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Hormel Foods Corp. (HRL)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Hormel Foods Corporation Second 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]

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

David W. Dahlstrom

Director of Investor Relations, Hormel Foods Corp.

Good morning. Welcome to the Hormel Foods conference call for the second quarter of fiscal 2024. We released our results this morning before the market opened. A copy of the release can be found on our website, hormelfoods.com, under the Investor 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 second 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 queue. At the conclusion of this morning's call, a webcast replay will be posted to our website and archived for one year.

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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 Investor 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 Transform and Modernize Initiative and Pork Antitrust Litigation Settlements. These non-GAAP measures include adjusted earnings before income taxes 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 a strong first-half of the year with consecutive quarters of better-than-expected earnings, a significant improvement in operating cash flows, Foodservice strength, recovery in our International business, and stable volumes across our business. Importantly, we made further progress on our strategic initiatives, and we remain on track to deliver on our commitments to drive long-term shareholder returns and growth.

We entered the year with a realistic and achievable path to improve our business over the next three years, and our first-half performance demonstrates meaningful progress. We are driving savings, minimizing complexity, and reducing costs. As a result of this work, we delivered meaningful gross profit improvement in both the second quarter and the first-half of the year.

We are also capturing incremental value from our investments. The best example of this is the momentum our team has generated for the Planters snack nuts business, which is responding positively to our brand-building and innovation efforts.

Taken together, we are pleased to report first-half adjusted diluted net earnings per share in line with last year. This represents improvement compared to our expectations heading into the year, given the uncertain consumer environment and significant headwinds in our Turkey business.

Core to our success so far this year is strong execution against our six strategic priorities, which include driving growth for each of our business segments, executing our enterprise entertaining & snacking vision, and continuing to transform and modernize our company.

We delivered an excellent first-half within Foodservice, growing volume, net sales and segment profit mid-single digits, respectively. The second quarter represented the fourth consecutive quarter our team achieved volume and segment profit growth. And the Foodservice team has now delivered year-over-year segment profit growth for nine out of the last 10 quarters.

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We continue to leverage our highly differentiated business model to provide innovative solutions to solve operator challenges. In the second quarter, we once again saw strong contributions from Bacon 1, our premium prepared proteins, pepperoni and Jennie-O Turkey.

With the help of our culinary collective and direct sales force, we continue to introduce innovative new offerings that are positioned to disrupt large Foodservice categories. Two of our newest items, Hormel Flash 180 sous-vide chicken and Hormel ribbon pepperoni, have already exceeded our fiscal 2024 sales projections.

And our new Café H Pork Al Pastor product also has been well received in the marketplace. We recently featured these products at the National Restaurant Association show where the response from customers was overwhelmingly positive. We believe our Foodservice business is exceptionally well-positioned to drive category growth, brand value, and operator engagement well into the future.

Transitioning to our International segment, our performance has been very encouraging given the challenging conditions the team faced last year. From a profitability standpoint, International had a strong first-half of the year with segment profit up almost 30%. Our team drove growth in many areas, including our partnerships in Indonesia and the Philippines, our refrigerated export business and in-country operations in China and Brazil.

Notably in China, our Foodservice business is performing relatively well and our Retail business continues to recover. We expect our Retail business in China to improve in the back-half of the year, led by distribution gains of SPAM singles, the launch of new Skippy spreads, and innovation in our shelf-stable meat snacking portfolio. Overall, we remain confident that we have the right strategy and structure in place to drive growth in our International business and develop our global presence over the long term.

In our Retail segment, we continued to navigate an environment characterized by an uncertain consumer backdrop and pressure from whole bird turkey dynamics. That said, there are many proof points showing that our focus on winning with consumers, winning with customers, and driving profitable growth is delivering positive returns.

According to Circana, we gained share across several of our flagship brands during the second quarter, including Planters, Black Label, SPAM, and Jennie-O. Additionally, we increased total points of distribution by 6% for our flagship brands and 4% for our rising brands, which includes brands such as Applegate, Herdez, Corn Nuts, and Hormel Square Table.

From a vertical perspective, we delivered strong results both in terms of shipments and consumer takeaway with bacon. Black Label raw and convenient bacon products are resonating with consumers. And we expect this trend to continue in the back-half of the year, supported by further advertising and innovation. Emerging brands, which contains our Applegate and Justin's brands, also delivered a strong quarter with mid-single-digit volume and net sales growth compared to last year.

Similarly, within Snacking & Entertaining, we delivered net sales growth for Planters snack nuts. I'll provide more detail on our successes within this important category later in my remarks.

Within convenient meals and proteins, we are experiencing mixed results. Our SPAM family of products and Square Table entrees portfolios both delivered a strong first-half, even in response to pricing actions. But we did experience softer demand for other center-store canned and convenient items. We are also seeing similar softness across the global flavors vertical and within the Mexican categories in which we compete. These trends are not entirely new and our teams are actively working to address this in the back-half of the year.

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Lastly, our value-added meats vertical continues to be negatively impacted by turkey dynamics. While we did drive growth during the first-half across the Jennie-O value-added retail portfolio, these gains were more than offset by weaker whole turkey markets. We expect this business to remain challenged for the rest of the fiscal year.

Our objective in retail is to balance volume and net sales gains to drive consistent profitable growth. We are managing through challenges such as turkey pricing and pockets of softer consumer demand. Longer term, the team remains focused on winning with our consumers and our customers, better allocating our resources, and improving the margin structure of the business.

Now moving on to our enterprise-wide entertaining & snacking strategy, where we continue to win by unlocking the value of our brands across the channels where we compete. Within retail, we saw some of the most positive in-market data for the Planters and Corn Nuts brands since our acquisition of the business, including volume, sales, and share gains during the quarter for mixed nuts, cashews, and corn nuts. This momentum is a direct result of expanded distribution and our investments in innovation, higher ROI advertising, and brand building.

Additionally, we released several new entertaining and snacking items, including Planters salt and vinegar cashews, Planters Nut Duos, loaded taco flavored Corn Nuts, and a summer-themed hard salami and pepperoni tray under the Hormel Gatherings brand. And we are supporting Hormel pepperoni, America's number one pepperoni brand. Our new national advertising campaign, "Boldly Irresistible", highlights the versatility and crave ability of this popular snack and is expected to help drive growth in the back-half of the year.

In Foodservice, our team delivered excellent growth during the quarter in the convenience channel, led by Planters flavored cashews, and corn nuts innovation. And internationally, we recently announced that the Skippy brand is returning to the Canadian market in the form of five all-new peanut-butter-inspired snack products. This complements the work the team is doing to drive entertaining and snacking growth globally.

Turning now to our last two strategic priorities, future-fitting our One Supply Chain and advancing our Transform and Modernize Initiative. In the second quarter, our supply chain efforts once again resulted in lower overall logistics expenses, lower distressed sales and higher investment income from responsible capital management. We also made further progress on our Transform and Modernize Initiative in the areas of supply chain efficiency, portfolio optimization, and data and analytics.

Now within our Plan work stream, we continued the implementation of 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. For the balance of the year, we are broadening our efforts outside the supply chain to all procurement areas.

Within Make, we completed a major improvement project to expand the capacity for our retail canned portfolio, allowing us to limit external production. Additionally, we launched a project to increase capacity for Bacon 1. Both projects use existing assets and infrastructure and are expected to generate strong returns.

In the Move work stream, we implemented analytics across our refrigerated network to further enhance our service levels. We are also exploring an expansion of our refrigerated network to drive added benefits. And we continue to advance our total company portfolio optimization effort. Leveraging our analytics tools and

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capabilities, we are finding opportunities to enhance and support margin profile improvements. We are eliminating lower-margin SKUs, allowing us to maximize production time for more profitable items.

Also this quarter, we celebrated the opening of our new $5 million childcare center in Austin, Minnesota. Not only does this new facility assist the company's recruiting efforts in today's tight labor market, but more importantly, the center provides a needed service for our team members and our community. This transformational work is a key driver of our growth over the next several years and is essential for building significant and scalable capabilities for our future.

Now shifting to our updated 2024 outlook, we are reaffirming our full-year top-line outlook and updating our earnings outlook. We continue to expect net sales growth of 1% to 3%, assuming volume growth in key categories, a benefit from higher brand support and innovation, and our current assumptions for raw material input costs.

In Foodservice, we expect continued volume growth led by bacon, turkey, pizza toppings, and our line of premium prepared proteins. We expect net sales increases in our International business driven by branded exports and further recovery in China. In Retail, we expect higher net sales for our bacon and emerging brands verticals. We have assumed net sales will be negatively impacted by volume and pricing headwinds in whole bird turkeys and higher elasticities in our center-store business as previously discussed.

From a bottom-line perspective, we have increased the lower end of our diluted net earnings per share and adjusted diluted net earnings per share ranges to reflect our solid first-half performance, and our expectations for growth from our Foodservice and International segments, ongoing improvements across our supply chain, and benefits from our Transform and Modernize Initiative.

Consistent with our prior guidance, our full-year outlook assumes higher salaries, normalized employee-related expenses, and costs associated with planned investments in the business, including higher advertising investments.

An additional factor expected to impact both our net sales and earnings guidance ranges is an unplanned production interruption at our Planters facility in Suffolk, Virginia. We discovered a food safety issue in April which has since been resolved. Jacinth will provide more detail regarding the financial impact in her comments.

Taking all these factors into account for the full year, we expect net sales growth of 1% to 3%, diluted net earnings per share of $1.45 to $1.55, and adjusted diluted net earnings per share of $1.55 to $1.65, and benefits to net earnings from our Transform and Modernize Initiative, which is expected to deliver its strongest level of savings in our fourth quarter.

In closing, our first-half performance demonstrates our team's ability to execute our clear and achievable plan. We have line-of-sight to a strong second-half of the year as we make further progress on the initiative we laid out last fall. Our team remains focused on growing operating income, driving savings through our Transform and Modernize Initiative, and capturing incremental value from our investments.

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

Jacinth C. Smiley

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

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Thank you, Jim, and good morning, everyone. As Jim noted in his opening comments, we delivered a strong first-half of the year. Volume for the first-half was 2.2 billion pounds comparable to last year. Broad-based volume growth in Foodservice and growth in International offset a decline in our Retail segment. Of the 29-million-pound decline in Retail, approximately two-thirds of the decline was related to lower sales across whole bird turkeys.

Net sales for the second quarter and first-half of the year were $2.9 billion and $5.9 billion, respectively. Similar to volume, there is some nuance in the numbers. The approximate negative impact in net sales for the first-half of the year related to whole birds turkeys was 1%, weighted more heavily against the second quarter.

We increased gross profit by 3% in the second quarter and first-half, driven by strength across the supply chain and benefits from our Transform and Modernize Initiative. Gross profit margin improved 90 basis points to 17.4% in the second quarter. All segments delivered higher gross profit margins during the first-half of the year.

SG&A increased $54 million in the second quarter and $73 million during the first-half of the year. These increases include the settlement of Pork Antitrust Litigation, higher employee-related expenses, and higher external expenses including $19 million related to incremental investments in our Transform and Modernize Initiative.

Advertising investments were up [ph] 27% (00:22:26) in the second quarter and up 9% for the first-half. We continue to support our leading brands in the marketplace with new advertising creatives and stepped-up spending for the balance of the year, including for the SPAM, Hormel Pepperoni, Planters and Black Label brands.

Equity in earnings for the second quarter and first-half decreased due to low results for MegaMex, partially offset by improvement from our international partnerships. Interest and investment income for the second quarter and first-half increased as interest income from higher cash balances and favorable market interest rates offset higher interest expense associated with the recent debt issuance. Earnings before income taxes were $244 million for the second quarter and $530 million for the first-half.

On an adjusted basis, earnings before income taxes for the first-half were $564 million, a 1% increase compared to the first-half of last year. The effective tax rate was 22.5% for the second quarter and 23% for the first-half, which were higher than last year. Our prior year effective tax rate benefited from higher federal deductions.

Given the higher rate to date, the effective tax rate for the fiscal 2024 year is now expected to be between 22% and 23%. The net result of all these factors was second quarter and first-half diluted net earnings per share of $0.34 and $0.74, respectively.

First-half adjusted diluted net earnings per share were $0.79, in line with last year. We also delivered strong operating cash flow during the first-half of the year. Year-to-date, cash flow from operations was $640 million, an increase of 55%. We remain committed to dividend growth investing in our business and maintaining an investment-grade rating. We paid our 383rd consecutive quarterly dividend effective May 15th at an annual rate of $1.13 per share.

We also announced our August dividend, which will represent our 96th year of uninterrupted dividends. We invested $60 million in capital projects during the second quarter. The largest capital projects for the quarter included the packaging projects for Planters and investment in our new order-to-cash system.

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Our outlook for capital expenditures in 2024 remains at $280 million. We ended the quarter with $1.5 billion in cash and short-term securities, and $3.8 billion of debt. During the quarter, we completed a debt offering of $500 million. We plan to use the proceeds of the issuance and cash-on-hand to pay-off the $950 million note that is due in June of this year.

As Jim shared, we are reaffirming our full year net sales expectations and updating our earnings expectations. We expect third quarter pork input costs to increase seasonally and are seeing this pattern play out for key inputs such as bellies, trim, and hogs. We continue to assume full year pork input costs to be higher than last year and above five-year averages.

In Turkey, supply disruption this spring from HPAI was minimal and we remain in a strong position to service our customers and attract new business opportunities. We are projecting growth across several parts of our genuine branded Turkey business, including lean ground turkey in Retail and value-added turkey in Foodservice.

Lower volumes and pricing for commodity whole turkeys are expected to continue to pressure earnings. As Jim noted, we experienced an unplanned production interruption at our Planters facility in Suffolk, Virginia. This issue is expected to affect service levels on some of our highest volume and innovative items, primarily impacting the third quarter.

We have included in our updated earnings outlook an estimated $0.03 impact related to this issue. In terms of our back-half cadence, we expect third quarter adjusted diluted net earnings per share to be lower compared to last year and the second quarter. The primary drivers are continued whole turkey headwinds and the Suffolk production interruption. We expect adjusted diluted net earnings per share growth in the fourth quarter, anticipating growth from all business segments and the strongest contribution of the year from our Transform and Modernize Initiative.

To conclude my remarks, I would like to thank the entire team for their contributions to a solid first-half of the year and for their continued commitment. There is more work ahead and we're confident that we have the right strategy, people and balanced portfolio to drive the business forward and deliver long-term sustainable value.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question is from Ken Goldman from JPMorgan. Please ask your question.

Ken Goldman
Analyst, JPMorgan Securities LLC

Q

Hi, good morning and thank you. I wanted to ask about the EPS guide range, a $0.02 increase roughly at the midpoint. Your first-half EPS alone came in $0.08 or $0.09 above consensus. You mentioned that the Virginia plant interruption is expected to affect earnings by about $0.03 or so. Still there is a little bit of gap between how much the first-half beat, and I think it'd be your own expectations as you said, and kind of what you are looking for from the back-half in terms of guidance.

So just wanting to get a little bit of idea of if there's any prudence that you might call out in your guidance or just kind of how you're thinking about some of the puts and takes in the back-half of the year from a bottom-line perspective that might be holding back your guidance range from what it otherwise could have been?

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

A

Yeah, good morning, Ken. Thanks for the question. As we sit here today, yes, we are ahead of expectations. We feel good about the business. And as you commented, you saw this morning, we took up the low end of our adjusted EPS range, increased the midpoint. We also delivered stronger margins for the second quarter and first-half, which really demonstrates the progress we're making on key initiatives. And if it wasn't for the Suffolk issue that we talked about in our prepared remarks, we would be having a more positive conversation today.

A couple of the more specific items to think about, we mentioned Planters in Suffolk, would also think about on our first quarter call, we talked about the incremental impact of the full year turkey, which was roughly $0.05. And then also we talked about the tax rate as well that'll have an impact of $0.01 to $0.02. So, when you take all those things together, we feel like the raises – the increase in the raises is appropriate.

When we think about what's really positive, we're going to still expect strong performance from Foodservice and International. We've got a path to growth in Retail. We still expect our strongest Transform and Modernized delivery in the back-half of the year, but clearly, we got some things that we're watching, talking about the Planters business, and then also really keeping a close eye on what's happening with the turkey market overall..

But when you boil it all down to the bottom line, we're really pleased with our half-one performance and a clear line-of-sight to growth in the back-half of the year.

Ken Goldman
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you for that. And then for my follow-up, guidance for top-line growth was reiterated, of course, for the year. It does imply a pretty decent step up in the back-half rate, despite comparisons that are slightly more difficult. You talked about better innovation, more advertising. You talked about your current assumptions for raw material inputs. Can you elaborate a little bit though on kind of what the key drivers will be to maybe accelerate

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that top-line in the back-half of the year? Just how do we think about bucketing the most important of those drivers, especially in retail, where you said the whole bird turkey business will remain challenged? Thank you.

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

A

Yeah, thanks, Ken, for the follow up. I think there is one of the things I would say is let's take Foodservice and International maybe off the table. Foodservice has got broad based strength, outperforming the industry, really expect that momentum to continue for the balance of the year. The International business, we expect to have strong sales growth in the back-half of the year as well.

So, I think those two businesses are going to provide strong growth, and really, the story is in retail. And so, as we said, it is a bit of a mixed bag. We've got a lot of verticals that are doing just fine. You talk about turkey and the impact that that'll have in the back-half of the year. And then we also said in our prepared remarks, just watching what happens in the convenient meals and protein vertical. And so, we have had bright spots with SPAM, refrigerated entrees, Skippy, but, we've got some other brands and categories that we're watching.

We do have really strong syndicated data over the last four weeks, which is really, really encouraging. And so, there is a lot of good news, and we do expect to be able to deliver in that range. What I would say is, as we think about it, the most likely scenario would be towards the low end of that net range or the low end of the range for the net sales guide.

Ken Goldman
Analyst, JPMorgan Securities LLC

Q

Understood. Thank you.

Operator: Thank you. Your next question is from Peter Galbo from Bank of America. Please ask your question.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Hey, guys, good morning. Thanks for taking the questions and for all the color actually on the quarter and go forward. Maybe just for my first question, a little bit of a two-parter, Jacinth, I just wanted to clarify. I think you said that turkey accounted for two-thirds of the volume decline in US retail. I wasn't sure if that was a first-half or a 2Q comment specifically?

And then, Jim, maybe if you could just elaborate a bit more on the convenient meals and protein side. I mean, obviously, we've now gone through kind of lapping the lower [ph] SNAP (00:36:11) benefits that would seem to be kind of a category that maybe would be a bit more exposed to that.

Just what's the playbook from here to kind of try and improve the volume forward as kind of that perceived tailwind is maybe not as much of a tailwind as we would have thought, I think that's probably a broader question across food, but would love your thoughts there?

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

A

Yeah. Hi, good morning, Peter. Yes, indeed. So, the volume impact for the first-half is [ph] related to two-thirds (00:36:43) of that is related to turkey. And then, Deanna will take the next part of your question.

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

A

Yeah. Thanks, Peter. Relative to convenient meals and protein, I think it's important to kind of tease apart. There was strong growth in SPAM and entrees, as well as Skippy, which we bucket under convenient meals and protein. Where we're really seeing the softer demand and the consumer pullback is in the canned or center-store area.

When we think about the quarter and some of the impacts, as you mentioned, it really was related to [ph] SNAP (00:37:20), weather, weather being softer, historically, that's a quarter that has colder weather, and it influences the purchase of those types of products, and competition and promotions have heated up in those categories.

So, as we think about it heading into Q3, that is seasonally a lower quarter for convenient meals and protein, but that doesn't mean our team isn't hard at work attacking some of the opportunities that they're thinking about is making sure our promotions are in place, making sure our promotions are driving depth, pulling up on frequency to make sure we're getting to those promoted price points that are going to encourage purchase.

We're also working close with our retailers on displays and getting product out of center-store and out into the other areas where we disrupt people on their path to purchase. We're also shifting some dollars into the category to be speaking with consumers about the value that these items play, especially as consumers are thinking about value options as they're shopping.

And then I think the final piece is thinking about as we head into the fall making sure that we already have really significant promotions in place for a heavy holiday season, back-to-school, what have you.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Got it. That's super helpful. Thanks, Deanna. And then, Jim, maybe just to follow up on Ken's question around kind of the back-half sales guidance and understanding the kind of the low end of the range is helpful. Any thoughts, just as we [ph] mull out (00:38:57) the back-half kind of volume relative to price mix, how we should think about that? I think given what you've said about some of the raw materials and maybe the path through nature, just want to understand some of those components in the back-half? Thanks very much.

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

A

Yeah, sure. And we can do that for you, Peter. Just as we go through the segments, Foodservice, we expect volume mid-single-digits, sales in the high-single-digit range. International will be a bit more nuanced, where volume will probably be down high-single digits, and a lot of that is lower fresh pork, some of the commodity businesses, but sales because the mix improves will be up high-single digits.

And then the Retail business, we do expect volume and sales to be in that mid-single-digit range down – I am sorry, low-single digit range down. And then all of that there is still that path to get us into that guided range, but we do think the most likely scenario would be to be at the low end of the range.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Got it. Very helpful. Thanks, Jim.

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

Yeah.

Operator: Thank you. Your next question is from Rupesh Parikh from Oppenheimer. Please ask your question.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.
Q

Good morning, thanks for taking my question. So, just on the advertising front, so we know there is an increase this quarter in advertising, just curious how the returns are playing out thus far versus your expectations?

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

Yeah, thanks, Rupesh, this is Deanna. As we introduced back at Investor Day, we talked about our flagship and our rising brands and resourcing those brands to drive higher growth rates. When you think about the performance of SPAM, Black Label bacon, Jennie-O, and where we're spending our advertising, we're seeing really strong performance in both volume and market share gains.

In addition to the advertising, we're also introducing innovation in all of those categories. And so, it's really a one-two punch of not only reminding the consumers about the products, but when they get to shelf that they're seeing some innovation there as well. So, we're excited about the advertising. We've also introduced a lot of new advertising with new brand positioning, backing it up.

And happy to, as we think about the quarter coming up, pepperoni [indiscernible] (00:41:23) is already in market with new packaging as well as new advertising. And we're really excited about what that's going to continue to do as one of our other flagship brands. So, working well for us, strong returns, and continuing to get stronger and stronger as we progress.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.
Q

Great. And then maybe just one follow-up question. As you look at your Retail segment, how would you describe the current promotional competitive backdrop? I know some of the retailers out there are talking about reducing prices. So, I just want to get a sense of how you guys would characterize the backdrop right now?

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

So, it depends by category. I think in most categories, we're comfortable, and for us, we're really thinking about the desired outcome and is our promotional dollars really driving returns for us. And in some cases, under the new structure that we have, we're able to shift dollars from trade into advertising or into other areas to support growth if it's not providing the right return.

We're also, though, then shifting dollars, like I said, on convenient meals and protein into convenient meals and protein to help support the right promoted price points that we need in this particular lower seasonality for us and convenient meals and protein. That category in particular is seeing more competition, but across the board, we're not seeing anything that's out of the ordinary.

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Relative to our customers, they get to control price that shelf. We can influence and we can have conversations. We can make sure they understand based on our insights and analytics what is going to drive growth and profitability, and we can inform as a category leader and a category supporter, that's our role.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Great. Thank you.

Operator: Thank you. Your next question is from Michael Lavery from Piper Sandler. Please ask your question.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Thank you. Good morning. Just looking at the retail scanner data and how it compared to your reported figures, there was a little bigger gap than we had expected. And I guess first was curious how much SKU rationalizations might be a factor there, or you've touched on the turkey weakness. Is that maybe a more unmeasured piece of the business relative to others? And just how we should think about that, how that might look over the rest of the year, how the gap might look, but how they would compare?

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

A

Yeah, good morning. Thanks for the question, Michael. I think, as you've talked about, really positive trends in our scanner data with, five of the six verticals showing growth, and really the decline is in turkeys and in some of the non-tracked areas of the business. We still do have some contract manufacturing business that is showing declines in addition to the turkey that we discussed, but those are really the drivers for the volume decline.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Okay. Great. That's helpful. And when you talk about the pressure in the center-store on at least certain categories, can you point to maybe any common thread, the brands where there is weakness? Is it ones that face more private-label exposure? Are they – do they have higher price gaps, or is it higher absolute price points? Is there any sort of consumer read there that you can get from what you're seeing in the center-store part of the business that you called out?

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

A

Yeah. Thank you. There is going to be a couple of things, one, there is a lot more competition in those categories. We're also seeing the price elasticities play out based on the price increases we took in Q2, based on beef markets as a strong component in the majority of those items. So the price elasticities was something that we anticipated and expected. The competition, obviously, and the heavier promotional activity is something that we're working to counteract as we speak.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Okay. Thanks so much.

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Operator: Thank you. Your next question is from Adam Samuelson from Goldman Sachs. Please ask your question.

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

Morning, Adam.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC
Q

Morning. So I guess I want to maybe dig in on the retail side, and Jim, I appreciate the clarity you gave around the sales and volume expectation for the Retail segment in the second-half of the year. I know there were some parts of the business where there was targeted price increases that you were putting in place for the end of the second quarter. I just want to maybe hone in on those because they do seem to be touching on some of the categories having more weakness right now.

And are you seeing the elasticities proving to be higher than you thought going in? Are you seeing pushback from retailers on not just not taking the price increases? Or help me think about how that has, or how that's successful those actions are relative to the plans you might have had three or six months ago?

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

Yeah, I think, Adam, I'll start with kind of the pricing with retailers. And clearly there's a heightened level of discussions in terms of pricing, and that's not anything new. We've talked about that in the past. And the retail team does a really nice job making sure that there's solid rationale and clarification on why the pricing was needed.

The other part of this is the team is working to address those issues now. And it's a combination of short-term and also really the long-term vision of where we see some of these things playing out. And I'll let Deanna add some additional color on that.

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

Yeah, so while, when I think back to Planters, as an example, a year ago where we took a really thorough approach to thinking about what short-term actions do we need to take to address the, in the quarter, maybe in the half. But longer term, we were also doing work and similar work that we're doing against the convenient meals and protein. When we think about our revenue growth management team and price pack architecture, and really evaluating our price points, evaluating our promotional productivity. Again, as I mentioned, shifting some of our promotions to a more productive strategy, perhaps.

We're also thinking about innovation. We mentioned some of our flagship brands that performed so well in the first-half and that we expect to continue to perform well. And the drivers of the performance were really three things. It was advertising and refreshed, advertising in many cases, based on brand positioning work that was done, is based on innovation. And so when we got consumers to the shelf, they were also excited to try new

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flavors, new pack sizes, new shapes, forms, what have you. So we're also thinking about innovation and advertising.

And really some really great work that drove a lot of progress in the first-half was our retail selling organization and the total points of distribution that they've been able to gain in both our flagship and our rising brands in the 5% range of increase. And so we expect that important work to do, which comes through sitting down with your category managers and usually can be six months to a year out as we sell a new total distribution point.

So, it's going to be a very thorough approach that we, again, execute in the short-term through promos, displays, turning on social media, as well as long-term through PPA, innovation, advertising, and gaining distribution.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's very helpful color. And then, just taking a step back on the SG&A side, this quarter, obviously, there's a bigger year-on-year increase in employee incentive payments on top of the advertising that you kind of more clearly break out. As we think about the full year, what's the right range of non-advertising-related SG&A growth that we should be thinking about? And, presumably, that growth would moderate next year because you're not going to have the head with the – you're not going to have the year-on-year expansion, or same magnitude of year-on-year expansion in employee compensation as you are this year, but help us frame that trajectory going into through the end of the second-half and next year? Thanks.

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

A

Yeah. Hi. Good morning. So, the perspective that we're thinking about you should have relative to SG&A is certainly the biggest component year-over-year is going to be the expenses related to our Transform and Modernize. And so, that will drive a double-digit increase year-over-year in the back-half of this year, but also going into next year as well, in addition to the fact that we do have that higher compensation that we outlined in our prepared remarks.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

That's helpful color. I'll pass it on. Thanks.

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

A

Okay.

Operator: Thank you. Your next question is from Tom Palmer from Citi. Please ask your question.

Thomas Palmer
Analyst, Citigroup Global Markets, Inc.

Q

Good morning. Thank you. You noted lower whole turkey volumes, especially at Retail. How does this align with your turkey production? Are you pulling back that as well? Or is this more reference to kind of what you're selling to customers? Because if you're not cutting supply by as much, I guess, where is the turkey essentially going? And is there a point where maybe volumes inflect a bit more?

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

A

Yeah, Tom, good morning. I think the biggest takeaway in turkey from where we sit today is, there really is no change in our outlook. We've got strong internal supply and capacity. The teams are doing a great job both at Retail and Foodservice. We're gaining share with our lean ground turkey. Our Foodservice team, as we've talked about, they've been hard at work regaining some of the lost business that we had during the AI events. And so, there's really no change to how we're thinking about the business for the rest of the year. Really, we think that we've de-risked the turkey outlook for the rest of the year.

Thomas Palmer
Analyst, Citigroup Global Markets, Inc.

Q

All right. Thank you. Just on the Foodservice side, at an industry level, we've seen pullback in traffic. It seems like you're really not seeing the effects of this, and at least the guidance you gave would appear that you don't really expect a whole lot of pressure in the second-half of the year either. Could you just give any detail on what's really driving this growth in terms of are you seeing your customers not seeing the traffic pressure, just given maybe a different mix than the broader industry? Are there new customer wins to be thinking about? Just any detail there, thank you.

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

A

Yeah, thanks, thanks, Tom. Obviously, the Foodservice team, another excellent start to the year, and it remains well-positioned for the balance of the year. And so, just as a reminder, we compete both in the commercial and non-commercial elements of the business. And so, we've really got a broad array of a customer base. When we think about who we're targeting and who we're selling to. We talked about the great work happening in the convenience channel, not only with our Planters business, but also thinking about some of the grab-and-go opportunities for us where we're more of an ingredient.

And so it's those things, thinking about the channel diversification. We've talked at length about the competitive advantage we think our direct sales force offers us being front and center with the customer, talking to them about their challenges, what's happening in their business. And then last, but certainly not least, is just this continued innovation pipeline that the team has been able to build. We've again, talked for many years about Bacon 1, and how that business continues to grow.

This quarter we're talking about our Flash 180 sous-vide fully cooked chicken item that we're bringing to operators to help them have high-quality chicken items on their menu when maybe they don't have the right equipment or staff to do it. So, there's a lot of things at play that again, we believe puts us in a very advantaged position and helps us in – especially in the face of some of the data that you're seeing, our team is still out there able to drive results.

Thomas Palmer
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Operator: Thank you. Your next question is from Ben Theurer from Barclays. Please ask your question.

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

Q

Yeah, good morning. Jim, thanks for taking my question. Obviously, a lot's been asked already. Just wanted to follow up first on some of your expectations on the International business. Clearly, it was good on the profit side, but top-line was down. Did I hear this right that you said like, volume down high-single-digit, but sales actually up high-single digits? Just wanted to clarify that commentary and to understand a little bit if you can share with us a regional nuance as to the performance in International? That would be my first question. Thank you.

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

A

Yeah, yep. So Ben, you did hear that correctly in terms of volume being down high-single digits and sales being up high-single digits. And a big part of that is mixed when we think about some of the lower commodity sales that we'll have and we'll have a lot more branded business going through that segment.

As we think about China, the Retail business is continuing to improve. It's not where it has been in the past, but there's a lot of great work happening in terms of regaining distribution, innovation in our shelf-stable meat snacking portfolio. But the Foodservice business is really, really strong and continues to gain momentum in China.

We've been pleased with the results of the investments that we've made in Indonesia. Our partners in the Philippines continue to have a strong performance. So again, it really is, as we've said, that going into the year and even in Q1, is that the business has continued to improve throughout the year, as we expected. We do expect some acceleration in half-two and I would remind you again, that when we think about especially Q4, International is lapping a pretty weak Q4 comp. That's something else to think about.

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

Q

Okay. Perfect. And then my follow up, if I may, just real quick around the volume performance in Retail and you gave already a lot of detail, but just wanted to understand, like, what is your approach in terms of thinking to recover these lost volume? Is there any way of considering certain isolated caps on pricing, more temporary through promotioning, trying to stimulate the volume? So what is your kind of playbook to get the volumes going again, particularly in retail?

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

A

Yeah. Ben, I think the one thing I don't want to have lost in this conversation is that there are some brands in that vertical that are doing really well. We talked about SPAM, our refrigerated entrees, Skippy peanut butter and so there is some really strong performance there. I think Deanna has talked, and I'll maybe let her reiterate the fact that the team is thinking about this in two buckets. There is the short-term work that we can do, and then really the long-term opportunities for the team and that's really where we want to spend our time to make sure that we've got the parts of the businesses that need the support, that we have them on the solid ground. So Deanna, just maybe reiterate some of that.

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

A

Yeah. Beyond what I've already said about our flagship brands, which had nice volume growth supported by advertising innovation in the first-half, we'll continue to see that support as we head into the back-half. The other

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areas that you'll see is continued innovation, and we've got numerous innovation launches. I believe they were in the pre-read deck that were launched in the first-half and are launching in the second-half.

What we're really happy to see with the innovation is that we're bringing in new consumers. So think about the new Herdez entrees and the House of Tsang entrees, bringing in multicultural and younger consumers into the portfolio. Seeing the same thing with the Planters innovation, both the flavored cashews and the duos.

So, we'll continue to drive new consumers. Obviously those things support not only our baseline business, but incremental business as well. [ph] You all can (01:00:02) see us continue to advertise throughout the back-half of the year and then finally, from a promotional standpoint, we've got a lot of promotional activity already secured through Q3, working on Q4. Right now as our teams lock up back-to-school and think about holiday programming. So those are some of the key things the team will be executing both in the short-term as well as continuing to think about the long-term.

The one that I don't want to forget to talk about because it's really important work is the price pack architecture work through our revenue growth management team. And the data and the insights that we're bringing to the table to really think about overall category growth based on having the right prices on shelf, having the right promotions in place, as well as the right assortment and that work does take some time to not only do the studies, but also to then get out and execute with customers and then get that new set and new sizing and new pricing and promotions on shelf.

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

Q

Thank you very much.

Operator: Thank you. Your next question is from Heather Jones from Heather Jones Research. Please ask your question.

Heather Lynn Jones
Analyst, Heather Jones Research, LLC

Q

Good morning, thanks for the question.

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

A

Hi, Heather.

Heather Lynn Jones
Analyst, Heather Jones Research, LLC

Q

Hi. My first question is just a really quick two-part details one, was wondering what the turkey impact in Q2 was on volume? And on the Suffolk impact for Q3, even assuming a really high contribution margin, it seems like that $0.03 would translate into about a 3%, maybe 4% impact to retail sales for Q3, so I just wanted to check my math on that.

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

A

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Yeah, so Heather, I'll start with the turkey volume. We've been talking about it in the first-half. David can get you the specific Q2 number in your follow-up call. And then your estimate in terms of the range for impact in Planters, Suffolk, that's probably pretty close.

Heather Lynn Jones
Analyst, Heather Jones Research, LLC

Q

Okay. And so then I just wanted to step back and just make sure I'm understanding the big picture clearly. So relative to when you gave guidance at the beginning of the year, in Q2, you, I think, if I remember correctly, increased the negative impact from turkey by about a nickel. And then now we've got this $0.01 to $0.02 impact from taxes, and then a $0.03 impact from Suffolk.

So that's a pretty large number relative to your initial guidance. And so, what have been the primary drivers that the much greater strength in the other components of your earnings?

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

A

Yeah, Heather, we've seen really strong performance from our Foodservice business and our International business has rebounded in a really strong way. The other part that we do want to mention when we bring into this conversation is the work that we've been doing in transform and modernize. And so, we've talked about that our Investor Day, we'll have the opportunity here at the end of the year to provide some additional clarity.

But I think that that's a piece of the work that the team is doing. And we, again, had that in our prepared remarks, the work that we're doing to plan the business, and how we buy for the business, how we make it, how we move it. All of those things have been really, really effective for us. And so that would really be the third driver in our ability to overcome to what you described as are pretty good headwinds, but the bottom line is that we're ahead of expectations, we feel good about the business, pleased with half-one and a clear line-of-sight for half-two growth.

Heather Lynn Jones
Analyst, Heather Jones Research, LLC

Q

Okay. Okay. Thank you so much.

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

A

Yep. Thank you.

Operator: Thank you. There are no further questions at this time. I will now hand the call back to Jim Snee, CEO, for the closing remarks.

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

Yeah. So I want to thank all of you for joining us this morning. We're really pleased by our overall performance in the strong first-half of the year 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. We have made a lot of progress on our initiatives, but we still have a lot of work to do. But as I said earlier, we have confidence that our business will keep moving in the right direction for the balance of fiscal 2024. Thank you, and have a great day.

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Operator: Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for joining. You may all disconnect.

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