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Hormel Foods Corp. (HRL)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, and welcome to the Hormel Foods Corporation First 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 Thursday, February 29, 2024.

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

David W. Dahlstrom

Director-Investor Relations, Hormel Foods Corp.

Good morning. Welcome to the Hormel Foods conference call for the first quarter of fiscal 2024. We released our results this morning before the market opened, around 6:30 AM Eastern Time. A copy of the release can be found on our website, 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 first quarter results and give a perspective on the rest of fiscal 2024. Jacinth will 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 rejoin 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 on a consistent basis. The presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Non-GAAP figures adjust for the costs associated with the company's transformation and modernization initiative.

These non-GAAP measures include: adjusted operating income; adjusted operating margin; adjusted SG&A as a percent of net sales; and adjusted diluted net earnings per share. Discussion on non-GAAP information and reconciliations to the GAAP results are detailed in our press release, 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. We delivered strong results in the first quarter, led by better than expected performance in each of our segments. And we have made good initial progress on our work to transform and modernize our company.

We also achieved broad-based volume growth across our businesses, reflecting the strength of our leading brands, robust demand for our foodservice products and momentum in our Planter snack nuts business. These results demonstrate our team's meaningful execution against our strategic priorities, the value of our balanced business model and marked improvements in our supply chain.

Our first quarter results were very encouraging. We grew volume in each of our segments, with overall volume increasing 4%. Net sales grew 1%, led by another excellent quarter from our Foodservice team. Adjusted operating margin increased compared to last year, reflecting higher gross profit and disciplined cost management.

Diluted net earnings per share was in line with last year, while, on an adjusted basis, we grew our bottom line. And cash from operations nearly doubled compared to the first quarter of last year, a direct result of our actions to better manage working capital and grow earnings.

We have a clear and achievable path to deliver earnings growth and improve our business over the next three years. And, as we outlined at our recent Investor Day, we are focused on three enterprise objectives to accelerate profitable growth: first, restoring dependable operating income growth from our current businesses; second, driving savings through transformation and modernization; and third, capturing incremental value through our investments in the business.

Our first quarter results demonstrate the strides we are making in each of these key focus areas. First, our results indicate progress towards restoring sustainable and dependable bottom line growth, with momentum across the portfolio. Taking a closer look by business, Foodservice is off to another fast start. Volume and net sales growth

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were broad-based across numerous categories, led by Jennie-O turkey and double-digit gains for products such as Hormel Bacon 1 cooked bacon, pepperoni, Austin Blues smoked meats and Café H globally inspired proteins.

Segment profit increased 10%, driven by volume, mix and favorable logistics expenses. We continue to operate from a position of strength in foodservice due to our long-standing relationships, differentiated product portfolio, innovative solutions and direct sales team.

This was again acknowledged by the industry in January, when we received the Distributor's Choice Award for strategic partnership by the International Foodservice Distributors Association. This honor recognized our team as the most strategic partner across the foodservice landscape.

We also delivered a solid quarter in the convenience store channel, led by our Planters business. Volume was strong for our snacking business in convenience, driven by positive takeaway for both the Planters and Corn Nuts brands.

We expect our convenience store business will continue to be a growth catalyst in fiscal 2024, led by expanded distribution of our flavored-cashews, innovation in Corn Nuts and better service levels on Planters Peanuts and Trail Mix items. We also plan to further leverage the momentum in our snack nuts business, to increase placements of our other items across the convenience store footprint.

Our International business is also off to a better than anticipated start to the year, as volume and segment profit both increased compared to last year. Results this quarter were very encouraging, particularly given the challenging conditions the team faced in fiscal 2023. We remain confident the International business will further accelerate over the course of the year, driven by more normalized shipments of SPAM and easing of headwinds impacting our commodity exports and growth from our partnerships around the world.

In our Retail segment, our leading brands' execution in the marketplace and recovery in turkey supported volume growth for the quarter. Demand was strong for many products, including Skippy peanut butter, Planters snack nuts, Wholly dips, Herdez and La Victoria salsas, refrigerated entrees and Hormel pepperoni, which all grew volume and net sales during the quarter.

Additionally, Circana data noted several positives for the quarter as we gained or maintained share across many of our products in key categories, including the SPAM family of products, Skippy peanut butter, Hormel Black Label Bacon, Jennie-O ground turkey, Hormel pepperoni, Planter snack nuts, Herdez salsas and sauces and Dinty Moore Stew.

While we expect our Retail business to face incremental pressure from whole bird turkey dynamics and, like many others in the industry, an uncertain consumer backdrop, our team remains focused on winning with our consumers and our customers, better allocating our resources to drive profitable growth and improving the margin structure of the business.

Underpinning the strong starts from our businesses was improvement across our supply chain, as we reverse the inefficiencies and higher operating costs that we absorbed this time last year. Our supply chain improvements resulted in lower freight and warehousing expenses, lower distressed sales and higher investment income resulting from a four-day reduction in our cash cycle.

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Finished goods inventory was down on both a volume and dollar basis at the end of the first quarter, and total inventory was down almost 9% compared to last year. In addition to forward progress on inventory management, fill rates benefited from the increased efficiency and overall health of our One Supply Chain.

First quarter Retail and Foodservice fill rates increased compared to both the prior quarter and prior year. And our fill rates have surpassed 97% to begin the second quarter, marking the first time since March of 2020 that we have achieved this level of service.

Turning to our second key strategic area, advancing our transformation and modernization initiative. This includes the areas of supply chain efficiency, portfolio optimization and data and analytics. We're in the early innings with these efforts, but we are pleased with the progress our team has made thus far.

Notably, within our plan work stream, we are implementing a new end-to-end planning process and are integrating new planning technology.

In the buy work stream, we are realizing the benefits from our new procurement and productivity programs, with further savings expected across many categories, such as logistics, warehousing and supplies.

Under the make work stream, we are standardizing our ways of working across the manufacturing network. We are also continuing to take actions to optimize our refrigerated and ambient distribution networks within our move work stream.

We made progress on our total company effort to improve our portfolio, identifying approximately 10% of the items to be optimized.

Throughout the year, we expect to use our enhanced data and analytics capabilities to identify more opportunities to better our portfolio. And to support these specific work streams and the broader goals of the organization, we formed a data and analytics office focused on creating easy access to reliable and consistent technology, data and analytics.

Executing our transformation and modernization initiative remains a critical piece to our projected growth over the next three years, and I'm pleased with the team's early progress.

Moving on to the third key focus area, capturing value from our investments, where our progress was highlighted by the strong momentum in our Planters snack nuts business. In the first quarter, Planters' volume and dollar share maintained positive momentum, while total points of distribution and household penetration grew.

We also continue to support the brand via higher ROI advertising and an always-on strategy, most recently with the launch of the Planters "Ahhh, nuts" campaign that went live in January. Innovation remains a point of focus for this business. One example is our flavored-cashews line, which is delivering against our key performance indicators and remains on track to achieve its plan for the year. Importantly, this product line continues to over-index with younger consumers, which is driving new consumers and excitement to the snack nuts category.

Over the next few weeks, we will be launching additional innovation, including a salt and vinegar line extension to our flavored-cashews and a new-to-market offering, Planters Nut Duos which has the potential to be a significant contributor to the snack nuts category.

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We also continue to innovate with new varieties of Corn Nuts, including Loaded Taco Flavored Corn Nuts and [ph] Kickin' Dill Pickle (14:27), which is expected to launch in time for summer.

From a profitability perspective, we continue to put a heavy emphasis on redistributing our trade dollars to higher ROI promotions and channels, while simultaneously shifting mix toward innovation and premium nut varieties. These are just some of the high priority plans we have in place to keep the momentum going for our Planters snack nuts business in fiscal 2024 and beyond. We continue to take actions as the category leader to support the Planters and Corn Nuts brands and drive growth for our business, the category and for our customers.

In addition to the Planters business, we have many opportunities to capture incremental value from other investments and initiatives this year and into the future. This includes driving further benefits from the Jennie-O Turkey Store transformation, our go-forward initiative and the recent investments made in capacity and automation.

While we realize that one quarter does not make a year, and there remains significant work ahead, we are confident that we are on the right track to deliver on our commitment to improve our business and increase long-term shareholder returns.

Now shifting to our outlook. We are reaffirming our full year net sales and earnings expectations. From a top line perspective, we expect net sales growth of 1% to 3%. This continues to assume volume growth in key categories, higher brand support and innovation and our current assumptions for raw material input costs.

In Retail, we expect higher net sales across many of our verticals. Targeted retail pricing actions will be effective by the end of the second quarter and are expected to impact our results in the back half of the year.

In Foodservice, we expect broad volume growth similar to the first quarter, led by turkey, pepperoni and bacon. This volume growth, coupled with higher raw material input markets year-over-year, should support net sales gains.

We expect net sales increases in our International business to be driven by the branded export business led by refrigerated items, Skippy and SPAM and the retail and foodservice channels in China.

From a bottom line perspective, we are also reaffirming our diluted net earnings per share and adjusted diluted net earnings per share outlooks. Consistent with our initial outlook, we expect continued growth in Foodservice, improvement in our International business and benefits from innovation in Retail.

Our full year outlook also assumes higher salaries, normalized employee-related expenses and costs associated with planned investments in the business. Diluted net earnings per share and adjusted diluted net earnings per share are expected to decline year-over-year in the second quarter and grow in the back half of the year.

At a high level, we are assuming our stronger than expected start to be partially offset by incremental earnings pressure coming from our whole bird turkey business. Jacinth will provide further details on these assumptions in her remarks.

Taking all these factors into account for the full year, 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 benefit to net earnings from our transformation and modernization initiatives.

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In closing, our strong start to the year reflects our team's ability to execute our clear and achievable plan. We remain focused on our strategic priorities and delivering on our commitment to improve our business and drive long-term shareholder returns.

At this time, I will turn the call over to Jacinth Smiley to discuss detailed financial information related to the first quarter and additional color on key assumptions in our outlook.

Jacinth C. Smiley

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

Thank you, Jim. Good morning, everyone. We delivered strong results in the first quarter, led by better than expected performance in each of our business segments. During the first quarter, we grew volume 4% and across all of our segments. Net sales for the first quarter were $3 billion, a 1% increase compared to the previous year. Gross profit increased 3%, driven by higher net sales and lower logistics expenses.

Gross profit as a percentage of net sales increased to 17% compared to 16.7% last year and 16.1% in the fourth quarter. Both our Retail and Foodservice teams drove better margins quarter-over-quarter and compared to last year.

First quarter SG&A increased 8%, reflecting incremental investment in our transformation and modernization initiatives and higher employee-related expenses. Adjusted SG&A as a percent of net sales was marginally higher compared to last year.

Advertising investments are expected to be up significantly in the second quarter and increase for the full year. We are actively supporting our brands in the marketplace, including the SPAM, Planters and Hormel Chili brands. Equity in earnings of affiliates increased 3%, primarily due to the inclusion of minority interest in Garudafood and growth from our partnership in the Philippines.

Operating income for the first quarter was $284 million and adjusted operating income was $295 million. Adjusted operating margin of 9.8% increased 10 basis points compared to the first quarter of last year. The effective tax rate was 23.4% compared to 22.6% for the previous year.

Our prior year effective tax rate benefited from the impact of certain discrete items and higher federal deductions. The effective tax rate for fiscal 2024 is expected to be between 21% and 23%.

The net result of all these factors was diluted net earnings per share of $0.40 and adjusted diluted earnings per share of $0.41. Upside this past quarter compared to our expectations was driven by broad-based volume growth, strong results for all of our businesses, improvement across supply chain and below-the-line favorability.

Turning to cash flow. Operating cash flow of $404 million increased 98% compared to last year. This was a direct result of our successful actions to rectify the inefficiencies caused by elevated inventory levels last year and underlying business growth. Overall, we drove a four-day reduction in our cash conversion cycle.

We paid our 382nd consecutive quarterly dividend effective February 15 at an annual rate of $1.13 per share, an increase of 3%. We invested $47 million in capital projects during the first quarter, including investments in our Jennie-O Turkey Store transformation. Our outlook for capital expenditures in 2024 remains at $280 million.

We ended the first quarter with $982 million in cash and short-term investments and $3.3 billion of debt. We plan to utilize a combination of cash on hand and debt issued in the second quarter to pay our $950 million note due in

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June. We have accounted for higher interest expense in our outlook and expect to remain within our stated goal of 1.5 to 2 times net debt to EBITDA.

I would like to further highlight the progress we have been making on our transformation and modernization initiative, which is expected to drive at least $200 million in operating income by 2026. Through the first quarter, we made great progress and remain on track to capture our full year savings target for fiscal 2024. The work has intensified in the second quarter with the expectation that savings capture will accelerate throughout the year.

This year, we are highly confident in our ability to capture: direct savings from our productivity programs, which are targeting packaging, ingredients and other supply categories; continued benefits from the work we have done lowering logistics expenses across our network, including lower contracted freight rates, optimized routes, increased truck weights and reduced reliance on third-party warehousing; benefits from lower distressed sales, as we make improvements to our inventory management planning and manufacturing processes; value derived from new capabilities and ways of working, including integrated business planning and from the implementation of our standardized and proprietary manufacturing system across our network; and benefits from minimizing complexity and reducing costs through portfolio optimization. This is a truly exciting and important time for our company as we build toward our future.

Transitioning to our outlook. We are reaffirming our full year net sales and earnings expectations. To supplement what Jim reviewed earlier, I will share some additional color on our assumptions for the rest of the year.

From a pork perspective, our outlook remains unchanged. The USDA is projecting modestly higher production and exports in 2024. Cold storage levels for pork continue to trend below last year and historical averages, which we expect to be supportive of pork markets. We assume full year pork input costs to be higher than last year and remain above five-year averages.

Specific to turkey, overall inventory levels have recovered despite lingering impacts from cases of HPAI in the fall and early winter. Barring a significant supply disruption this spring from additional outbreaks of HPAI, we are in a strong position to service our customers and attract new business opportunities.

We made good progress regaining value-added turkey distribution in the retail and foodservice channels during the first quarter, and we expect this to continue for the rest of fiscal 2024.

On the commodity side of the business, whole bird turkey markets have stabilized below our initial forecasts. Consequently, we have included in our outlook incremental earnings pressure from lower than expected market pricing. We began absorbing this impact in the first quarter and expect continued pressure for the balance of the year.

Net-net, we now expect approximately $0.15 of earnings headwinds from our turkey business in fiscal 2024, which is an update to the $0.10 impact we called out on our fourth quarter earnings call. Most of this $0.15 headwind will impact quarters two through four.

In the second quarter, we expect earnings to be lower compared to last year and lower relative to our expectations heading into the year, primarily related to our whole bird turkey business. We remain confident in our growth outlook for the second half of the year, expecting all segments to deliver profit improvement, in addition to benefits from our transformation and modernization initiative.

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To wrap-up our commentary this morning, I want to extend my gratitude to each and every member of our dedicated team. Your hard work has been instrumental in delivering a strong start to the year and contributing to the momentum in achieving our strategic objectives to improve our business for the long-term.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] First question comes from Rupesh Parikh from Oppenheimer. Please go ahead.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Good morning and thanks for taking my questions. So just going back to the Q1 performance, it was clearly ahead of expectations. So I was just hoping for more color in terms of what drove the outperformance.

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

A

Good morning, Rupesh. Yeah, Q1 was a very strong performance for the company. And it really is – what's so exciting for us is it was so broad-based. When we think about all the different areas, I mean, clearly, volume is a very positive story. We saw volume growth in each segment. When we think about Retail and what's happening in the retail environment, we knew turkey volumes were going to be positive. But even when we take that out in some of our other non-track businesses, retail volumes were up year-over-year. Foodservice had a very strong quarter. They continue to really perform in the marketplace. And so across all of the businesses, really, really great to see them have a successful and strong Q1.

The other thing that we've spent a lot of time talking about is our supply chain. And we did see marked improvement in our supply chain in Q1. A year ago, we were talking about inventory, and we've really been able to get that under control. We've seen lower inventory volume and dollars, which obviously has a positive impact when we think about distressed sales.

The other piece that's really, really exciting for us is seeing what we're getting done on fill rates. And we talked about it in the prepared remarks that we've got the highest fill rate since 2020. And then, obviously, there were some below-the-line favorability as well. But when we wrap it all up, I think the key takeaway here is we're executing our strategy, and we have confidence that the business will keep moving in the right direction throughout 2024.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Great. And then, maybe just one quick follow-up question. So as we look at the outlook for the year, what are the key risks that you see in delivering those targets?

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

A

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Yeah, I think we tried to be pretty specific in regards to the risk that turkey presents to us. We know that the whole bird outlook is worse and we've built in another $0.05 with most of that occurring in Q2.

But the other part really is the consumer environment, which we're watching very closely. As we think about our business, our shares are solid. We're making advertising investments to support the brands, driving some great innovation, but we know that there are categories that are weak. And we are watching those volumes. But we're doing all the right things to make sure that we're driving our shares and supporting the brands.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

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

Operator: Thank you. The next question comes from Ken Goldman at JPMorgan. Please go ahead.

Ken Goldman
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you. I just wanted to clarify something. Last quarter, your slide presentation said to expect back half profit growth in all three segments. Today, I think you're saying you'll just see profit improvement. Maybe it's just semantics, but I'm just trying to get a sense. Do you still expect each segment's profits to increase year-on-year in the back half, or is now the messaging just they'll improve sequentially and maybe not all be up year-on-year? Again, maybe just semantics.

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

A

Yeah. Great question, Ken. Thanks for asking it. But we do expect profit growth in all segments in the back half of the year.

Ken Goldman
Analyst, JPMorgan Securities LLC

Q

Perfect. Thank you. And then, just on Foodservice, obviously, your tone is pretty strong here. There are some more macro indications that on the edge, some slowdown in restaurant demand is out there. Last quarter, you were seeing higher checks despite traffic softness. You still saw restaurants staffed for all hours. I'm just curious. Are there any amendments at all, I guess, in how you view the away-from-home situation from a macro perspective or in any of those KPIs that you look at?

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

A

Yeah. I mean, we're watching all those things, Ken. The other part, obviously, in Q1, is there were some weather-related events that also have an issue. But from where we sit, and you've heard us say many, many times, is we do believe that we have and are working from such a advantaged position in our Foodservice business. Because it's not just the restaurants and hotel business. We have a significant non-commercial business as well. We've spent a lot of time talking about C-stores, which continue to grow and, obviously, the acquisitions and execution against the Planters brand helps us in that regard.

But even in the more traditional restaurant business, we still feel like we're operating from a position of strength, because of this differentiated value-added portfolio, the relationships that we've built over 30 years, and really

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thinking about how can we help the operator take costs out of their system. And we do that through our direct selling organization. So, yeah, we're watching all those macro factors. We know they're real. But I think the way that we've diversified and balanced the business, even within our Foodservice segment, is what really helps set us apart.

Ken Goldman
Analyst, JPMorgan Securities LLC

Q

Thanks, Jim.

Operator: Thank you. The next question comes from Michael Lavery at Piper Sandler. Please go ahead.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Thank you. Good morning.

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

A

Hi, Michael.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Just was – you've got – just was looking at the volume gains across all segments. That's harder to find in food these days, but certainly, a couple of them had some price pressure. How are you thinking about pricing? You mentioned a couple targeted actions coming this second quarter. But can you give a sense of magnitude or where those might be and just how you think about the rest of year?

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

A

Yeah. Great question, Michael. And actually, the conversation does go back to what we said in Q4 and in our outlook for the year, we had specifically mentioned some targeted pricing. But I think to go along with that, which is really, really important, is that we are investing in our brands and where we've invested higher advertising dollars to drive volume, to improve mix.

We've got some great innovation that continues to be generated across many of the brands. And so, it's broad-based pricing. Some of it's wrap-around pricing. And just wanted to make sure that that was clear, that it wasn't new, that we are going back to Q4. And I think what I'll do is maybe turn it over to Deanna to give you maybe some more specifics on what she's seeing in the retail environment.

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

A

Just to clarify, it really is very targeted pricing and in a few key categories where beef is the main driver. So we've lagged in pricing in some of our grocery items relative to where beef has moved, we've taken some targeted pricing. With that in mind, though, we've been able to shift dollars from advertising to ensure that we're talking to the consumer about the products, the value and the role they play in their lives, particularly for lunch and dinner as really great options.

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So we've been able to pivot and turn on advertising. And in those categories like stew, hash and chili, the ROI on advertising is extremely high. And so it's a really important strategy for us. We're also looking at promotions and thinking about with these different pricing on shelf adjusting our promotional strategy and thinking about depth and frequency of promotion to really get the right price for the consumer to stay in the category with us.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Okay. That's great color. And you mentioned the incremental headwinds on turkey from extended price pressure or worse than expected. Sorry, if I might have missed it, and I know you touched on pretty much broad strength in at least the first quarter, but what's the offset for that? Is it just sort of everything else? Or is there anything in particular that really is kind of keeping you to hold guidance that covers the extra pressure in turkey?

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

A

Yeah. Michael, I mean, first of all, I want to apologize. I misspoke because I said that it was both targeted and broad-based pricing, but it is very targeted pricing, which Deanna corrected me on. So when we think about the turkey situation and the reason we are where we are with guidance is, it's early. And for all the factors that we've talked about from some of our earlier questions, obviously, Foodservice is off to a great start. The Q1 performance demonstrates the business improvement. Our International team had a really strong first quarter, and that exceeded our expectations. They've gotten back on track a little sooner than we thought. And so that's what's going to offset that additional headwind coming from the turkey market. But in regards to just overall guidance, the biggest thing is it's early.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Okay. Great. Thanks so much.

Operator: Thank you. The next question comes from Tom Palmer at Citi. Please go ahead.

Thomas Palmer
Analyst, Citigroup Global Markets, Inc.

Q

Good morning. Thanks for the questions.

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

A

Hi, Tom.

Thomas Palmer
Analyst, Citigroup Global Markets, Inc.

Q

Wanted to ask on – or just clarify, I guess, the expected earnings outlook as the year progresses. So you're guiding for the decline in second quarter year-over-year and then an increase in the second half. I just want to clarify. Is that you're looking for an increase in both the third quarter and the fourth quarter or might that be more weighted to one of those two?

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

A

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Yeah. I mean, the way we're thinking about it right now, Tom, is it's – we're looking at half two in totality. And so, that's why we think we're going to – we want to talk about it that way, that we'll have profit growth in the back half. And really what gives us that confidence is Foodservice continues its trajectory. Our International team continues to ramp up their performance. The Retail team will continue to benefit. We've got, in addition to what Deanna talked about, innovation, distribution, supply chain continues their strong performance. And then, we haven't talked about it yet, but we do expect to see our transformation and modernization initiative really, really accelerate as we go throughout the year.

Thomas Palmer
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thanks for that. And then, I just wanted to ask on your visibility on whole turkey, I think when we looked at last year, maybe you locked in or contracted a bit less volume pricing for whole birds than maybe in a normal year. So maybe an update there as you look at the progression of this year, is it going to be a bit more normal in terms of whole bird contracted out and, therefore, you have kind of a higher level of visibility on pricing than you did, say, a year ago?

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

A

Yeah. I think it's we're in the midst of that process right now, Tom, so it's hard to say at this point. When we think about turkey, there's a couple of components that we really should spend a little bit more time on. There's this, the value-added business. And when we think about retail lean ground turkey, that value-added business is doing really well and gaining share. Our Foodservice team, because we've got volumes back and supply back, they're doing a great job regaining lost business due to that lack of supply in the foodservice channels. And so, really, what we're talking about is the decline in the market, which, obviously, we are applying to what our estimates are in the whole bird turkey business for the rest of the year. And so, that's how we're thinking about it. To actually know how it's going to shake out from now through the end of the year is still TBD.

Thomas Palmer
Analyst, Citigroup Global Markets, Inc.

Q

Understood. Thank you.

Operator: Thank you. The next question comes from Ben Theurer from Barclays. Please go ahead.

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

Q

Yes. Good morning, Jim, Jacinth. Thank you very much for taking my question. Congrats on this very strong results for first quarter. Jim, I wanted to kind of dig a little deeper into some of the volume dynamics and particularly in retail as it relates to the non-turkey piece of it? And, Deanna, maybe that's actually a question also for you. As you look through the performance of the first quarter, and kind of progress further into 2Q and the back half of the year, what are your expectations for some of your other key categories in retail, in particular, as it relates to volume and the cadence of that, if you think about it on a sequential basis? Any color here would be much appreciated.

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

A

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Sure. Thanks, Ben. In the first quarter, we saw really nice volume growth across many of our flagship and rising brands. When you think about bacon, you think about pepperoni, you think about Applegate and our MegaMex portfolio, [ph] so nice volume (44:37), both in shipments as well as takeaway at the shelf. Those are also a lot of the categories where we've invested capacity. And so, we've got a good runway for growth when you think about like bacon and pepperoni as examples.

Planters had a particular strong quarter, as well as Skippy. And we continually see those, all those businesses I just mentioned, continuing to grow throughout the year. And then Jim mentioned Jennie-O Turkey on shelf is doing exceptionally well. When you think of the value that turkey offers, the health benefits, we're working really hard to make sure that our consumers understand the value that turkey plays in their diet, in particular, and the health values there.

And then, under our new go-forward structure, we're able to bring our brands together. That really can be impactful to help consumers put dinner on the table. So you think of Jennie-O lean ground turkey, coupled with [ph] our dense portfolio (45:37) as we head into the next quarter with Cinco de Mayo. And you'll see a lot of in-store activation of those brands working really hard together.

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

Q

Okay. Perfect. And then, just one quick follow-up for Jacinth. On the bond that's due late in the year, did you say you're going to plan on completely repaying it or partially repaying it? I didn't catch that in the prepared remarks. Sorry for that. I just wanted to clarify.

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

A

So, good morning, Ben. So we will utilize our cash on a combination of our cash on hand and also going out to – with new debt issuance to pay down the full $950 million.

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

Q

Perfect. That's what I was looking for. Thank you very much.

Operator: Thank you. The next question comes from Ben Bienvenu from Stephens, Inc. Please go ahead.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Thank you. Good morning.

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

A

Good morning, Ben.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

I want to ask as it relates to raw material input costs. We've seen various cuts within the overall cutout as well as the overall cutout come down, namely trim down considerably year-over-year really for the last several quarters.

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Are you all in a position where you are able to start to recognize some margin benefit from that? And what is the lag associated with that dynamic and perhaps the tail in terms of your ability to procure and secure longer-dated lower priced raw materials?

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

A

Yeah, Ben, as we think about the impact of raw materials in the quarter, I mean, it was largely in line with what we expected. And the thing that we talk about often is it's not necessarily a point in time for a market. It's the volatility and how each of those cuts are reacting. So I think the biggest thing to know is the commodity markets really didn't have a dramatic impact in our ability to have such a strong quarter this year – or this first quarter.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Okay. Fair enough. As we think about supporting volume growth through the balance of the year, obviously, a good start to the year, do you find yourself needing to make or wanting to make targeted investments in promotional activity or vendor-sponsored trade spends to support volume? What is your strategy there as we move through the year?

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

A

Yeah. I'll go ahead and start on just the broader organization. I think we spend a lot of time on Retail, but I do think it's important to think about the total company volume growth. And International, again, has had a really strong first quarter, earlier than we expected, but we expect them to show volume growth. Our Foodservice business continues to be healthy. That'll be a strong contributor to the total company volume performance. But I'll let maybe Deanna address the retail question specifically.

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

A

Sure. Good morning, Ben. The plan for the rest of the year is a year-over-year increase in advertising. You'll see the advertising really pushed under our new structure towards the flagship and rising brands. That's working exceptionally well for us, and we're seeing extremely strong return on investments. We have also moved to an always-on strategy, in particular, with Planters. And that's working really hard as well. In addition to advertising to drive growth, we've got the most robust innovation pipeline and execution plan across a variety of our categories as we head into the year.

And then, we finally are thinking about promotional activity as well and really monitoring how promotions are working. And we are seeing a difference from how they've worked the last few years as well as thinking about relative to pre-COVID time frames, but really being intentional to ensure that we're getting the right promoted prices to help drive growth and keep consumers in our categories and with our brands.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Okay. Perfect. Thanks so much.

Operator: Thank you. The next question comes from Peter Galbo at Bank of America. Please go ahead.

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Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Hey, guys. Good morning. Thanks for taking the questions. Maybe just two really quick ones. Jacinth, thanks for the help on Jennie-O, the $0.15 update. I was wondering if we could just get a little bit more detail in terms of cadence: A, just what the impact was of that $0.15 in the first quarter; and then I think you've said the majority of it coming in 2Q, if you can put a finer point on that.

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

A

Good morning, Peter. So the way we are thinking about it for the rest of the year, certainly, it's going to impact all the rest of the quarters going through the year. But we're thinking about the most of that impact coming in the second quarter and then the rest spread out. So if we think about the additional $0.05 that we talked about, so coming into the year last year, we talked about $0.10 impact. As we updated and looked at the impact this year, we think there's going to be an additional $0.05. And the additional $0.05 is going to be spread out, with the most of that $0.05 coming in the second [quarter].

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Okay. But is it fair to assume like was there very minimal impact in the first quarter or just, again, as we're trying to bridge the whole number?

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

A

Yes. There is certainly some of it that happened in the first quarter, for sure, Peter.

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

A

Yeah. So there will be, Peter...

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

A

But it's a little bit minimal.

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

A

It's fair to say some of it will spill over into Q2. But in addition, we'll have the $0.05. And what Jacinth described as the majority of that $0.05 in Q2.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Okay, got it. And then, Jim, just Foodservice, one question and maybe one comment. Obviously, quarter came in a lot better than a lot of the indicators would have said, kind of back to Ken's question, even to speaking about some of the headwinds from January. So just maybe wanted to unpack that more. And then I think in your prepared remarks, you said Foodservice volume, you'd expect kind of at similar level through the rest of the year. So I just wanted to make sure I understood that comment or if it was just more of a positive volume trend on Foodservice. Thanks.

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

A

Yeah. I mean, I think the key takeaway here is the Foodservice business continues to operate from a very advantaged position and the really strong Q1. And we expect that business to continue through – continue its trajectory throughout the year, which I think part of that is the volume growth that we expect in the back half of the business from it as well. So there was the January slowdown, which really is just weather-driven. We see the weather impacting the business. And then, of course, some of the post-holiday doldrums. But the business continues to perform really well. And we expect it to continue its trajectory in the back half of the year.

Operator: Thank you. The next question comes from Adam Samuelson at Goldman Sachs. Please go ahead.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Yes. Thank you. Good morning, everyone.

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

A

Hi, Adam.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Hi. So maybe just a first question, it's a bit of a clarification. Just as I think about turkey and the impact on company level volumes, this quarter, you were lapping some of the steepest production disruptions last year from HPAI in your own business. And so, just can you just articulate how much of the year-on-year volume growth at the company level, 3.7%, was attributable to kind of the normalization of your own turkey production, which I would think explains basically all of that 3.7%? And maybe on touching on Peter's question, just to be clear, Jim, are you saying Foodservice, you think, is growing volumes at a kind of mid to high single-digit clip for the balance of the year or you're talking about the absolute volume tonnage staying at this level through the balance of the year?

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

A

Yeah. Okay. So, Adam, I guess on the turkey question with volume, what we were saying is that we had expected turkey volumes to grow, which they did. But then we also saw growth in underlying volumes in our broad-based value-added businesses. So that's how we're thinking about that. And then really for Foodservice volume growth, we expect that to be in the mid-single-digit range.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Well, okay. But I guess maybe kind of keying off that then, especially where there's still inflation on the beef side, I'm trying to think about kind of mid-single-digit volumes in your Foodservice business, kind of some recovery in International, which had a quite challenging 2023. I'm trying to square that to the overall guidance for company level sales of up 1% to 3% for the year and just the implied decline in either consolidated pricing and/or the Retail business in the balance of the year. So how do I bridge those two pieces a little bit more clearly?

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

A

Well, there's a lot there, Adam. I think from our perspective, I mean, there's two things. I want to go back to the reason we reaffirmed our guidance is it's early. I think the second part in terms of as you think about trying to parse all of that apart, I know you'll have a follow up call with David, and that's probably a really good time to walk through all those different parts.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

All right. Worth a shot. I'll pass it on. Thanks.

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

A

Yeah. Thank you.

Operator: Thank you. There are no further questions. I will now turn the call back over to Jim Snee for closing comments.

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

Well, I want to thank all of you for joining us this morning. We're really pleased by our overall performance and the strong first quarter that we were able to deliver. This is a result of a total team effort, and I want to take the opportunity to thank all of our teams. It's early. We know we have a lot of work to do to deliver the numbers we want to deliver for the balance of the year. But as I said earlier, we are executing our strategy. And we have confidence that the business will keep moving in the right direction throughout 2024. Thank you, everyone.

Operator: Ladies and gentlemen, this concludes today's conference call. We thank you for participating, and we ask that you please disconnect your lines.

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