

13-Mar-2024

Hormel Foods Corp. (HRL)

BofA Securities Consumer & Retail Conference

CORPORATE PARTICIPANTS

Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

Jacinth C. Smiley

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

OTHER PARTICIPANTS

Peter T. Galbo

Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Peter T. Galbo

Analyst, BofA Securities, Inc.

Good morning, everybody. We're the last session before lunch here, but we have a good one. My name is Pete Galbo. I'm with the food and beverage team here at BofA.

We're delighted to be joined again this year by Hormel Foods. \$12 billion in revenue business, market leader in all things pork, turkey, snack nuts, peanut butter, as well as Mexican foods, and now even in Indonesia. Hormel recently reported its fiscal first quarter and had an in-person Investor Day back in October where they announced a \$250 million operating income growth target and outlined efforts they have made after shifting to their go forward operating model. Company also offers a unique perspective, and that it has a bit more balanced channel mix versus some of the other packaged food peers. About 65% of sales through Retail and 30% of sales through Foodservice.

Joining me today is Jacinth Smiley, EVP and CFO; and Mark Ourada, Group Vice President of Foodservice; as well as David Dahlstrom from Investor Relations. David, the last go around of investor relations, unfortunately. We will be sad to see you move on, but happy for you as well.

So, guys, thanks for being here today. Really appreciate it.

Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

Happy to be here. Thanks.

Jacinth C. Smiley

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

Great to be here.

QUESTION AND ANSWER SECTION

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

So, Jacinth, maybe to start off, I was just hoping you could kind of give a quick recap of results from last week. Just anything coming out of the call that you maybe have been getting questions on today or in the past week?

Jacinth C. Smiley

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

A

Absolutely. Again, happy to be here, especially off the back of such a strong quarter for the company, a win that we absolutely need. And so as we think about Q1 and the strong start to the year and our expectations, we're still reaffirming our guidance for the year. But as I think through what went well for us this quarter, just across the board, our entire business, all segments, strong volume. Overall volume, up 4% for the company, but volume strength in all segments of our business, number one.

Number two, our supply chain has improved significantly. If you think about where we were last year and the conversations we're having around the challenges in our supply chain, we have improved across the board from – whether it's freight and warehousing, fill rates, all of that has improved this quarter.

And then third is around the progress that we are making from our cash conversion and how the supply chain improvement is also impacting us below the line as well for the business, and then progress on our transformation and modernization initiative that we'll talk more about. So, a lot there in terms of what we're getting from the calls. And we'll touch on a lot of those and hit those as we go through here, and our outlook and the conversation that we're having. But, really, strong start to the year, and we're very excited about that.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Great. I'd love to unpack a little bit more of that on the quarter. I think what was unique about it, particularly in packaged food as we've gone through the past couple reporting cycles, is that it was a volume-led beat. We don't – we haven't seen really any of those. So, maybe you can just give us a sense of where things were better relative to your internal expectations. I think gross margin probably came in a bit better as well. But maybe you can unpack that a little bit more for...

Jacinth C. Smiley

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

A

Yeah. Certainly. And as I said, across the board, so volume was strong in Retail, even outside of Turkey. We think about the Foodservice, and Mark will talk about that later in terms of the strength that we continue to see in our Foodservice space. International came in better than expected for the year. We had expected growth for 2024, but didn't expect it so early in the quarter or early in the year for International.

So, International had growth from a volume standpoint. Retail had growth. Foodservice had growth. And when you think about all of our brands within the Retail space, in our key categories, we're actually seeing gains for those key categories and thinking, Skippy, Planters. Planters was strong. We will – you see the brands here. But the work we're doing there executing on Planters is really paying off. And we're seeing that momentum with the innovation investments that we're making in Planters [ph] shop (00:04:31) here, and we're seeing gains and either

in space – we're either gaining share or holding share in the key categories that we're playing in. So, those are what's falling to the bottom line.

And then I talked about supply chain. We've spent a lot of time working through that as we came out of last year and the challenges that we're having. And so seeing the supply chain get a lot healthier with freight and warehousing being down, our district sales are also down from where we were last year. And we're also – then having that, as I mentioned before, translate into lower inventory, we – that was one of the issues we had as well, carrying higher inventories. Our inventory dollars are down. Our days inventory is also down. So, both from a dollar and cycle standpoint, we've seen improvement in the inventories, and that's translating overall from a supply chain perspective to fall through the bottom line as well.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

So, Mark, maybe just to bring you in here, and I want to talk about the outlook maybe a bit later. But just any specifics on the quarter in Foodservice, plus 8%. Again, given I think some of the weather dynamics we saw in January, particularly in the Midwest, was really the big surprise for folks. So, maybe you can just unpack a little bit of what you saw...

Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

A

Yeah. Great. So, again, great to be here today. So, as we've talked about in the past, when we approached the business, we do feel that we're in a very competitive position for a couple different reasons. Number one, with our direct sales team. So, we've got several hundred people out there really driving the business all the time. The way our portfolio is positioned, we continue to innovate and upscale the offerings for customers to the value-add to help address the pain points that the customers have.

And then also, just the segments we play in. So, we not only are in the commercial segments. So, if we talk about that, it's your restaurants, both independents and chains, but also what we call non-commercial or emerging segments. So, we're very active in college and university, health care, C-store, K through 12, all of those areas. So, as the industry moves, that there are certain pockets of it that might get softer than others. We continue to kind of outpace growth because we're strong in all of those.

I think for the first quarter, November and December were very mild. So, I think that helped the industry. January, we did get some weather come through. But, again, it didn't really impact the business because it's a little bit more downstream, if there's any inventory that builds up. But we flushed through that pretty quick. We don't see that as an impact. So, we're very happy with the quarter. And, again, continue the outlook for this year to see growth continue. So...

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Great. And just – maybe just one last question on the quarter. Just briefly, you gave some pretty specific guidance around kind of Q2. If you could kind of recap that for us. And maybe the phasing, as you think about the remainder of the year.

Jacynth C. Smiley

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

A

Yes. Yeah. Certainly. So, I know there is a lot of expectations that, given the strong quarter, that we would raise guidance for the year. Our viewpoint is it's early. Early in the year. We're happy about the strong start. But as we think about the rest of the year, Q2 is going to show a decline year-over-year. We went into the year with a headwind of about \$0.10 on Turkey. And we – that now has increased to \$0.15. So, there is an additional \$0.05 of headwind, which is going to fall primarily in the second quarter, which is why we're calling the decline in 2Q. And then for the rest of the year, second half, we expect to see growth year-over-year in the second half across all of the segments of the business. So, with the momentum that we have seen here in the first quarter, we'll see that momentum continue in the back half of the year, but seeing a decline in the second quarter.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Great. And, Mark, maybe to pivot back on the outlook on Foodservice, you talked a little bit about non-commercial being strong. I think convenience is now captured in Foodservice as well. So, maybe you can just give us a sense on, within that guidance over the remainder of the year in Foodservice, how you're thinking about a commercial – the non-commercial side and maybe the C-store side over the balance of the year.

Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

A

Yeah. So, I think – again, as we look at over the balance of the year, there are some – still some questions out there as far as the consumer goes and where they're going to spend their dollar. But, again, as we look at how we're balanced across that portfolio, I mean, you can look at the data. So, maybe restaurants right now, traffic might be off slightly, but we see that convenience stores are very strong. And we play very strong in convenience. [audio gap] (00:09:25) certainly see that as continuing to grow, not only with the Planters brand since we integrated that, but also the other retail brands that come with that and the Foodservice offerings. Convenience stores have changed, and they continue to, I'll say, up their game as they've noticed coming through COVID that people will really stop there for a good meal, and there's really good food being offered in convenience. So, that fits right into our wheelhouse of the product offerings that we've got.

And then the health care, the college/university, again, those are relatively stable for us, and we continue to penetrate and do more business there. So, on the outlook, again, Peter, it's hard to tell exactly where the dollars are going to go and shift. But because we're [audio gap] (00:10:04-00:10:11).

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

And maybe that's a good – pretty good pivot. One of – I think we were talking about, in the earlier meeting and then we have a lot of debate internally on – I'm sure you guys do as well, given kind of the makeup of the portfolio – is just there's a lot of questions, I guess, around resuming kind of pre-COVID normalized trends, particularly around away-from-home, retaking kind of share of occasions. I know we talked about dollars, but maybe more...

Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

A

Right.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

...on a unit basis. So, maybe just – is it you and Deanna going into Jacinth and there's a boxing match to figure out who's going to win out? Like, what's the – how do you guys, just given your perspective, come to – all

channels can't grow all the time, but how do you kind of formulate that view, and how you think about it going forward here?

Jacinth C. Smiley

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

A

I think that would be a good look, right? Deanna and Mark boxing it out. Yeah.

Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

A

No. Again, it gets back to our balanced model. So, again, from a broad perspective, the Retail, the Foodservice balance, and the International, I mean – so as these things come up, it's become very gray. It's become a little tough. We talk about pre-COVID necessarily. Now, what was that? And now that we've come through COVID, what is an at-home occasion versus an at-a-restaurant or away-from-home? Because now you've got Foodservice products being sold in delis and grocery stores. Well, that's a Foodservice sale potentially on the front side, but a take-home ring at the cash register.

So, there's a lot of gray areas there. But, again, I feel like wherever that goes, we do feel good about the fact that we can impact business in all the different segments and everything. So, if it shifts a little bit from the actual restaurant to the grocery store, we've still got the non-commercial piece that we go to, and C-stores, we think, are going to continue to be strong. So, it's just kind of hard to say if we ever get back to whatever pre-COVID was because I think the numbers and how we look at it have changed a little bit.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Is – the sales force that you manage, the Foodservice, direct sales force, are they responsible for that? In your example, in store deli, let's say, if there's a restaurant inside of a grocery store, is that [ph] prolonged now (00:12:19)...

Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

A

Yeah. I mean, it generally follows the customers. So, for retailers that manage out themselves and warehouse and everything, that would go through the Retail channel. A lot of grocery stores though for their deli business will have foodservice distributors manage that inventory for them and deliver just like a restaurant would. So, again, it really depends on the customer, and we'll go either way, whichever they prefer to do. So...

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Great. Just then maybe if we can shift back to kind of the messaging coming out of the Investor Day in October, you announced kind of the three-year plan on transformation modernization, the \$250 million in operating income growth target by fiscal 2026. So, maybe you can just unpack for us the efforts that you have thus far as you kind of chip away for that target. And maybe what's embedded in 2024, and how we should think about the ramp of that \$250 million over the next three years.

Jacinth C. Smiley

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

A

Yeah. Certainly. And the team is all hands on deck working through executing on the transformation modernization. It's – \$250 million is broken down into three parts. Just to remind everyone, the first piece is around just the base business and getting back to 5% to 7% growth. So, really expanding margins there and getting the base business to grow.

Second is around strategic value capture that we talk about from the acquisitions we have made with Planters, but also the integration of the Jennie-O Turkey Store and capturing value there.

And the third piece is the biggest component, which is \$200 million from transformation modernization, and that piece has a few pillars attached to it. Biggest piece around is supply chain efficiency. Another piece is around the data and analytics component. And then third on portfolio optimization.

So, we are making progress on all fronts, and so there is a lot of work going on. We have already seen really good progress in all of those. You think about the supply chain piece, is part of why our results are so strong this quarter because our supply chain has improved based on the work going on there in terms of how do we plan, how do we buy using end-to-end demand/supply, how are we – buying more effectively, what should it cost us to buy?

And [indiscernible] (00:14:55) partnering with us certainly to do that and RFP-ing where we need to RFP. How do we ensure that we have the right end-to-end planning solution and the right infrastructure to support the business, so we can be as seamless as possible going from one end of the process to the other?

And then portfolio optimization, one of the things that we have [indiscernible] (00:15:17), and we have been very open about this, is that we service the portfolio primarily in a very similar manner. Doesn't matter the size of the customer. Doesn't matter the SKU. Doesn't make – how much money does it make, what's the margin? And so we've now taken a step back to say, okay, what do we need to do to ensure that everything sort of goes up into this right quadrant the way we have now segmented the portfolio to say what's low complexity, high margin, and strategic to the company? Because that's where we're trying to get everything to go, is into that upper right quadrant.

And so we're making really good progress working through that. Have already identified about 10% or so of items that we need to either fix or rationalize from the portfolio, and we're continuing to make progress there. So, super excited about that. And, of course, some of the results, that very piece about getting the base business back to a margin structure that we are happy about that fits into our long-term algorithm this quarter and what we have delivered this quarter is really just the beginning of doing that work.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

That 10% number, is that mostly concentrated in Retail? Is it spread across the whole business?

Jacynth C. Smiley

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

A

It's spread across. And the entire team is working through their components of this. So, for example, Mark in Foodservice. He has a piece of his portfolio that the portfolio team has given to him to say, okay, Mark, this falls in this lower quadrant, right? High complexity, low margin. I'm going to give you, right, 90 days to come back and tell me why we don't kill this thing. And so the team is working through that, and that's across the board.

Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

And, again, I'll say this is something that we've always done. We rationalize SKUs. It's a normal part of business. But I think, to Jacinth's point, we've really put a focus on it now as an enterprise-wide. Really take some steps to either fix and rationalize some of these products or move on to a more strategic way to manage the items in the portfolio. So, I think we should see some great things out of it.

A

Jacinth C. Smiley

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

Yeah. And quite frankly, I mean, it's beyond SKU rationalization.

A

Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

Yes.

A

Jacinth C. Smiley

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

We're being very thoughtful. So, when I talk about this matrix, we have literally segmented the entire portfolio into these four different buckets because there are items that we may say, you know what? If we do spend some time here, we can actually get them, right? We can fix them and get them up into this right quadrant. But we haven't spent the time. And so are they a strategic fit? And if we spend the time, we can unlock that value. Or are they truly just not, and they've just crept into the portfolio because we were spending the time, especially during COVID, just purely focused on supplying the customer and getting things on shelf? And that's really what happened that really caused some of these additional items to come into the portfolio that may not be really profitable long term.

A

Peter T. Galbo

Analyst, BofA Securities, Inc.

Maybe we can shift over to some of the segments, and I want to focus within Retail on Planters. Obviously, we have a lot of product that's here with us today and there's been a lot of innovation. But maybe you can just talk a little bit about kind of the plans that you have [ph] and away (00:18:55) from an innovation side. The spend that you're going to be kind of putting behind Planters, how that's changed historically versus when the brand was maybe with different ownership?

Q

And then, Mark, yeah, just any insights kind of on the Planters pushed more into C-store as well for...

Jacinth C. Smiley

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

Yeah. Well, Planters is an exciting one for us. And you see the products here, you'll have loads of them in your bag. But we talked last year about the fact that we got off to such a slow start with really unlocking the value for which we bought Planters. Today, we have really good momentum, yielding great value for us. We saw that show up here in this quarter.

A

And so we continue to innovate on the brands. There's lovely, exciting flavors here. I'm just looking here. I – saying to Peter, the one that I tried on the plane that's super, super fun is this Duo (sic) [Duos] (00:19:50) here.

And this bag has, like, two different kind of flavors in it. It's ranch with flavored almonds and Buffalo cashew, and I can – this one is really, really cool. It really is.

And the thing is, you taste it, and you keep going back and going back. So, I am not surprised that we are actually finding that this is being very sticky with the consumer base, and we're seeing a lot of new consumers, especially younger consumers, coming into the Planters brand because we are driving innovation that's really resonating with these new consumers and younger consumers.

And same thing on the Corn Nuts, right? I think this one is Peter's favorite, this Loaded Taco. I haven't tried the Loaded Taco. I've tried the Mexican Street Corn and the Ranch one. But this Loaded Taco, I think it's – he's waiting to go have some of this when we're done here.

But we are definitely excited about what we're doing and where we're investing. In Planters, we have put in additional lines to really get these flavors into our plants and then continuing with the always-on advertising that we do. If you recall, we would always do a Super Bowl. You probably noticed this time there was no Super Bowl ad for Planters because with our new structure, we'd go forward and having the brand fuel [ph] COE (00:21:22). One of the things we really got out of that was the insight that says, we're not getting the return that we would have expected on the Super Bowl ad. And we shifted our strategy to this always-on, we call it, Ahhh, nuts, right, strategy from an advertising perspective, and that's truly paying off for us in terms of pivoting to that approach. And so – and similarly from a product mix as well, the Premium Nuts, which is, of course, our high-margin product. That's really what's driving the impact in the business with this new innovation as well.

So, we're super, super excited about where we're taking the Planters brand.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

And, Mark, just any expansion on [indiscernible] (00:22:09).

Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

A

Yeah. So, just – again, as we – when we acquired Planters, we made the decision to put it into Foodservice. As I mentioned, the convenience sector had started to go more toward Foodservice offerings and everything so it made sense. So, we already had a team calling on the convenience stores. So, that in and of itself, I think, gave Planters a lift. We were putting more focus and attention on it, along with the other Retail brands we've got in our Foodservice products.

But as Jacinth mentioned, I mean, the innovation going on around Corn Nuts and the cashews and everything, we have just seen a great uptick and excitement, and getting new placements. That's what customers want. That's what consumers want, that's what customers want: something new and different. And these are quick hits in the convenience store. And if we can get people to buy them, they're going to stop 20 miles down the road, buy it again. And we've seen some really exciting things. So, as we go into what we call the 100 days of summer, which begins here in May, we're really bullish on the excitement on some of these new flavors and the placements we've made, the teams made out there, and really see convenience as an exciting place to continue to grow the Planters.

Jacinth C. Smiley

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

A

Yeah. And just to add, I mean, as part of that going in assumption when we acquired Planters was really just scaling in C-store for the rest of our legacy Hormel Foods [audio gap] (00:23:24) paying dividend. So, not just Planters on its own, but the rest of the portfolio that we get to then tag along into C-store with Planters.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Okay. Let me just try to go to the audience if there's any questions for you two. [ph] Brian (00:23:38) is going to ask about Corn Nuts, so...

Q

Thanks. So, two questions, both related to the quadrants, right? So, it's for both of you, actually. So, bottom quadrant, I think you said 10% of items are in the bottom quadrant?

Jacinth C. Smiley

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

A

10% are ones that we have already identified, but not 10% are in the bottom quadrant.

Q

Okay. All right. So, how far along are you in identifying which quadrant, different?

Jacinth C. Smiley

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

A

We have already identified what fits in all those quadrants.

Q

Okay.

Jacinth C. Smiley

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

A

So, that's already done. And now we're in execution phase. And we started looking at the first sort of 10%, and then we're moving through the next phase. So, we have already started that work.

Q

Okay. So, as you go through that valuation, the 90 days, right, to the extent that there's – it's – the decision is to discontinue, let's say, is that going to have any effect on revenue growth over time? Just trying to understand, the, like – is – it should be – we'd be looking at the core business or the base business growing one direction, but there's maybe some dilution to that just because there are some things coming out of the portfolio?

Jacinth C. Smiley

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

A

So, here is – the expectation is that as we simplify the offering and simplify the portfolio and take complexity out of our supply chain, the team then has an opportunity – in some cases, we're at – we're so complicated that we don't have enough space. We're constrained to be able to do some of the things we need to do. So, taking out that complexity helps us to be able to actually add more products and more items. But also, the sales team and marketing team gets to go out to customers to then have drive more volume, to fill up that space that we were actually utilizing for lower margin products.

So, we'll be, in my mind, right, in some case, maybe in some areas, a smaller, more profitable portfolio; and in some cases, an ability to actually increase volume in other spaces where the volume may not change.

Q

Okay.

Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

A

Yeah. I would just add to that. Again, as we look at this, if we can remove products that are dilutive and move on to a different product, and we've got multiple SKUs that may be able to serve, there are some work that our team needs to do with customers. But we found in many cases, we can just get them over to a different product that makes more sense. And from an efficiency standpoint, supply chain. Again, the long-term goal here is to win and drive more revenue and be more efficient.

And then the other part, I just want to say, the 10%, I don't want to get everybody too hung up on the 10%. We can do more than that. That's our goal, right? We are trying to do the right thing by the business to have the right SKUs and the right portfolio mix so that we can move the business forward. We call out 10% as the first cut for the company to say, let's look at this thing. Let's get that first chunk away. And so that's what we've done, and we've continued to move. And the goal is, really, to just get the right portfolio that makes sense to be the most profitable and efficient. So...

Q

Thank you.

Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

A

Yeah.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Maybe a shift over to Turkey for a minute. Obviously, HPAI has now been in the headlines for the better part of two years. We kind of had a lull in the middle of 2023 where we thought it maybe went away. Seems like it's back now, but it's obviously had a massive impact on the Jennie-O business. Just if you can give us kind of an update of how you're thinking about that outside of the \$0.15 impact from this year, but just as we think about potential for more spread, particularly during migration season here. Just what are you hearing and seeing on the ground?

Jacinth C. Smiley

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

A

Yeah. Certainly. I think perhaps – and I know I wasn't around back then, but I think prior – historically, there was probably more of a cadence or a predictability of when the virus shows up and how it behaves. I think, if anything, last year, showed us that it's not right. It became inconsistent. And so last year, we didn't see much. This year, there is a little bit now we're getting into, right, the season where it would show up, and so we're watching that really closely.

And so part of why we also didn't raise the guidance is because we know, right? It's an unknown at the moment, and so we're uncertain what's going to happen there. What we can control certainly is just continuing to have the biosecurity and the investment that we've made there in terms of trying to keep the turkey safe, and so we continue to double-down on that piece of it. But certainly, it's something that we continue to watch here and see how that develops.

And we know there is another virus that's out there that's hanging around that's not in our flyway at the moment or in our space, but we're just watching it overall.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

And, Mark, I know there had obviously been, I think, some impact on the Foodservice business. It seems like you've been regaining some of that.

Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

A

Yeah. So, as we came through high path, obviously there was no supply, and we're impacted by that. We did lose share. And then also, just within the industry, we've seen restaurants and customers take turkey off the menu over the last 18 months just because of the volatility in that. So, now the team has been very active in getting after and regaining share. So, we've seen some nice growth in Turkey, and we anticipate that continuing as supply is good and the team is out there selling and getting it back on menu. So, we feel very good.

And then even in the K-12 space, that's where Jennie-O played very big. Again, we've got a team on that, and that's going very well, and bringing along with that even other Hormel products. So, again, it's positive right now on the turkey side, for sure.

Jacinth C. Smiley

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

A

Yeah. And then the other thing I should mention as well, I mean, we – this point that Mark mentioned around the turkey not being on menus, and we recognize that. And that's why we've – we started advertising in our – [ph] and the grains (00:30:11) has certainly ticked up. And that's just reminding consumers that turkey is a healthy option to anything. And so that advertising, keeping that front and center with folks now that we knew we had supply was important to us, and we're actually seeing that pay off.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Maybe we can shift to International. We were having a discussion earlier. The China business, I think, had gotten off kind of some uneven footing last year. Maybe if you can just get – kind of give us an update on what you're

seeing specific to your China business for the rest of the year. I know there's some certain dynamics. But then also, just maybe an update on what you're seeing in the Chinese – China consumer?

Jacinth C. Smiley

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

A

Yeah. Certainly. So, again, strong start, better than expected for Q1. And we planned growth for the year. In terms of the broader macro environment for China, I think it's – there's still question mark as to what happens there. I can tell you, for our business, the Foodservice space, which has been the stronger channel for China, continues to be that way. We are regaining some distribution in the Retail space. And so that's partly why we feel good about the rest of the year here as well. And so, really, those two channels, both channels are expected to grow year-over-year for China. And then also, coming off what really was a more favorable comp coming out of last year.

And then secondly, we have strong partnerships that are – that really performed well here in Q1 with our Indonesia Garudafood partnership, and then same thing with our partnerships in the Philippines as well. But expecting China to recover. Not back to where it used to be, but improvement year-over-year, [ph] for sure (00:32:13).

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

So, just to be clear, your China guidance is embedded on the force that you have on Retail in regaining distribution, not necessarily on a much improved consumer, if I'm...

Jacinth C. Smiley

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

A

Exactly. Exactly. I mean, the consumer dynamic, I think, will continue to remain challenged. But some of the change in where the consumer behavior was before, we think – I mean, it's – it will continue to be challenged. And then the distribution is really what we're working on, is just trying to get increased distribution there on the Retail front.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

So, maybe we can finish with a couple of questions about some of the JVs you mentioned. So, Indonesia, just kind of an update there. It's been a little less than a year, I think, at this point. What you've learned so far, maybe where there's been positive surprises, negative surprises on Garuda. And then maybe we can also discuss MegaMex. I know I tortured David about avocado prices regularly. So, any update there as well?

Jacinth C. Smiley

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

A

Yeah. I'd – Garudafood is a positive relationship that we have gone into with that partnership, and we saw good results coming out here in Q1, and we continue to expect that. I mean, there, we talked about that before where they do have really good distribution. And so that's playing out for us in terms of where they sit today in the scale that they have and bringing in our Hormel products into that distribution that they have has been significant for us in the first quarter, and we expect that to be the case going forward as well in the other ventures that we have.

Peter T. Galbo

Analyst, BofA Securities, Inc.

And then MegaMex?

Q

Jacinth C. Smiley

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

And then – MegaMex is a great story. We have – I think I had a list here of all of their different products that are performing – that are really performing well. I mean, Wholly did well. HERDEZ does well. And so the joint venture continues to be strong, and we continue to see positive momentum there with MegaMex.

A

Peter T. Galbo

Analyst, BofA Securities, Inc.

Great. Jacinth, maybe we can – one kind of housekeeping financial item. You did have the – or do you have the bond maturity that comes in June? I think you had the new issuance that came out. I believe it was two weeks ago at this point.

Q

Jacinth C. Smiley

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

Yeah.

A

Peter T. Galbo

Analyst, BofA Securities, Inc.

Maybe just can you kind of bring us up to speed on where things stand as we get closer to that date?

Q

Jacinth C. Smiley

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

Yeah. Sure. So, we have the \$950 million of debt, right? The [ph] 65 (00:34:53) basis points coupon that we refinanced, \$500 million of that. And so that's – that was coming due in June. And so we're happy to get that behind us. Not at the rate. We're not happy about the rate. But given where the market is at the moment, I think we got a favorable rate based on our credit rating here. So, that really takes us back to sitting in the – still at the 1.5, 2 times, which is really where we're comfortable being from an EBITDA standpoint from a leverage ratio.

A

Peter T. Galbo

Analyst, BofA Securities, Inc.

Okay. Any other questions from the audience? All right. If not, we'll finish with the question about GLP-1s, because we've been asking everybody. I think there's a perspective that people maybe are going to eat more protein, potentially if they are. But just what's the – what's kind of the house view, particularly given we've had, I think, some data updates in the past couple of weeks?

Q

Jacinth C. Smiley

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

I feel if they're going to eat more protein, this is the place to be, right? Hormel Foods have all different kinds of protein. We have protein that's plant-based with our Planters product. And then we have all different manner of meat protein as well, right? Poultry and beef and pork. And so I think we are well-positioned, if that's where consumers are turning to because we have a very strong protein portfolio.

A

Peter T. Galbo

Analyst, BofA Securities, Inc.

Mark, any thoughts?



Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

I guess, just like any of the things that come up, whether you call a fad or whatever you'd like, I mean, to see what actually transpires here and the size of it, I mean, I think, as Jacinth said, if it goes the direction everybody starts doing that and wanting protein, we feel well-positioned for that. Don't really see downside to it. So, yeah.



Peter T. Galbo

Analyst, BofA Securities, Inc.

Great. Well, thanks, both for being here. Thanks, everybody in the room. I believe lunch is going to be served right after this. Make sure to grab your snack bag on the way out. And thanks again, guys, for being here.

Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

[ph] Peter, thank you (00:37:11).

Jacinth C. Smiley

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

Yeah. Thank you.

Mark Ourada

Group Vice President-Foodservice, Hormel Foods Corp.

Appreciate it, Peter.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2024 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.