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Hormel Foods Corp. (HRL)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen and welcome to the Hormel Foods Corporation Fourth Quarter Earnings Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Wednesday, November 29, 2023.

I would now like to turn the conference over to David Dahlstrom, Director of Investor Relations. Please go ahead, sir.

David W. Dahlstrom

Director-Investor Relations, Hormel Foods Corp.

Good morning. Welcome to the Hormel Foods conference call for the fourth quarter of fiscal 2023. We released our results this morning before the market opened, around 6:30 AM Eastern Time. If you did not receive a copy of the release, you can find it on our website at hormelfoods.com under the Investors section.

On our call today is Jim Snee, Chairman of the Board, President and Chief Executive Officer; Jacinth Smiley, Executive Vice President and Chief Financial Officer; and Deanna Brady, Executive Vice President of the Retail segment. Jim will review the company's fiscal 2023 fourth quarter and full-year results and provide a perspective on our outlook for fiscal 2024. Jacinth will then provide detailed financial results and further commentary on our outlook. Deanna will join Jim and Jacinth for the Q&A portion of the call.

The line will be open for questions following Jacinth's remarks. As a courtesy to the other analysts, please limit yourself to one question with one follow-up. If you have additional questions, you are welcome to get back into the

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queue. At the conclusion of this morning's call, a webcast replay will be posted to our investor website and archived for one year.

Before we get started this morning, I need to reference the Safe Harbor statement. Some of the comments made today will be forward-looking, and actual results may differ materially from those expressed in or implied by the statements we will be making. Please refer to our most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, which can be accessed at hormelfoods.com under the Investors section.

Additionally, please note the company uses non-GAAP results to provide investors with a better understanding of the company's operating performance. The presentation of this information is not intended to be considered in isolation or as a substitute for financial information presented in accordance with GAAP. Non-GAAP figures adjust for the impact of an adverse arbitration ruling, noncash impairment charges and costs associated with the company's transformation and modernization initiatives.

These non-GAAP measures include: Adjusted operating income; adjusted operating margin; adjusted selling, general and administrative expenses as a percent of sales; adjusted diluted net earnings per share and net debt to EBITDA. Discussion on non-GAAP information and reconciliations to the GAAP results are detailed in our press release and earnings supplement, which can be accessed from our corporate or investor website.

I will now turn the call over to Jim Snee.

James P. Snee

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

Thank you, David. Good morning, everyone. Fiscal 2023 was a challenging year for the organization as we navigated an environment that remained volatile, complex and high cost. Regardless, our results did not meet our expectations.

We still achieved our second consecutive year of net sales in excess of $12 billion, continued to reinvest in the growth of our leading brands, drove strong operating cash flows of $1 billion, returned a record amount of cash to our shareholders in the form of dividends and achieved the safest year in our company's history. We also made further progress on our evolution as a global branded food company, including the implementation of our go-forward operating model, and the integration of Jennie-O Turkey Store.

As we turn the page to fiscal 2024, there is urgency across the organization to improve our business. And as we outlined at our recent Investor Day, we have identified a clear, realistic and achievable path to return the business to its historical earnings trajectory.

Our focus going forward is clear. First, restore a sustainable and dependable bottom line growth from our current business; second, drive savings by minimizing complexity and reducing cost; and third, capture incremental value from our investments.

Our first milestone will be our performance in fiscal 2024, which is expected to be an investment year for the company. As with any year, success will be predicated on how we execute against our strategy. First, we must drive focus and growth in our Retail business; our nearly $8 billion powerhouse of leading brands, talented people and strong capabilities.

Our retail team has made tremendous progress implementing the go-forward structure, which involves combining seven retail businesses and standing up our Brand Fuel center of excellence. Importantly, the retail team now

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operates with a single vision and clear strategic focus. We expect this team to win with our consumers and our customers, better allocate our resources to drive profitable growth and improve the margin structure of the business.

Second, we must continue to expand our leadership position in Foodservice. This business has emerged from the pandemic stronger, and again, delivered excellent results in fiscal 2023. In fiscal 2024, we expect continued growth in Foodservice. We are confident that we can accelerate growth in the key categories of bacon, pepperoni, prepared proteins and turkey. Also, we can establish a digital leadership position in the industry and expand our presence in the C-Store channel.

Third, we must aggressively develop our global presence, which starts with reigniting growth in our International business. Fiscal 2023 was a particularly challenging year for our International business due to softness in China, weak commodity markets and higher-than-expected elasticities on our branded export business. While results in the first quarter of fiscal 2024 are assumed to remain challenged, we anticipate a steady recovery beginning in the second quarter.

In fiscal 2024, we expect to benefit from more normalized shipments of SPAM to the Philippines and easing of headwinds in our commodity businesses and recovery in China. As the near-term headwinds abate, we anticipate this business to resume delivering accelerated growth.

Fourth, we must execute our enterprise-wide entertaining and snacking vision by unlocking the power of our brands across the channels where we compete. We are positioned to win in this on-trend category with brands such as Planters, Corn Nuts, Hormel pepperoni, Columbus and Hormel Gatherings. We have been pleased with the momentum we have built in the back half of the year for the Planters business. Data for the latest quarter shows accelerating dollar and unit sales.

In addition to share household penetration and distribution gains. Much of this momentum is being driven by innovation. Our new flavored cashews line is meeting or exceeding expectations in the marketplace, over-indexing with millennial consumers, growing household penetration and introducing new consumers to the category. To capitalize on this success, we are launching another flavored cashew variety in fiscal 2024, in addition to a slate of new-to-market innovations.

We have aggressive plans to keep the momentum going for our Planter Snack Nuts business in fiscal 2024, led by further innovation, new distribution, brand investments and effective promotional support. We continue to do our part as the category leader to support the Planters and Corn Nuts brands to drive growth for our business, the category and for our customers.

Fifth, we must future-fit our One Supply Chain, which means reducing costs and minimizing complexity, while investing in long-term growth. We recently announced that we are converting the Barron Wisconsin plant which currently operates turkey harvest and value-added production lines into a value-added facility to support growth across our broader portfolio. Harvest operations are expected to cease during the second quarter of fiscal 2024. These actions at the Barron facility are consistent with the goals we laid out in late 2021, when we first announced transformational efforts at Jennie-O Turkey Store.

We are committed to building a more demand-oriented and optimized turkey portfolio that is better aligned to the changing means of our customers, consumers and operators. The actions at the Barron plant further right-sized our turkey supply chain, supporting consistent top line growth, improved profitability and decreased exposure to commodity volatility.

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We are also committed to optimizing the Jennie-O Turkey Store system, including freeing up plant space to support growth across the broader Hormel Foods portfolio. The Barron plant is expected to support high-demand and high-growth product lines across all areas of the organization.

Lastly, we are committed to integrating the Turkey business into the broader organization to drive efficiencies and growth. Our Retail, Foodservice and International segments have been directly supporting the turkey business for a year. And we anticipate this continued collaboration to drive long-term growth for the Jennie-O brand and across our entire Turkey portfolio.

Finally, we must transform and modernize our company, which is a critical piece to our projected growth over the next three years. At our recent Investor Day, we detailed our plans to transform and modernize the organization. Over the next three years, we expect to invest approximately $250 million in implementation, personnel and project costs, including investments in capital expenditures and technology. We expect around one-third of this investment to be made in fiscal 2024, resulting in a modest benefit to net earnings for the year.

Looking to the out-years, we are targeting $200 million plus in operating income growth by fiscal 2026 and from the transformation and modernization initiative across the supply chain and portfolio optimization. To be clear, we expect a modest benefit to net earnings in 2024, which has been factored into our outlook.

We expect benefits to accelerate in fiscal 2025. We expect to achieve our target in fiscal 2026. And we expect this initiative to provide significant residual benefit in fiscal years 2027 and beyond. Through transformational work, we expect to build significant capabilities for the future. This is truly exciting work for the organization.

Before I provide further color on our fiscal 2024 outlook, I want to briefly detail how we finished fiscal 2023. Net sales for the fourth quarter were $3.2 billion, and diluted net earnings per share were $0.36. Excluding the impact of noncash impairments and investments in transformation and modernization, adjusted diluted net earnings per share were $0.42.

As expected, our Foodservice segment finished the year strong. While the risks we identified heading into the quarter, including pricing headwinds in turkey, lower retail volumes and continued pressures in our International business negatively impacted results. These results were in line with the low end of our revenue and adjusted diluted net earnings per share expectations.

Turning to our outlook for fiscal 2024, we expect to drive modest volume and net sales growth for the full year. This growth is expected to come from our key categories, supported by higher brand investments and innovation.

In Retail, we expect higher net sales across many of our verticals, including bacon, convenient meals and proteins, global flavors, emerging brands and snacking and entertaining. We have embedded in our outlook, targeted pricing actions, a step-up in innovation and higher brand support to drive volume and improve mix.

In Foodservice, we are anticipating broad volume growth led by turkey, pepperoni and bacon. In addition to higher volumes, net sales are expected to benefit from higher raw material input markets. In our International business, we expect net sales increases to be driven by the branded export business led by SPAM and Skippy and improvement in both the Retail and Foodservice channels in China.

From a bottom line perspective, we expect growth from the Foodservice and International businesses and expect a decline in our retail segment. While the retail segment is expected to benefit from sales growth and improved

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mix, we do not anticipate this growth to overcome the significant headwind from the rapid decline in the commodity whole turkey market.

For context, whole turkey prices began calendar year 2023 at all-time highs and have since fallen below the five-year average. We are closely monitoring sell-through of whole turkeys this holiday season, as well as any potential supply impacts from HPAI, which has, again, affected flocks this fall. These are very unusual market dynamics, which has added additional risk and uncertainty to our outlook.

Given these factors in Turkey, we have included in our outlook meaningfully lower market pricing on our high-volume whole turkey business. Similar to the dynamics we experienced in the fourth quarter, we expect earnings to decline in the first half of the year due to the impact from lower turkey markets, lower volumes in the retail segment and continued softness in our China business. We expect these pressures to have the greatest impact in the first quarter.

Taking all these factors into account, we expect net sales growth of 1% to 3%, diluted net earnings per share to be $1.43 to $1.57 and adjusted diluted net earnings per share to be $1.51 to $1.65. And we expect a modest benefit to net earnings from our transformation and modernization initiative. As I alluded to earlier, we have embarked on an initiative to return the business to its historical earnings trajectory and deliver on the commitment we made at our Investor Day.

To reiterate the key elements of this initiative, in fiscal 2024, we expect a year of investment, which assumes: Underlying growth across many parts of our current business, offset by a significant headwind from Turkey; higher salaries and normalized employee-related expenses; the impact from our new labor agreement; and higher support for our leading brands. It also assumes investments into our transformation and modernization initiative, resulting in a modest benefit to the year; and it assumes capturing incremental value from Planters, our turkey business integration, go-forward and the investments we've made in additional capacity.

In fiscal 2025, we expect to accelerate growth, which assumes strength from the underlying business, significant benefits from supply chain savings and portfolio optimization and further strategic value capture. In fiscal 2026, we expect to deliver at least $250 million in operating income growth.

As we begin 2024, we remain focused on our strategic priorities, executing our transformation and modernization initiative, fueling our innovation pipeline and exiting the year with momentum in our business segments. I remain confident that we have the right brands, strategy, people and culture could deliver on our commitment to improve our business and drive long-term shareholder returns and growth.

In closing, I want to recognize all the hard work carried out by our team in what was a challenging year. We successfully completed a very large reorganization, made progress addressing near-term challenges facing the business and accelerated the transformational work that will better position the company for future success.

At this time, I will turn the call over to Jacinth Smiley, to discuss detailed financial information related to fiscal 2023 and added color on key drivers to our outlook.

Jacinth C. Smiley

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

Thank you, Jim. Good morning, everyone. Full-year net sales were $12.1 billion, the second highest net sales achievement in our history. We also delivered $2 billion in gross profit for the year. Full-year selling, general and administrative expenses increased compared to last year, primarily due to an adverse arbitration ruling.

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On an adjusted basis, selling, general and administrative expenses as a percent of net sales finished comparable to the prior year at 7.1%. Advertising investments for the fiscal 2023 year were $160 million compared to $157 million last year. We have planned another increase in advertising investments in fiscal 2024 as we continue to support our leading brands in the marketplace.

For fiscal 2023, equity in earnings of affiliates increased due to significantly higher results from MegaMex Foods. Operating income for fiscal 2023 was $1.1 billion and adjusted operating income was $1.2 billion. Operating margin and adjusted operating margins were 8.9% and 9.8%, respectively.

The tax rate for fiscal 2023 was 21.8%, marginally higher than last year. The effective rate for fiscal 2024 is expected to be 21% to 23%. For the full year, diluted net earnings per share were $1.45. Excluding the impacts of an adverse arbitration ruling, noncash impairments and the investments in our transformation and monetization initiative, adjusted diluted net earnings per share were $1.61.

We remain committed to dividend growth, investing in our business and maintaining an investment-grade rating. Our consistent cash flows of more than $1 billion in fiscal 2023 and a disciplined financial strategy directly support these commitments. In fiscal 2023, we returned a record $593 million to our shareholders in the form of dividends, including payment of our 381st consecutive quarterly dividend, effective November 15. We also recently announced an increase in the annual dividend of 3% and to $1.13 per share for fiscal 2024. This year will be a remarkable 58th consecutive year of dividend increases.

We invested $270 million in capital projects during fiscal 2023, supporting growth for SPAM, and for Retail and Foodservice pepperoni. We are investing $280 million in capital projects for fiscal 2024, which include investments in our Barron facility, investments supporting our transformation and modernization initiative and to support high-demand Planters items.

While 2023 was a challenging year for the company, our strong financial position allowed us to continue sharing our successes, which included recognizing our team members for the 85th consecutive year through our annual profit-sharing program. We ended the year with $3.3 billion of debt and over $750 million in cash and short-term securities. We remain in line with our stated goal of 1.5 to 2 times net debt to EBITDA.

Before turning to our outlook, I would like to highlight the progress we made during the year, reducing inventory. As we committed to earlier in the year, we achieved our days sales fin inventory target of less than 60 days for the quarter and drove a sequential reduction in dollars of both finished goods and total inventory.

Inventories finished the year at $1.7 billion, a decrease of $36 million from the beginning of the year. We enter fiscal 2024 with responsible levels of inventory to support and achieve our targeted fill rate with ample production capacity to grow the businesses.

While Jim covered many of the puts and takes embedded in our fiscal 2024 outlook, I want to provide additional color around our investments in the business and assumptions on key raw material markets. We are investing for growth in fiscal 2024.

Specifically, we will be investing in: End-to-end planning capabilities; infrastructure and software to further our data and analytics capabilities; a modernization of our order-to-cash system; and incremental head count to support the plan, buy, make and move work streams across our supply chain. We anticipate about one-third of

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the total investment to be recorded in fiscal 2024. About $0.08 EPS is expected to be onetime, with the rest capitalized or included in the ongoing cost structure of the business.

Shifting to the cost environment, our fiscal 2024 outlook assumes pork input costs to be higher than last year and to remain above the five-year average. The USDA is projecting modestly higher production and higher exports in 2024. Additionally, cold storage levels for pork have trended lower year-over-year and compared to the historical averages which we expect to be supportive of pork markets.

Of note, these costs are expected to continue to be a headwind in fiscal 2024 as the industry cycles through lower supplies. Turkey sales and volumes continued to recover in the fourth quarter, as we grew turkey volumes in each of our segments. The investments behind our value-added turkey portfolio and lean ground business are working, with ground volume and dollar sales outpacing the category for the latest 4 and 13-week periods.

Turkey markets continued to move lower during the fourth quarter, pressuring prices across our channels. We have assumed prices will remain depressed in our fiscal 2024 outlook. We do expect to partially offset these pricing headwinds with lower feed costs. HPAI has reemerged again this fall, creating another unusual event affecting our vertically integrated supply chain. At the present time, we do not expect supply impacts to the degree we experienced in the first half of fiscal 2023. The situation remains fluid, and the risk of additional cases creates a heightened level of uncertainty in the outlook of our turkey business.

In closing, I, too, want to recognize the dedication and hard work of our 20,000 employees across our great company. In so many ways, our team rose to the challenges thrown at them, while continuing to deliver safe and trusted products to customers, consumers and operators.

As Jim noted, I am to confirm that we officially achieved our safest year in the history of the company, a testament to all team members who uphold our safety-first culture and keep it at the forefront of our business. This is a key part of the continued success of the company, one that can never be taken lightly.

At this time, I'll turn the call over to the operator for the question-and-answer portion of the call.

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QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] We have our first question coming from the line of Adam Samuelson from Goldman Sachs. Please go ahead.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Ah, yes. Thank you. Good morning, everyone.

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

A

Good morning, Adam.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Hi, Jim. Good morning. So, Jim, there's a tremendous amount of detail in the outlook. I was hoping, first, if you could help maybe just frame a little bit more clearly kind of the high and low end of the guidance range, which is quite wide; and quite wide relative to the sales outlook, which is just fairly narrow.

So, help us first, maybe understand kind of what happens in the market, in the business, in the external environment that gets to the high end of the range relative to the low-end of the range, which would be a pretty meaningful step down in operating earnings relative to what you did in fiscal 2023, maybe to start.

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

A

Great. Yeah. Thanks, Adam. I think the best place to start is to remember that, I mean, our underlying portfolio here is showing growth. And as we called out in the remarks, there is a significant downturn in the turkey business, especially in Retail with the biggest impact we expect in Q1 and Q4.

More specifically, to your question about how we think about the range, the range is consistent with what we've had in the past. And we take into account all of our traditional assumptions. But as we think about what could move us higher, better than expected volume mix, depending on what does happen with the Turkey market – we've got this fall outbreak that just continues to escalate, that can certainly have an impact going forward. The other part is, as we think about the work that's underway already for some of our savings initiatives, our ability to over deliver there.

On the flip side, the same holds true on Turkey markets, right. If we continue to see some of those declines, that would take us to the other side. And then, I think, the part that we're all watching very closely is what's happening with some of the macro issues. In our business, specifically, what's going to happen in our International business, China recovery? When we think about price elasticities in retail, how do those impact the business for 2024? I mean, so those are the things that we're thinking about and watching.

But again, when we roll this business up, we feel like we're in a good place that we've built in the right amount of risk when we think about the turkey business; the right amount of growth in the underlying portfolio, which from a

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retail perspective, absent turkey, we're seeing growth across almost all of the Retail verticals. Foodservice will continue with strong performance. And we do expect International to start to recover after Q1. So, hopefully, that gives you a little bit more clarity on that range.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

That's helpful. And then, maybe just touching on the pricing elasticity point, because I think incremental pricing actions are going to prove to be increasingly uncommon in the food space moving into 2024. So, any additional color or description on where those are in magnitude? Are they already in place in the market? And just to confirm that excluding turkey, you think your retail volumes are growing in fiscal 2024?

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

A

Yeah. The last question, yes, our Retail volumes, ex turkey will grow in 2024. And I'm going to let Deanna who lives and breathes that Retail pricing element. I'll let her provide some additional color.

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

A

Thanks. Good morning. As we think about pricing, we've had a lot of pricing over the last two years. A lot of that pricing has been reactive. And as we sit here today, we are in a position to be thinking about it proactively. First of all, we'll be leveraging our modernized revenue growth management practices and really taking a robust look at our flagship and our rising brands, which are designed to drive higher growth.

We're investing in those brands for growth. And as we think about those brands and their position in the category, we'll be thinking about the COGS and whether the commodity inputs to those areas are suggesting an increase.

We'll also be thinking about what is our long-term ambition. And what are the needs for us to be able to invest into these brands to continue to grow. And so, some of that will require some consideration in regards to pricing, so that we can have additional dollars for trade as well as advertising and innovation.

As we think about elasticities, elasticities, in our mind, and what we're seeing are back to the pre-COVID levels. And so, it's important that we take those elasticities very seriously because they are moving and moving pretty quickly. The other factors that we're thinking about, is our position in the category. And definitely, at this point, we'll be more targeted and surgical about our reaction.

And then my final thing is it doesn't have to be priced as well. There's obviously trade. And trade prior to COVID again was pretty – there's a lot of categories that are pretty inelastic. And so, there are dollars to be considered from a trade perspective that we can redirect those dollars into other tactics that will enable us to grow the business. Thanks.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Okay. I appreciate all that color. I'll pass it on. Thanks.

Operator: [Technical Difficulty] (00:37:18- 00:37:51) We are not receiving any response from Mr. Galbo's line. We're moving over to the next question. Our next question comes from the line of Rupesh Parikh from Oppenheimer.

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Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Good morning. Thanks for taking my question. So, Jim, I just want to go back to comments on – you talked about slowing consumer demand. So just more color on what changes you're seeing in consumer behavior lately?

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

A

Yeah. I mean, Rupesh, I think the elasticities that Deanna was talking about, we know that we're back to pre-2019 levels. So, we have to be thoughtful about what levers and how we're pulling them, when we think about pricing, when we think about promotion, when we think about advertising, making sure that we are connecting with that consumer to drive the demand.

But I mean, we also understand the amount of pricing that's gone into all these categories over the last couple of years, and it's been very, very significant. And I don't believe that consumers have fully digested all of the pricing that has still come through. So, I think it's a work in process.

To Deanna's point about our positions in the category that's really, really important as we think about those number one and number two positions that we hold. But through all of it, I think, again, the key takeaway here is this underlying portfolio ex turkey. And Retail, especially is planned to show volume growth in 2024.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Great. And then, maybe just one follow-up question. So, if you look at the environment for the coming year, how are you thinking about the promotional backdrop and competitive backdrop? And how do you think that evolves from here?

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

A

Yeah, Rupesh, I am going to let Deanna maybe elaborate on that a little more consistent with what she said, the first time. So, why don't you go ahead, Deanna?

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

A

Good morning, Rupesh. Thanks, Jim. It's really-category-by-category. We've got areas of the business that, I'll say, are somewhat consistent with where the promotional activity has been. We have other areas and other categories where it has increased. So, think of lunch meat, think of chicken, poultry areas. We're seeing more aggressive pricing and promotion activity, which is a little counterintuitive.

When we think about it holistically though, from a promotional standpoint, there's an opportunity to reset promotions. To ensure that we have the most effective promotions for the consumer, for the customer and for our brands and business.

And so, that's really the evolution of our growth management and our pricing teams working hand-in-hand with our customers and customer teams – is really ensuring that we have the best and most productive promotions out there, as that's really what's going to be impactful to helping drive the business for growth and not just continue to dissolve base business and lower the category, both in volume and dollars. Thank you.

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Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Great. Thank you. I'll pass it along.

Operator: Thank you. We have our next question coming from the line of Peter Galbo from Bank of America. Please go ahead, sir.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Hey, guys. Good morning. Can you hear me, okay?

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

A

Yes, we can hear you, Peter.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Great. Thanks. Maybe just one quick one clarification. Jacinth, did you give a net interest expense guide at all on the quarter – I'm sorry, for the year? I think you have a bond that's going to come due in June that will need to maybe be refi-ed. So, maybe if you can just elaborate on that.

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

A

Yeah. Good morning, Peter. So yes, we do have – that's coming due. We have $950 million coming due here early June. We did not give guidance on the interest numbers. We certainly are working through and looking at options to pay down that debt. We haven't landed in a spot yet. What I can tell you, though, we have definitely baked in higher interest expense in the numbers that we have guided to here for the year.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Okay. Got it. That's helpful. And then, just maybe, Jim, in the conversation around elasticity, I guess, what's been more notable is just the impact from kind of the reduced SNAP payments maybe took a bit more time to start impacting volumes than others expected.

Can you just talk about what you're seeing real-time? I would think at least some exposure there, but what kind of a SNAP impact that's been? And then, maybe when you think it starts to get better or even modestly flip to a tailwind. Thanks very much.

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

A

Yeah. Great. Thanks, Peter. I mean, I think, the macro discussion has been filled with a lot of different information when we think about some of the economic uncertainties that are showing up in these elasticities. Yeah, we have talked about the reduction in SNAP. Obviously, we're talking about interest rates being high and then as rates go up, that's taking more people's money – student loan, mortgages – which all of that can lead to a depleted or a lower position.

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And so, what's interesting for us is, I think, again, as we go through this category-by-category, we're seeing different behavior in these different categories. And so, we have some premium categories that continue to do very well. To your point, I think, in the short term, some of the center store items have been pressured, and there could be a link back to some of the reduced SNAP or other – the macroeconomic issues.

I think, again, to Deanna's point, our job is to be able to restore that growth. And how do we do that? By connecting with the consumer, reminding them of the value of our portfolio and making sure that we're pulling the right levers, whether it's promotion or advertising. Those are the things that we do. And so we appreciate and understand that there might be some short-term impact, but we also know that we know how to navigate through this situation.

And then, I would – I don't know, Deanna, if there's anything that you would want to add to that conversation.

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

The only thing I would add is it's very fluid. We're watching it all very closely. I was talking to Jim and Jacinth yesterday, and I commented that I didn't use to keep such a close eye on the four-week turns. But in this environment, four weeks actually are signaling things.

An example is the last four weeks in, our convenient meals and protein category showed an improvement over what we saw in the fourth quarter, in some of those areas, where we felt that there was pull back from the consumer. And so, we're keeping a close watch, really, on all our categories, our consumer and working closely with our customers to navigate the macro environment that the consumer is facing. Thanks.

Peter T. Galbo
Analyst, BofA Securities, Inc.
Q

Thank you.

Operator: Thank you. We have our next question coming from the line of Michael Lavery from Piper Sandler. Please go ahead.

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

Thank you. Good morning. Just wanted to touch on Turkey again. It's obviously unusual seasonally to have some of the pricing pressure that you're seeing, but it seems maybe even a little bit more unexpected, coupled with the resurgence in the avian flu.

I guess, what does it take for pricing to recover? And then, you had mentioned how you've been factoring in the price pressure in your outlook. I guess maybe can you give us any sense of what conservatism is there, or if pricing were to improve, how much of an impact that could have? And maybe just to kind of put in some context.

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

Yeah. I think, Michael, the question you're asking about what's it going to take. I think the turkey supply situation is in a unique situation right now because we had supply coming back. And obviously, as supply was coming back, there was a lot of work being done to restore the demand side of the business. And I don't think those were

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yet perfectly aligned. So, I do believe, from a supply side, as we sit here today, the supply is adequate to support the business.

Now, how long does it support the business? How long do some of these outbreaks last? I think those are the uncertainties and the volatility that we talk about in this outlook. And so, as we do think about what we've built in to our outlook, we expect the turkey headwind across the enterprise to be about $0.10. And big part of that is it's a high-volume business when we think about the whole turkey business. Again, you go from all-time high to dropping below a five-year average. And then, where does it go from here? And so, as we sat and worked through it, that was our estimate in terms of the impact of the business.

Now I think the other part of this to remember is our job is to continue to set this business up for success. And so, we continue to talk about rightsizing and optimizing this business' portfolio, so that it does become more demand-driven, more value-added. And think about lean ground turkey, the work that we're doing on the Foodservice side of the business, work in the K-12 channel. So, I mean, all of that factors into our outlook as we're thinking about that in 2024.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Okay. That's really helpful color. And just a follow-up on the kind of three-year plan, and I guess two parts. So, apologies, you might have mentioned this, but could you quantify what the expected savings level is over the three years? And then, of the $250 million spend you called out, can you give a split of what would be CapEx versus operating?

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

A

Yes. So, the last question, Michael, we'll probably have David, follow up on the split for you. He can have those conversations. I do want to just take a step back here and just review the work that we've been doing and the path that we've been on and why this is so important to us.

We go back to the One Supply Chain initiative back in 2018, that was more structural to provide consistency in one look across the entire enterprise. And we followed that up with Project Orion, which was to update, modernize our foundational ERP system across our support areas, HR, finance and accounting. And we wanted to get to supply chain, which clearly we never got to because of COVID. And so as now we're talking about this transformation and modernization, in a lot of ways, it's a continuation of really finishing the work that we've started.

And so, the order to cash, end-to-end planning, those things were always in scope. But as we've progressed, what we've really been able to do is enhance the work that we want to do. And so, think portfolio optimization is something that initially wasn't in scope for us, so that is an enhancement. And so, it is a continuation. In some ways, it's an enhancement and it's an acceleration. And so we've been doing a lot of this work. And our goal now is to finish the job.

And Jacinth, I guess so any of the financial numbers that you want to add?

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

A

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Yeah. No, certainly. Good morning. So, to add to what Jim has just stated here, we laid out a plan that gets us to $250 million over the three years in operating profit. And so, the way we are thinking about that, there is $200 million squarely focused on the supply chain component, which is around the plan, buy make, move pieces of the work streams that we're working through, and that will show up in a couple of different places. Pieces may show up in COGS and other place, definitely will show up through the – and ultimately through the margin line, but really driving margin expansion for the business and getting us back our margin profile and growth rate for the company.

Then, there is another $25 million off that, that is around the strategic value capture of the business. And then, more than $25 million or so is then the underlying core business that will grow over that period of time. So, all in all, over $250 million of expansion from a operating margin perspective, and it doesn't stop and we have that going out to 2026 is how we've messaged it. But what we should think about is that it doesn't just stop there, that the benefits will carry on beyond 2026.

Operator: We have our next question coming from the line of Ben Bienvenu from Stephens, Inc. Please go ahead.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Yes. Thanks very much. I want to ask about the International segment. You talked about the weakness being more pronounced in the first quarter, and then that you expect it to get better after that. Just curious about your assumptions that go into your confidence level around that business improving beyond the first quarter.

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

A

Yeah. Thanks, Ben. There's a couple of things at play there that have us confident beyond Q1. The first thing is when we talk about some of the impact of the price elasticities on our branded business. We've done a lot of work to again, pull the right levers to drive demand. And we've been able to have a positive impact. And so, we do believe that we'll see the branded export business pick up beyond Q1, and that'll carry us through the balance of the year.

The second part is this improvement in our business in China. And so, it's early in 2024, but we are seeing some moderate improvement across Foodservice and Retail. But we're expecting that to accelerate as we move throughout the year.

And then, the third thing really is there was a commodity impact to international this year. And so, as we continue to build demand on turkey, and other pork items elsewhere, that's less – that International will be exporting at lower margins. So, we will expect to see that improvement also as we progress throughout the year. So, really, those three factors are leading to us to have that optimistic outlook beyond Q1.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Okay. Great. Thanks very much. My second question is related to FY 2025. You carved out and quantified the $0.08 of nonrecurring costs in 2024, would you expect to be back to GAAP guidance in FY 2025?

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

A

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Good morning. So, the short answer to that is no. So, over this period, we're executing the transformation/modernization, which we have at the moment bookend until 2026. We will be in the non-GAAP reporting methodology during that period of time, primarily, to just really give good visibility to the underlying core performance of our business and so that there is no confusion there, and then to be able to bucketize the savings that's been driven by the transformation/modernization.

Operator: Thank you. We have our next question comes from the line of Ben Theurer from Barclays. Please go ahead.

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

Q

Good morning, Jim, Jacinth and Deanna. Thanks for taking my question. The first one is on Foodservice, actually, and just to understand, how you can potentially further accelerate this business given the strength you had throughout the year and again in the quarter.

It's becoming really important piece of the equation representing almost 50% of this year's profit. So just wanted to understand what are the opportunities you're seeing within Foodservice to really keep that growth momentum into 2024 as it helps offsetting some of the pressure in the retail channels? That would be my first question.

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

A

Yeah. Great. Good morning, Ben. The biggest thing as we headed to 2024 for Foodservice, a lot of the industry indicators are really stable and in some cases, improving. And so, we think that for us, obviously, allows us to continue to run our business the way we always have because it's well-positioned. And I know it's a bit repetitive, but when we talk about the portfolio that we've designed to solve for operator challenges and limited labor, I mean, that continues to be in our wheelhouse and in our sweet spot.

But then, also thinking about innovation. At our Investor Day, we've talked about the innovation that the team is working on and introducing to the marketplace, continuing to find different categories to make a difference for those operators.

The other thing is we've talked about the value-added capacity that we have in key categories, such as bacon, pizza toppings and turkey. And then, this continued evolution of the work that they're doing in C-Stores, with the addition of Planters and a more Retail-focused portfolio there.

And all of that is complemented by leaning into a world-class culinary team, innovation team and really this food-forward mentality, if you will. So, again, when you think about all the different pieces that can impact Foodservice, it really does remain well-positioned for growth in fiscal year 2024.

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

Q

Yeah. Perfect. Thank you very much, Jim. And then, a quick follow-up for Jacinth on the guidance. Can you give us or share us your expectations as it relates, one, CapEx; and two, just corporate expense in fiscal 2024? How we should think about these two items?

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

A

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Yeah. Good morning. So, from a CapEx perspective, CapEx will be in line with prior year, and we're expecting it to be around the $280 million mark. With some critical projects, including growth for Planters, our transformation/modernization initiative that we're undertaking will be some of the core tenets of the major projects that we'll undertake for 2024.

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

A

I'd just interrupt. Ben, I think we did talk about this in our Investor Day is that we've got, as I just mentioned, for Foodservice, available capacity. So, some of the CapEx investments that we've been making over the last several years, we won't have to make this year. And so, while the dollar amount remains the same, the mix of projects in there will be different.

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

A

Yeah. No, that's exactly right. And I think as we think about how we are spending those dollars, I know, year-over-year – and I've gotten the question before in terms of the expectation that we'll spend more. And to Jim's point, because we have made such an investment over the past few years, we do have that capacity, and now, those assets that are currently working for us.

From a corporate expense perspective, I mean, that will be a little bit – that will be increased definitely year-over-year. When we think about the labor agreement that we just entered into, we're continuing to invest as well in our people. So, that will increase our SG&A. And then, from just overall benefits and compensation also takes us up year-over-year.

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

A

And the work that we're going to do to support our brands,

Ben, when we think about advertising and continuing to support the brands in the marketplace, that remains high, high priority for us.

Operator: Thank you. This concludes our Q&A session. I'd now like to turn the call back over to Mr. Jim Snee for final closing comments.

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

Thank you. And I want to thank all of you for joining us today. And while 2023 didn't play out quite like we had planned, there were a lot of great accomplishments that will set this company up for future success. I remain confident we have right strategy, brands, people and culture to deliver growth well into the future. Again, thank you for joining us today, and I hope you all have a happy holiday season.

Operator: Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Have a lovely day.

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