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Hormel Foods Corp. (HRL)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Hormel Foods Corporation Third Quarter Earnings Conference Call. At this time, all lines are in listen only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Wednesday, September 4, 2024.

I would now like to turn the conference over to Jess Blomberg. Please go ahead.

Jess Blomberg

Director-Investor Relations, Hormel Foods Corp.

Good morning. Welcome to the Hormel Foods conference call for our third quarter results 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 Investors section.

On our call today is Jim Snee, Chairman of the Board, President and Chief Executive Officer; Jacinth Smiley, Executive Vice President and Chief Financial Officer; and Deanna Brady, Executive Vice President of the Retail Segment. Jim will review our third 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 made open for questions following Jacinth's remarks. As a courtesy to others, 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 investor website and archived for one year.

Before we get started this morning, I'd like to reference our Safe Harbor statements. Some of the comments we make today will be forward-looking, and actual results may differ materially from those expressed in, or implied by, the statements we will be making. Please refer to our most recent annual report on Form 10-K, and quarterly reports on Form 10-Q, which can be accessed at hormelfoods.com under the Investors section.

Also, we will discuss certain non-GAAP financial results this morning. Management believes that doing so provides investors with a better understanding of the company's underlying operating performance. 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. Further information about our non-GAAP financial measures, including our comparability items and reconciliations, 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, Jess. Good morning, everyone. We delivered solid third quarter results and another quarter of better-than-expected earnings. Our core business remains healthy, led by Retail takeaway growth, top line growth in our Foodservice business, further recovery in our International business, and continued progress on our transform and modernize initiative. Specifically, many of our key retail brands grew during the quarter, outperforming their categories and continuing to resonate with our customers and consumers.

Our Foodservice business delivered another quarter of above industry sales growth, highlighting the value of our solutions-based portfolio, direct selling team, and diverse customer and operator base. We continued to experience significant recovery in our International segment in the quarter, led by our global brands. And we continued to realize growing benefits from our transform and modernize initiative. We remain on a realistic and achievable path to improve our business, deliver on our commitments, and execute against our long-term strategic priorities.

Going a bit deeper into our performance for the quarter, I'll start with our Foodservice segment. Our Foodservice team delivered another quarter of above-industry growth, marking our fifth consecutive quarter of year-over-year volume growth. We grew volume and net sales despite pockets of industry softness, proving the effectiveness of our differentiated value proposition. As expected, Foodservice segment profit was generally in line with last year. Foodservice segment profit remains historically strong and healthy, having grown 9 out of the last 11 quarters.

Our balanced approach, including our portfolio, direct selling team, and the diverse channels we operate in, continued to protect our Foodservice segment from many macro headwinds. We continued to see strong demand for our premium and solutions-based items, including premium bacon and pepperoni, premium prepared proteins, and turkey. Products such as Bacon 1 cooked bacon, Fire Braised meats, Jennie-O turkey, Café H globally inspired proteins, and Old Smokehouse Bacon each delivered double-digit net sales gains. Additionally, innovative offerings such as Hormel Flash 180 sous vide-style chicken breast and Hormel ribbon pepperoni contributed growth during the quarter.

Our direct selling organization remains key in times of industry slowdown. Our team can connect directly with operators to strategically find solutions for their challenges, take costs out of their system, and create meaningful,

long-lasting relationships. We were once again named to Selling Power's 60 Best Companies to Sell For, recognizing the direct sales teams that support each of our segments. And we believe that our diverse channel presence in Foodservice enables resilience in the face of industry pressures. We have continued to deliver steady top line growth in both our commercial and non-commercial businesses. Taken together, our Foodservice business continues to be exceptionally well-positioned to drive innovation, value, and operator engagement.

Transitioning to our International segment, our performance in the quarter shows continued improvement versus the challenging environment we experienced last year. From a profitability standpoint, the business generated impressive segment profit growth of 78% compared to prior year. Our results in the quarter were driven primarily by a greatly improved export environment. Branded exports performed well in the third quarter, with SPAM luncheon meat delivering a second consecutive quarter of double-digit top-line growth. Skippy peanut butter also had a strong quarter, as we expanded distribution in the South Korean market.

In addition, our branded refrigerated exports continued to perform well in global foodservice channels. Commodity exports, which have historically benefited the International segment's top line, but delivered lower profitability than other elements of the portfolio, were down significantly year-over-year. This is a result of improved inventory management and stronger sales of value-added turkey items in the domestic US market this year.

Our China business continued to rebound in the quarter and is off to a strong start for the fourth quarter. An important part of China's improvement is our strategy within the retail space. We saw positive results from innovation launches with our largest retail customers in the quarter, a direct result of our in-country innovation center.

Finally, we are realizing strong results from our investments in the Philippines and Indonesia, delivering on our commitment to strategically expand our global presence and restore sustainable growth in our International business. Overall, we remain confident that we have the right strategy and structure in place to drive growth in our International business over the long term.

Shifting now to Retail, where our third quarter results are a bit nuanced on the top line, so I'll spend some time explaining them. First, and most importantly, there is strength in the underlying core business. We were pleased with the in-market performance of key brands in the quarter.

According to Circana, brands such as Hormel Black Label bacon, Jennie-O lean ground turkey, SPAM luncheon meats, Skippy peanut butter, Hormel Chili, Mary Kitchen hash, Lloyd's barbecue, Applegate natural and organic meats, and Wholly guacamole grew dollar sales in the third quarter.

Additionally, we are outperforming in many of our categories. Our performance in key categories such as bacon, canned meats, turkey, and peanut butter demonstrates that our investments in key brands are working. We are also optimistic about the trend line we are seeing in our convenient meals and proteins business, which has stabilized over the last quarter.

We continue to support the center-store with innovation, including SPAM Korean Barbecue during the third quarter, which is the 12th permanent variety in the SPAM family of products. This product is garnering a lot of excitement because the flavor profile is on trend and reaching new SPAM consumers.

Second, business momentum continues in our important bacon and emerging brands verticals. The bacon vertical again delivered strong results, both in terms of shipments and consumer takeaway. Black Label raw and

convenient bacon products are resonating with consumers, and showed growth in dollar sales, volume and household penetration during the quarter.

According to Circana, Black Label bacon is the leading growth brand in the bacon category over the last 12 months. We expect these trends to continue into Q4 as we support our bacon brands through advertising investments and introduced exciting new innovations to the marketplace, such as Oven-Ready Bacon and Black Label Cinnamon Toast Crunch Bacon.

Within the emerging brands vertical, Applegate items grew across all major categories in the quarter, including bacon, breakfast sausage, hot dogs, deli meats, and breaded chicken. We also launched Applegate Organic Pepperoni, the first and only nationally available organic pepperoni. We are excited to see the results and development for this emerging category.

Growth from our key brands, our overall category performance and our innovative launches show the strength and health of our underlying core Retail business. However, as we discussed during our second quarter earnings call, overall top line results in our Retail segment remain nuanced. We continue to be negatively impacted by turkey dynamics. The growth in branded Jennie-O items is being more than offset by whole bird commodity markets. Our expectations for the year have largely unfolded as discussed on our first quarter earnings call.

Next, as we mentioned on our second quarter earnings call, we experienced a production disruption at our Planters facility in Suffolk, Virginia, which was impactful to the third quarter. Production is back up and running as we have taken corrective action within the facility. As production continues to ramp up, we have secured co-packer partnerships to help support our snack nuts portfolio to improve fill rates, while we finish upgrades within the Suffolk plant.

By the end of this fiscal year, we believe the production disruption will be largely resolved and we will be in a much better position to return the business to full service levels. Jacinth will provide more color on the financial impacts during her commentary. I want to thank our broader team for the work they have done to help control the disruption, service the business, and protect the Planters brand.

Lastly, we continued to see softness in our high-volume, low-margin contract manufacturing business. We expect continued top line headwinds in this business due to lower demand for some items.

So, to wrap up our Retail discussion, the underlying core business is healthy. We remain focused on working with our retail customers to drive category growth and create meaningful value for our end consumers.

Moving now to our enterprise-wide strategic initiatives, we are seeing a growing benefit from our transform and modernize initiative. All of our pillars, plan, buy, make, move and portfolio optimization, progressed in the third quarter, and the work streams continued to mature. This quarter, we are highlighting two pillars, plan and make.

For plan, significant work was done during the quarter on the implementation of our new end-to-end planning process and technology. While this upgrade will have many benefits for years to come, we are quickly generating new insights, which have helped in our focus on improved inventory management.

For the make pillar, our operational improvements have generated encouraging results. We continue to unlock additional production capacity and realize cost savings across our network. These wins, as well as our ongoing focus on continuous improvement across all our facilities, are resulting in impactful advancements across our vast

supply chain. On our fourth quarter earnings call, we look forward to providing you with a comprehensive update on our transform and modernize initiatives, including recaps from 2024 and our plans for 2025 and beyond.

Shifting now to our fiscal 2024 outlook, we are updating our net sales guidance to account for commodity market conditions, impacts from the production disruption at our Suffolk facility, and continued softness in our contract manufacturing business within the Retail segment. We are also narrowing our earnings guidance range as we approach the fourth quarter. This update includes an incremental impact from the production disruption at our Suffolk facility.

In our Retail segment, we expect continued momentum across our key brands and categories, led by bacon, value-added turkey, and emerging brands. We are also committed to supporting our brands through strategic trade and advertising investments for the remainder of the year. We are expecting successful execution of our fourth quarter innovations and improvements to our Planters service levels.

In Foodservice, we expect continued broad-based volume and net sales growth, led by bacon, turkey, pizza toppings, and our line of premium prepared proteins. We expect another quarter of significant segment profit growth in the International segment. And importantly, we expect continued benefits to net earnings from our transform and modernize initiative, which is expected to deliver its strongest level of savings in our fourth quarter.

Taking all these factors into account for the full year, we expect net sales in the range of \$11.8 billion to \$12.1 billion, and diluted net earnings per share in the range of \$1.45 to \$1.51, and adjusted diluted net earnings per share of \$1.57 to \$1.63. We continue to demonstrate our ability to execute our clear and achievable plan and are on track to deliver on our earnings commitments for the year.

In closing, I'd like to take a moment to recognize Deanna Brady, Executive Vice President of Retail, leader, mentor, advocate and a friend. Last month, we announced Deanna's decision to retire after almost three decades of service to Hormel Foods. Deanna has impacted almost every area of our company. Her leadership during COVID and the go-forward reorganization was critical to our success, and the culture of accountability she has created will last for years. I wish her the best in her well-deserved retirement. Deanna's ambition, passion for our business, and leadership will be greatly missed.

We also announced the return of John Ghingo to Hormel Foods. Enabled by our intentional and well-developed succession process, we are fortunate to welcome John back to the organization to lead the Retail group. John is a dynamic leader known for building strong teams and strong brands. He is the ideal person to drive continued focus, innovation and growth within the Retail segment and our company. John's deep expertise in the consumer packaged goods space coupled with his understanding of our business positions him perfectly for success.

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

Jacinth C. Smiley

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

Thank you, Jim. Good morning, everyone. As Jim noted in his opening comments, we delivered another quarter of solid results and better than expected earnings. Volume for the third quarter was 1 billion pounds and the net sales were \$2.9 billion. Top line growth in Foodservice was more than offset by declines in our International and Retail segments.

To provide more color on our Retail segment's top line results, approximately three quarters of the net sales declines were related to lower sales of whole bird turkeys, contract manufacturing, and Planters. Gross margin was comparable to the prior-year period at 16.8%. The benefits of our transform and modernize initiative offset headwinds from lower commodity turkey pricing and lower sales of Planters snack nuts.

SG&A decreased \$31 million in the third quarter due to the lapping of our unfavorable arbitration ruling in the prior year. Adjusted SG&A increased 4%, driven primarily by planned higher employee-related expenses. We continue to support our leading brands in the marketplace and expect to increase advertising expenses for the fourth quarter and full year, including an advertising campaign to support our new Planters Nut Duos.

Equity in earnings for third quarter decreased due to low results from our MegaMex joint venture, partially offset by improvement from our international investments. MegaMex was impacted by higher avocado costs, partially resulting from the temporary suspension of USDA inspections during the quarter.

Interest and investment income from the third quarter increased, as interest income from favorable market rates offset higher interest expense associated with the recent debt issuance. Earnings before income taxes were \$226 million, an increase of 9% compared to the prior year. On an adjusted basis, earnings before income taxes for the third quarter were \$256 million.

The effective tax rate was 21.7% for the third quarter, in line with last year. We continue to expect our effective tax rate for fiscal 2024 to be between 22% and 23%. Our third quarter performance resulted in diluted net earnings per share of \$0.32. Third quarter adjusted diluted earnings per share was \$0.37.

We have delivered strong operating cash flow during the year. Year-to-date cash flow from operations was \$858 million, an increase of 18%. We remain committed to dividend growth, investing in our business, and maintaining an investment-grade credit rating. We paid our 384th consecutive quarterly dividend effective August 15 at an annual rate of \$1.13 per share. This dividend marks the 96th year of uninterrupted dividends returned to our shareholders.

We invested \$65 million in capital projects during the third quarter. Our outlook for capital expenditures in 2024 remains at \$280 million. During the quarter, we used a combination of cash on hand and proceeds from debt issued in the second quarter to pay off a \$950 million note that came due. With this debt repayment, we remain comfortably within our stated long-term leverage ratio range.

Shifting to our outlook, we are updating full-year net sales range and narrowing our earnings expectations. Our revised top line range encompasses the current projection for the business, including declines due to: one, updated commodity market expectations as third quarter pork costs did not rise to the level as expected; two, the impact of the Suffolk disruption; and three, continued softness in our contract manufacturing business. We expect fourth quarter pork input cost to decrease seasonally. We continue to assume full-year pork input costs to be higher than the last year and above five-year averages.

In turkey, our supply remains healthy, and we are in a strong position to service our customers and attract new business opportunities. We are projecting growth across several parts of our Jennie-O 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, the Suffolk production disruption impacted our third quarter earnings. We realized a \$0.03 earnings per share drag during the third quarter and are now estimating an additional \$0.03 earnings per share impact in

the fourth quarter. This update accounts for a slower production restart than was originally estimated, commercial impacts, facility and maintenance expenses, incremental co-packer costs, and reduced marketing expenses. Additionally, we experienced storm damage to our Papillion, Nebraska facility early in the fourth quarter. We are assessing the financial impact resulting from this event.

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

Finally, our earnings per share guidance assumes the strongest contribution of the year from our transform and modernize initiative in the fourth quarter. Taken together, we are maintaining the midpoint of our EPS guidance and narrowing the range.

To conclude my remarks, I would like to highlight the release of our 2023 Global Impact Report, a comprehensive update to our 20 By 30 Challenge. The report highlights meaningful progress against our goals, and I would like to mention four key wins that I'm particularly proud of. One, we achieved the safest year in our company's history, our lowest recordable incident rate ever. Two, our packaging team's sustainability initiatives resulted in nearly 1.7 million pounds in material savings, resulting from optimized packaged designs and improved shipping efficiencies.

Three, more than 200 dependents of our US team members are utilizing the opportunity for a free two-year college education through the company's groundbreaking tuition program, Inspired Pathways. Four, we continue to invest in the communities in which we operate, contributing more than \$12.5 million in cash and products to uplift communities. This includes investment in the Hometown Food Security Project, a cross-sector coalition working to alleviate food insecurity in Mower County, Minnesota.

There are many other meaningful updates featured in our Global Impact Report and I encourage you to take a look. I would like to extend my thanks to the teams committed to achieving our corporate responsibility goals and completing our 20 By 30 Challenge.

Now, I will turn the call over to the operator for the question-and-answer section. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] One moment please for your first question. Your first question comes from Ben Theurer with Barclays. Your line is now open.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Yes, good morning and thanks for taking my question, Jim, Jacinth. So, just wanted to start off maybe with the update to the guidance. And if you could give us a little bit more clarity in what you're seeing in terms of like the high end versus the low end. I mean, you took down sales by about \$300 million, but there's still a range of about \$300 million. So, what are the potential outcomes here as it relates to the top line? And then if you can break this down, why the lower top line has no impact down on the profit line as EPS was essentially just narrowed but not changed?

James P. Snee

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

A

Yeah. Good morning, Ben. Thanks. Thanks for the question. Obviously, there is a lot there. I guess it's important for us to start with the third quarter. And the performance in the third quarter on the top line, the decline really is driven by three primary things. We talked about the three quarters of the top line being driven by turkey, contract manufacturing, Planters. We still have – the second thing is we still have some impact in our convenient meals and proteins, pricing that we've taken, we're seeing the benefit of the pricing, but that is still having some minimal impact.

And then the third factor in the quarter is the comparison in our International group, where we're really lapping some high volume, low-margin commodity business from last year in the third quarter. So, that's the decline in there for the third quarter.

And as we look forward into the fourth quarter, there's a couple of things that are similar, but also some things that are different. From a market perspective, they're high, but they're not as high as we expected. So, that'll continue to impact us. Jacinth and I both talked about the impact of our Suffolk product – or plant disruption, that had an impact in third quarter, will continue to have an impact in Q4 as we continue to ramp back up and we get improved fill rates, the continued headwind of our contract manufacturing, and then, again, the lapping in HFIC. So, I mean, you put all those things together, and that's how we get to the range.

When we think about what could take us one way or another, and why we're able to really keep the bottom line the same, is a lot of the declines were high volume, low margins, in some cases negative margins pieces of business. And what we're talking about in terms of improvement on the bottom line, we've got our International business, which continues to rebound and improve off of last year.

In our Retail business, there's strength in the underlying core business. I mean, we're seeing key retail brands, Bacon, Jennie-O, Skippy, Applegate, SPAM, all perform really, really well. We talked about, we expect Q4 to be – to continue to build in terms of our transform and modernize initiative, and we'll have an opportunity to speak in more detail on the Q4 call.

So, all of those things, it's a long answer, but when you package all those things, that's what gets us to that top line guide while still being able to maintain the bottom line midpoint and being able to narrow the range.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Okay, perfect. And then – thanks for that, very clear. And then I have one quick follow-up on just the Foodservice dynamics. And I mean, we're still seeing volume growth, but not as elevated at the beginning of the year. So, as you look into the fourth quarter, what are you seeing from your customers in Foodservice as it relates to like the momentum and volume?

James P. Snee

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

A

Yeah, I mean, we still expect solid volume and sales growth from our Foodservice business, that top line growth has been really broad based, which has been encouraging, not only across our product categories, but the different segments within Foodservice in which we compete. Foodservice is on track for a record year. So, Foodservice remains strong and well positioned to drive value for us.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Perfect. I'll pass it on. Thanks.

James P. Snee

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

A

Yeah.

Operator: Your next question comes from Ken Goldman with JPMorgan. Your line is now open.

Ken Goldman

Analyst, JPMorgan Securities LLC

Q

Hi, good morning, and thank you. First question, I was unclear, does your guidance include any potential financial impact from the storm damage? And I wanted to get a sense of what maybe the range of possibilities to your bottom line was from the storm?

Jacynth C. Smiley

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

A

Yeah. Good morning, Ken, so, yes, we did have this unfortunate damage from the storm earlier in the quarter, and our production is fully back up and running. In addition, we also have redundant capacity as well for our planned. And when we think about impact from a sales perspective, then that doesn't at all impact sales. The cost that we're talking about and calling out is really to repair our facility. So, it has no impact at all on our top line.

Ken Goldman

Analyst, JPMorgan Securities LLC

Q

Okay, I'll follow up on that one. And then my second question, and maybe this is a little more direct than I intended to be, but why are you selling product for zero or negative margin? Is it mainly to spread fixed overhead over a bigger revenue base? And I guess the broader question there is, how do we think about the potential down

the road for maybe incremental supply chain efficiencies that could allow you to reduce your need or desire to sell product from a co-man or commodity perspective. It doesn't really help your bottom line directly.

James P. Snee

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

A

Yeah, Ken, there's a couple of things there. So, the first part of it is, we do have on the pork side and the turkey side, live harvest. And when you're harvesting animals, we sell everything. And so, our goal, and we've been very successful at it, is to continue to move up that value-added ladder. And so, we feel really good about the progress we've made over the decades, but there's still always going to be elements of that that are more commodity driven, and depending what the market conditions are, we may find ourselves in that situation. And so, that part isn't going to change.

I guess the second part, and it's an important part of the work that we're doing in transform and modernize, is the total portfolio optimization. Because it is exactly what you say, is that we don't want to find ourselves in that position where we're selling non-strategic items at negative margin. And so, our team has been hard at work at that over this last year, and we'll start to see the effects of that towards the end of this year into 2025 and 2026. We'll, again, be able to provide more clarity on the Q4 call. But it is, in our minds, two distinct different areas. There's a part of the business that just naturally flows. The second part is a piece that we can and will take action on.

Ken Goldman

Analyst, JPMorgan Securities LLC

Q

Understood. Thank you.

Operator: Your next question comes from Peter Galbo with Bank of America. Your line is now open.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Hey, guys, good morning. I maybe just wanted to start with turkey. I believe previously you had said it was about a \$0.15 headwind into the earnings for fiscal 2024. So, I just wanted to confirm that that's still the number.

And then the second part of that question, just, Jim, if turkey fundamentals just don't improve from here, right, let's say they don't get worse, don't get better, they just kind of flatline, just, is there any sense of how much of that \$0.15 you can recover next year or simply if the supply-demand situation stays the same, but maybe, some other inputs or supply chain get better at this point?

James P. Snee

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

A

Yeah, Peter, thanks for the question. To your – the first part of your question, really, there's no change and it goes back to what we guided on the Q1 call, that everything's played out the way we thought. And that \$0.15 is still the number.

The second part of your question, obviously, is a lot more nuanced. And it's not to avoid the question, but there really are so many moving parts in terms of what's happening in the marketplace right now. As we start to look into 2025, there's still many, many unknowns. I think it's fair to say we've all seen that [ph] egg sets (00:40:34) are way down. There's always the uncertainty that – of what's going to happen with any disease, what's going to happen with the grain market.

So, our focus is, as we've said, probably two years ago now, as we worked through the JOTS integration, was our goal is to become a more demand-driven organization. And we've had a lot of success doing that. We're continuing on that journey, both in Retail and Foodservice. Obviously, there's been some dynamics in 2024 that have negatively impacted the whole bird business. But really, as we go to 2025, it's still a bit too early given all of the moving parts.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Okay, thanks for that. And then, Jim, if I go back to when the Planters deal was initially announced, I think a lot of the thesis that the management team had was, if we invested more in marketing, and this was a business that was kind of starved for capital that the results could improve pretty dramatically. And I guess there's been an improvement on the marketing side, but just as you've kind of evaluated, and now with the recall and the issues at the plant, just what levels of underinvestment were there kind of in the operations or in the facility, as we just think about if this is truly contained at this point from a impact standpoint on the next few quarters? Thanks very much.

James P. Snee

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

A

Yeah. Thanks. The thesis going back to – for the business at the time of acquisition, I mean, still holds. And I think we, just prior to the production disruption, were demonstrating the value of what we could do for the business. And it was hitting on all cylinders. When we think about distribution gains, innovation gains, really connecting with younger, different consumers on the retail side, driving the C-store business, not only just for the Planters business, but having that synergistic effect across our entire food safety portfolio, I mean, it was playing out, it is playing out the way that we thought.

And when you acquire facilities, obviously we did significant due diligence, and our – felt like we were in a good position. But, as we took over the business, we were able to implement a lot of our food safety protocols, which were enhanced environmental and product testing since we've owned the business, and that allowed us to find this issue early and to be able to address it.

So, while we could talk about the financial impact and what was right, what was wrong, the fact is our system worked, we found what we needed to find, we addressed it, and we're doing the right thing. The plant was down for five weeks. The ramp-up has taken us a little longer than we thought, but as we're ramping back up, obviously we expect demand to correct, and we'll be able to get back on track to really deliver on that original thesis, which was to drive our whole enterprise entertaining and snacking portfolio.

So, we're still very excited about the business. Obviously, this disruption is never a good thing, but the team has done great work and feel like we'll be able to get back to hitting on all cylinders in the not-too-distant future.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Thank you.

James P. Snee

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

A

Yeah.

Operator: Your next question comes from Rupesh Parikh with Oppenheimer. Your line is now open.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Q

Good morning. Thanks for taking my question. And Deanna, also congrats on your retirement. Just starting out with volumes, how did volumes play out versus your expectations for the quarter?

James P. Snee

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

A

The biggest things for us, Rupesh, in the third quarter was the Planters' volume was lower than we expected. We talked about the contract manufacturing piece, that was another part that was significantly lower than we expected. Turkey was a decline year-over-year, but largely in line with what we did expect.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Q

Great. And then, I'm not sure how much you can comment on this, but as we look to the next fiscal year, just any initial puts and takes you can share? Obviously, Planters could be a tailwind as we go into next year. [ph] But wanted (00:45:27) to get a sense of whole bird turkey and just contract manufacturing, if we – maybe those could be a net neutral or even positive as we look out to next year.

James P. Snee

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

A

Yeah. I mean, you know I'm going to say that it's early for us to be talking about 2025, but I do think there are some specific areas that as we're starting to look into that timeframe and think about it, to the comments I just made, obviously, we expect Planters to be able to rebound and hit again on all cylinders, both Retail, Foodservice. The continued build in our transform and modernize initiative, we expect to be able to maintain some of the momentum in our key retail brands. Our International business is really hitting its stride, and we expect that to continue to grow.

The other part in all of this is to make sure you have the available capacity to grow. And so, we have spent a lot of time on that as well to make sure that we have the necessary capacity to support some of our strategic growth areas. And then as I commented on Peter's question, the turkey part just is so dynamic and has so many moving parts that it's really early at this point.

But, yeah, there's a lot of puts and takes, but there's a lot to like about the work that we've been doing, and that's why we're excited about the position we're in, even though we're navigating some of these identified headwinds.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Q

Great. Thank you for all the color.

Operator: Your next question comes from Michael Lavery with Piper Sandler. Your line is now open.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Thank you. Good morning. Just one more back on Planters, you mentioned with the additional \$0.03 expected impact and it stretching into 4Q, you had said, I think the term was commercial impact along with some of the other things you cited. And I just want to make sure I understand exactly what that means. And is that – does that point to any potential distribution losses you might have to recover? And if so, could that stretch into fiscal 2025?

James P. Snee

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

A

Yeah, Michael, it is. The commercial impact is the sales impact that we're missing out on. At this point, we have not had any distribution losses. Obviously, we've been able to work through inventory. We're ramping up production, supplementing that with co-manufacturing.

And although we're not where we need to be, we're certainly navigating the situation and in constant communication with our customers. The part that we don't want to lose sight of is that Planters is a very, very important brand in this category. And so, when we're talking to customers, there is that recognition. They always want us back up and running faster. We want to be back up and running faster, but it's an important part of the category. And we can't tell you today exactly what type of spillover there might be into 2025, but again, we're doing everything that we can to make sure that we're filling those needs.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Okay, thanks. And just on the CapEx guide that you're holding, it points to a pretty big spend in 4Q. Is that correct? And just what – maybe what would some of that be? Is it – you didn't change it, so I guess it's not the sort of fix-up costs for the storm damage. What's – any color on just the – what seems like a big spike up in the – late in the year in CapEx?

Jacinth C. Smiley

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

A

Yeah, good morning, Michael. So, you are correct. And this is fairly consistent actually with how it sequences during the year. And so, Q4, we typically do see a big spend, and so we're comfortable with achieving that amount, the \$280 million that we have put out for the year. So, nothing really unusual in terms of the spend this time of the year.

James P. Snee

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

A

And our engineering team does a really good job of scrubbing the projects and the spend rate throughout the year. So, yeah, we're – we feel like we're in a good position.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Okay, thanks. I'll pass it on.

Operator: Your next question comes from Heather Jones with Heather Jones Research. Your line is now open.

Heather Jones

Analyst, Heather Jones Research, LLC

Q

Good morning. Thanks for the question. My first question is going back to the whole bird turkey and co-man comments. I think you all said they represented roughly three quarters of the net sales declines. But given their lower price point, is it fair to think that they are – were a bigger chunk of the volume decline? And just wondering when those comparisons will be cycled.

James P. Snee

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

A

Yeah, I mean, I think it's – from a volume perspective, it's fairly equal. As we're working through the holiday season for 2024, we'll get better visibility in terms of what the demand is, what the sell-through is, what the supply side of the business is. And so, while it'd be nice to say that you're going to have a clear read heading into 2025, those read-throughs tend to be a bit delayed. So, it will be probably spring of 2025 before we're really able to give a better view of how that cycle looks.

Heather Jones

Analyst, Heather Jones Research, LLC

Q

And what about the co-man side? Is that – you're talking about that as well, or just were your comments more on the whole bird side?

James P. Snee

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

A

That were on the whole bird side. So, I'm sorry, Heather, I missed your co-man question. Could you go ahead and elaborate on that again?

Heather Jones

Analyst, Heather Jones Research, LLC

Q

Well, you were – you all said that co-man, Planters and whole bird were roughly three quarters of the net sales decline in the quarter. And they're lower price points, I was assuming they're a bigger chunk of the volume decline. And then I was wondering when you think you'll cycle the co-man softness?

James P. Snee

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

A

Yeah. So, Heather, just what we've said is it's contract manufacturing. And so, that is a facility, Century Foods, that we own. And so we're – I mean, we're constantly working on that business to drive demand and bring new business into the facility. So, that is not a co-manufacturing issue. It's a facility that we own and we refer to it as contract manufacturing.

Heather Jones

Analyst, Heather Jones Research, LLC

Q

Okay. And then my second question is going back to you all's Analyst Day last year and targeting \$250 million in EBIT improvement by 2026, it seems like this year is likely to be down year on year, so implying a greater lift by 2026. And just wondering, given what's happened with Planters and whole birds et cetera, is there anything that changes your view as to that – the achievability of that?

Jacinth C. Smiley

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

A

Good morning, Heather. I – just in terms of clarity, you mentioned that we're down year over year, I'm not sure I'm clear on that piece of it. What I can tell you is that we are tracking really well towards achieving that \$250 million by 2026, and we'll definitely give more color in the Q4 call. As we talked about during our Investor call October last year, we called this year as being, 2024, a year of investment for sure. And so, there will be a pretty good ramp 2025 to 2026. That being said, we are seeing really meaningful impact to our margins and our bottom line here in 2024 irrespective of that.

Heather Jones

Analyst, Heather Jones Research, LLC

Q

Okay. All right. Thank you.

Operator: Your next question comes from Adam Samuelson with Goldman Sachs. Your line is now open.

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

Good morning, Adam.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Q

Maybe kind of following up on Heather's question in a slightly different way. I know you're going to give a bigger discussion of the transform and modernize initiatives on the fourth quarter call, but can you help dimensionalize the amount of savings that you have realized year-to-date from those initiatives? You talked about the fourth quarter being the strongest contributor from those initiatives of the year. So, what ballpark are those expected to be on a year-on-year basis as we start to then think about that annualized run rate into 2025?

James P. Snee

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

A

Yeah, and Adam, we are going to provide a deeper dive in Q4 and so that is going to be the better opportunity for us to talk about what we've been able to achieve financially in 2024, and how we're thinking about 2025. What I would say is, we talked today in the prepared remarks about planning the business and making the business, but equally important is the work that we're doing on the buy side and we are realizing benefits from our procurement savings, expected logistics supplies from a move perspective, having the analytics across our refrigerated network to enhance our service levels. And just – I mean, just in general, our processes are really developing and maturing. We'll also have the opportunity to talk about portfolio optimization. And so, we're not in a position to get into the financial part today, but rest assured we will do that on the Q4 call.

Jacinth C. Smiley

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

A

Yeah, no, and I'll just add as well, Adam, you'll see some of the benefits that you see showing up here in terms of the margin expansion in the business is a direct result of those savings that's falling through the bottom line from different places in the P&L, whether that's from a gross margin standpoint or truly to earnings where we're driving

that savings and efficiency in our supply chain. So, stay tuned here for our call in Q4 for us to really give you a lot more color there.

Adam Samuelson*Analyst, Goldman Sachs & Co. LLC*

Q

Okay, I appreciate that. And if I could just ask a follow-up just on the sales guidance for the fourth quarter kind of implies down 6% to up 4% year over year. Just any kind of rough framing on the split there between kind of volume versus price mix and kind of company level by segment for the fourth quarter as you're thinking about it? I know there can be a lot of noise with the commodity turkey, whole birds and some of the fresh meat exports and the co-man. So, just help clarify kind of where those are going to kind of flow through the P&L or through the sales line and the different businesses? Thank you.

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

A

Yeah, thanks, Adam. So, as we're thinking about the Q4 outlook, we expect the Retail business to be down mid-single digits. A lot of the Retail dynamics will be similar. We talked about contract manufacturing, not co-mans, some of the market impact that we had originally thought was going to be there as we continue to work through the Planters situation, but mid-single digits is a good number for Retail. We expect Foodservice to be up mid-single digits. International will be lapping on the volume side, commodity business again, but we do see improved mix that'll get sales to low-single digits, and it gets us to the range you're describing, which is really low-single digits, but I think the takeaway here is we can do that math but the core business is very healthy for Retail, Foodservice and International.

Adam Samuelson*Analyst, Goldman Sachs & Co. LLC*

Q

Okay, that's very helpful. I appreciate the color. I'll pass it on.

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

A

Yeah.

Operator: There are no further questions at this time. I will now turn the call over to Jim Snee for closing remarks.

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

We are pleased to have delivered another quarter of better-than-expected earnings. While we continue to navigate several identified headwinds, our team remains focused on finishing the year strong and delivering in our commitments. I want to thank all of you for joining us this morning and hope you have a good rest of the week.

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

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