, we are future feeding our supply chain by investing for growth, minimizing complexity and reducing cost. Successful execution against our supply chain initiatives will unlock the \$200 million in operating profit we've discussed with you today.

So with that, I would invite David and Jim and Mark back up so we could answer any questions you may have.

## QUESTION AND ANSWER SECTION

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

A

All right. 15 minutes left for the last round of questions. Peter [indiscernible] (03:17:18) hand first, we'll start with you.

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

Thanks. I'll promise – I promise I'll get it right this time. Pete Galbo from BofA. I have a question for each Mark. So, Mark O, just maybe to start, like you had some CAGRs on some of the bigger parts, I think, of the Foodservice platform at least over the next three years that were between kind of high-single digit, low-double digit. Just curious how does that kind of factor in as you roll up to a total company level rate of 2% to 3% sales growth over the next, longer-term, because that would imply Foodservice is going to grow a lot faster, but even potentially puts you above that CAGR, just want to understand?

**Mark Ourada**

*Group Vice President-Foodservice, Hormel Foods Corp.*

A

Yeah. I think as I talked about traditionally with our go-to-market strategy, with the diverse portfolio, the direct sales team and everything, we do tend to outpace industry growth and I would say accretive growth to maybe the company numbers is something that we continue to strive to do. So I don't see that really changing as we move forward, as we've now brought in through the GoFWD, the other businesses as well. I think, we're bullish, so we'll continue to see solid growth.

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

A

And Peter, maybe I'll just add, Jim talked earlier about investments and I think, Mark, you talked about it, too. This is some of the areas in the company where we've invested the highest, right, in bacon, pizza toppings and premium prepared. So it really is the opportunity and the place to grow – to grow is within Foodservice and Retail in those key categories.

**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

Got it. And for Mark Coffey, Mark on the buy part of the bucket that you had there, the procurement, I guess, one of the things is you guys buy a lot of pork, right? And we saw in the slide, it's your biggest input across kind of all the raw materials. There's been a lot of news about the deteriorating fundamentals, I guess, for some of the hog producers. So how are you managing that? How is that falling into your plan as a lot of the farmers or producers are buying from are having more difficult time?

**Mark A. Coffey**

*Group President-Supply Chain, Hormel Foods Corp.*

A

So we harvest 5 million pigs annually in our Austin, Minnesota plant and 95% of that harvest is contracted with farmer producers in the form of long-term contracts. We buy very few and what we're going to call the open or spot market. So the first part of your question is we manage that, the cost of that procurement through a variety of

long-term contracts. The second part is real is that the financial fundamentals. We don't have a lot of new industry capacity coming online. Farmers are getting pressured by availability, labor and all input costs. Some relief as grains have come down, but there is financial stress in the hog industry from a producer standpoint.

**James P. Snee**

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

A

Okay. I think the other part is, as we're thinking about the sourcing initiatives, really less about the hog side of the business, more about the packaging and the ingredients and the equipment and all the services that – that a good procurement strategy can affect.

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

A

Okay. All the hands went up at once. Ben, we'll start with you.

**Ben Bienvenu**

*Analyst, Stephens, Inc.*

Q

Hey, thanks. So talked about the opportunity within the convenience store industry. That's kind of very much a world of haves and have-nots with related – in relation to growth and square footage to kind of go after the products that you can supply to them. So when you think about the opportunity you have with the bigger box stores, who are taking lots of market share from the smaller, independent operator who maybe just don't have the space or capabilities in their stores to offer the product that you will have. How are you thinking about kind of aligning your sales targeting to the winners versus maybe the losers?

**Mark Ourada**

*Group Vice President-Foodservice, Hormel Foods Corp.*

A

In C-store specific, so, again, I think, it's where we see the real value, so, for instance, Planters, Planters in C-store, our store penetration is in the high-90%, I mean we're everywhere. I think where we see the real value-add though is what we can bring along with that now in the ingredients as well as the retail products. So we're putting resources against not only the big chains, okay? We certainly have people there, but we're also expanding in and we're getting coverage on those smaller ones. So I think it's a balance of if a place really specializes in the ingredients and pizzas. That's a great place for us to play right there. So I think it'll depend where we go, but we've got the variety and the different places where we can lean in, where they need the most help. And that could vary by different location.

**James P. Snee**

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

A

I think the other – the other opportunity the portfolio has and has always have is it allows some operators to get into businesses that they haven't been in because they're not going to invest in a full kitchen or all of the back of the house equipment. Having a fully prepared protein may require more of just a heating approach, and so it allows them to get into business with far less expense or capital. And we've seen that on our core Foodservice business. So we know that's real. And as they're out there talking to some of those smaller convenience operators, that opportunity is there as well.

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

A

Michael?

**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

Q

Thank you. Michael Lavery from Piper Sandler. Can you just give a little more perspective on the magnitude of the impact from something like portfolio optimization? And I realize some of the planning may be still underway. But, Mondelez, for example, I think had maybe something like 25% of its SKUs or 2% of sales. So really trying to think of it in terms of what a sales impact might be and then how quickly – if those are unprofitable or barely profitable, how quickly would you see the margin benefit from that? Just partly keeping in mind, you've talked about 2024 as an investment year, but that's where some of the cuts come to the benefits flow-in, in 2025.

**James P. Snee**

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

A

Yeah, I mean, there's a – just to be clear, there is a bias for action, right? And so the reviews have already started. And so as we go through brand by brand family, different business segments, that work is happening. And I mean, we don't – we aren't going to share the exact number, but we have a – probably a similar type scenario that we know is clogging up the arteries. And I think there's certainly that margin piece. But as Mark described in his conversation is we also want to accelerate our innovation. And so if you've got something that's a blocker, it needs to go sooner rather than later. And so it is clearly one of the top priorities in the organization, bias for action. And historically, Adam's phrase earlier SKU rationalization, it's not new, but there's always been a reluctance to do it.

And a lot of times because it hasn't been a true enterprise initiative, it's been left to a business, perhaps to a brand manager. This case is much different, right? This isn't an option. You don't get to opt in. There is a very well-defined review process that will take action on right out of the gate.

**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

Q

Thank you.

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

A

Adam, Rupesh and Tom.

**Adam Samuelson**

*Analyst, Goldman Sachs & Co. LLC*

Q

So I guess, as we think about implementing these plans, how are the incentive structures inside the company changing? I mean, today, the plan was kind of framed in this context of \$250 million of operating income, which, if I recall, I've never heard the company actually talk about operating income. It's always been the guidance. Every year, sales and EPS, and operating income itself has never been a specific [indiscernible] (03:25:34) dollar profits, it's never been a specific KPI that you speak often to. So what are you changing to align the organization to actually achieve these end goals? Because certainly there can be top line impacts in the short term depending on how you choose to manage different product lines and different businesses.

**James P. Snee**

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

A

Yeah. And so there is an element of income that does cover incentives at a lot of the organization. So there's really two things that we're working on is, one, to contextualize these dollars, right? And what that means to an

existing incentive. And so making sure that somebody understands why this is so important to the organization, but what's in it for me is meaningful over that timeframe.

And then the other part is, the players who are having the most impact to make sure that there is ample incentive to deliver on these goals. And so, I mean, we are thinking about it two ways. We know perfectly well how incentives drive behavior. And so that is part of this project as well. But it is making sure that there's clear understanding of what the dollars mean. But then also for the people who are having the biggest impact to make sure that their incentives are perfectly aligned with this project.

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**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

A

We go to Rupesh. Adam, do you still have a question? Okay.

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**Adam Samuelson**

*Analyst, Goldman Sachs & Co. LLC*

Q

Okay.

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**Rupesh Parikh**

*Analyst, Oppenheimer & Co., Inc.*

Q

Rupesh Parikh, Oppenheimer. So in our investor conversations and in the market, a lot of concerns out there about GLP-1 drugs and the impact on the food industry. So just curious how you – whether your team is studying this area right now and is there any thoughts on how that could impact your portfolio? And I know it's very early, but just like your thought?

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**James P. Snee**

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

A

I mean it is, right, and so, I mean, we – obviously, we've heard the narrative that's out there and we've got that, we are thinking about it. When we think about all, every year our risks and opportunities, that's one that's clearly on there. But, really to understand the long-term effects of what they may or may not have is [ph] TBD (03:27:43). And so it is a bit early to be making any rash decisions or really any to think we know. But we're certainly watching it and we're listening, but we also know the caution of chasing the new shiny toy, right, and overreacting. So, yeah, we don't have anything to talk about today.

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**Rupesh Parikh**

*Analyst, Oppenheimer & Co., Inc.*

Q

Maybe follow-up on the \$200 million in the supply chain savings. A lot of times when companies introduce these types of programs, they'll also introduce some sort of cost expected to be associated with it over a several year period. And I don't think you guys have really laid that out today. Is the plan to at some point be much clearer on, hey, these are the buckets of costs that we expect over a several year period?

And I guess if we're not going to get that today, is there some way maybe you can frame kind of the minimum return expectation that would – it will allow you to greenlight a project like this, like, do we need to think of, hey, you would target a 20% return and therefore we're looking closer to \$1 billion in cost over a several year period. Just anything to help frame kind of the outlet that we should be thinking about.

**James P. Snee**

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

Yeah, I think the biggest thing is, we're going to – when we get together for our Q4 earnings call, obviously, we'll be able to provide you a lot more visibility on what that cost to obtain is going to be. While we're not going to say, hey, this is the return, but obviously you know how disciplined we are with the way we manage capital, how we ask our team members to make sure we're getting those returns, that there is the return here that we need.

And most importantly, in addition to that financial return is that return to get to our more normalized growth algorithm. And that's a really key driver for us here as we have to make sure that we extract the costs and the supply chain, that we get the portfolio optimized. And this is further long-term. There is a three-year window that we've laid out here today for sure, but this has – this is a much longer game that we're talking about.

**Rupesh Parikh**

*Analyst, Oppenheimer & Co., Inc.*

Thank you.

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

Ben, you're last.

**Benjamin M. Theurer**

*Analyst, Barclays Capital Casa de Bolsa SA de CV*

Thank you very much. Ben Theurer, Barclays. Just last question here. One of the things that's been spooking around a little bit in the markets in general is obviously the impact from GLP-1 drugs on consumption for food, beverage et cetera. So wanted to get maybe your take as it relates to where you potentially see impacts, where you see maybe opportunities and if that's something you consider within the whole portfolio rationalization to maybe get a skew towards the healthier cuisine, healthier exposure within the portfolio, anything you can talk about that topic that would much appreciated.

**James P. Snee**

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

Yeah. So Rupesh asked that question. And, I mean, clearly, we're watching, it's so early. What we do know is if go over what is it, 20, 25-year timeframe and we track their caloric intake and that's with a lot of different things happening, whether it's a diet fat or anything that's the shiny toy. It hasn't changed that much, and that's not to say that past performance is any 100% guarantee of the future, but it certainly informs that. And so, we're watching that closely. We know that protein tends to have a higher profile and a more positive view for people who are trying to lose weight. And so, too early to know the exact impact, but like I said, a little while ago, is having it on our risks and opportunities will be something that becomes a very regular part of our long range planning.

**David W. Dahlstrom**

*Director-Investor Relations, Hormel Foods Corp.*

Great. Well, I want to thank everybody for being here today. It's been so wonderful to host. Jim has a few closing comments before we go. But again, I'll be available for questions on the lobby next week as well. So please feel free to reach out if there's anything you need a little bit more clarification. But again, thank you, thank you, thank you for being with us today. Jim?

## James P. Snee

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

Yeah. Thank you. Again, thanks to all of you for being here, and thanks for your great questions. Just as we wrap up, you heard from our team today that we have a realistic and achievable path to this \$250 million plus goal, right? And each of them talked about it in a different way. So, Jacinth, from a financial perspective, but, I think, very importantly, her comment around that she has been through transformations like this. And so having that purview and that expertise very, very important. Hearing about the power of One Retail from Deanna Brady and Scott Aakre, our ability to better allocate resources across our retail business, but clearly never losing a sight of the benefit of our portfolio and how we have to win with the customer and the consumer.

You know Mark Ourada talking about this incredibly advantage business that we have that is Foodservice and how we're going to continue to invest, how we're going to continue to grow and how we're going to continue to be a solutions-based provider for foodservice operators. And then Mark Coffey, right, on the front-line of what we need to get done for the supply chain portion of this initiative, the passion and the commitment, but the vision, right, the ability to get this done and not just hoping or wishing a clearly articulated, well-developed plan that shows where the dollars will come. But again, the long game, the long game that we have to future fit our supply chain. And so that is the team that will be driving this strategic focus, the investments that we make, the transformation that we need, and the growth that we absolutely need to deliver.

Leaning to all of these three areas, right, again, not losing sight of our core business This isn't and/or this is an and. We will be driving business in Retail, in Foodservice and in International, very strong businesses. We will continue to focus on capturing strategic value projects that are in motion today and ones yet to come. And then, there's transformation and modernization across all of those pillars. It has to happen for us to be able to deliver on these long-term key results, but the path is there, the team is there, it's laid out in a way that it's very, very achievable.

And so back to where we started today, the key messages that we want you to take away is that we have made significant progress and this is a stronger, more balanced, less volatile company since 2016. And we do that because we continually update our strategic priorities and we don't overhaul them. We update them because we're doing so many right things and we are investing for growth. We're investing with our brands, but we're also investing in the business in a way to transform this company.

Said a different way. We need to finish the job, right? That's what this is all about. This is about us finishing the job, completing the journey that we've been on. So it's not new, but we need to complete it. We need to finish it. And we'll do it because we know that our inspired people who are creating inspired food each and every day, they're at the center of everything that we do, creating that food for our customers and our operators who depend on us each and every day.

So, again, I thank you for your attendance. Thank you for attending. And as has been mentioned several times, we've got some incredible pizza, a great Hormel customer for you to enjoy either here or to take with you. Thanks, again, for your time.

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## David W. Dahlstrom

*Director-Investor Relations, Hormel Foods Corp.*

Staging the pizza right now. So I'll just have everybody hold for one minute. Grab your stuff. I'll let you know in about 5 minutes and we're ready to go. Thank you.

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