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# EDITED TRANSCRIPT

HRL - Hormel Foods Corporation Investor Day

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## CORPORATE PARTICIPANTS

**Jana Haynes** *Hormel Foods Corporation - Director - IR*  
**Jeffrey Ettinger** *Hormel Foods Corporation - Chairman, CEO*  
**Jody Feragen** *Hormel Foods Corporation - CFO*  
**Glenn Leitch** *Hormel Foods Corporation - President - Jennie-O Turkey Store*  
**Deanna Brady** *Hormel Foods - Group VP - Foodservice*  
**James Snee** *Hormel Foods Corporation - President - Hormel Foods International*  
**Don Kremin** *Hormel Foods Corporation - Group VP - Specialty Foods*  
**Steven Binder** *Hormel Foods Corporation - President - Hormel Business Units*  
**James Splinter** *Hormel Foods Corporation - Group VP - Grocery Products*  
**Thomas Day** *Hormel Foods Corporation - Group VP - Refrigerated Foods*  
**Bill Dion** *Hormel Foods Corporation - Product Innovation Team Leader*

## CONFERENCE CALL PARTICIPANTS

**Akshay Jagdale** *KeyBanc Capital Markets - Analyst*  
**Farha Aslam** *Stephens Inc - Analyst*  
**Lindsay Strickland** *Wells Capital - Analyst*  
**Robert Moskow** *Credit Suisse - Analyst*  
**Diane Geissler** *CLSA - Analyst*  
**Mario Contreras** *Deutsche Bank - Analyst*  
**Ken Zaslow** *BMO Capital Markets - Analyst*  
**Adam Samuelson** *Goldman Sachs - Analyst*  
**Eric Larson** *Janney Montgomery Scott LLC - Analyst*

## PRESENTATION

**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Hi. I'm Jana Haynes. I'm Director of Investor Relations and I want to welcome you to the 2015 Hormel Foods Investor Day. We have a great lineup of presentations. You'll hear from many of our segment leaders.

But before we get started, I have just a few housekeeping items to cover for you. So on your table, there are table tents that show the website that we've created for the event today to be able to follow along electronically and watch the presentation; or if want to go old school, we do have copies out on the registration desk where you can grab some papers to follow the presentation as well.

Also, we have Wi-Fi access and the table tents should give you the code for you to use that. In the back of the room, we have a monitor that will show the agenda all day long and you can also use the charging stations that are available for you there. We have prepared the day to take questions after each speaker with the exception of Jeff's opening remarks. We'll go directly to Jody's. But Jeff will be available throughout the day to take Q&A, and we've saved some extra time for him at the end of the day for questions as well.



I will moderate the Q&A throughout the day with each speaker. Please keep in mind that we are webcasting this presentation as well. So if you have a question to ask, I'd appreciate it if you'd wait for a mic and state your name for the benefit of those listening in via the webcast.

Finally, we just need to go through the legal disclosure. As you probably expect, we will be sharing some forward-looking comments and those may differ from actual results. You can see a detailed list of our risk factors out in our recently filed 10-Q which is available at [hormelfoods.com](http://hormelfoods.com) under the investor site.

And now, I'd like to introduce Jeff Ettinger, Chairman of the Board, President and Chief Executive Officer.

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**Jeffrey Ettinger** - *Hormel Foods Corporation - Chairman, CEO*

Well, thank you very much, Jana, and welcome everyone.

You know, whether you're a four-year-old company or a 124-year-old company as Hormel is blessed to be, the mission really is ultimately the same. It's to be relevant to your consumers; it's to be meaningful to their daily lives, and we hope we are bringing foods for the way our consumer's live, both with our traditional portfolio products and with some of the exciting new things we either acquired or innovated over the recent years.

And so, you're going to be hearing today about all these aspects of our portfolio. The strong legacy portfolio for Hormel Foods starts back in 1891 as a pork processor, and indeed, some of those legacy products is still very important in our portfolio, whether it's raw bacon or fresh pork or ham products. We got involved in the dry sausage arena from a fairly early day at Hormel Foods, importing technology and knowledge from Europe at that time and introducing such items as Di Lusso Genoa or Hormel pepperoni.

We continue to be the leader share player in pepperoni in the US on the retail basis, and a meaningful player also within the food service realm. And then Hormel got into prepared meals from really an early day in the company as well. We were the originators of canned hams back in the early 1900. And then the way of innovation brought on by Jay Hormel and his team in the late 1930s, early 1940s that generated Spam, and Hormel Chili, and Dinty Moore, and Mary Kitchen Has that are still wonderful legacy products for our company.

But when you look at this legacy portfolio, in order to remain relevant and meaningful to consumers, you have to look at ways to contemporize those items, and then to add it to portfolio, and so, our teams have been very busy doing just that. In the bacon realm, there's a wide array of flavored bacons available from both the retail and the food service perspective. You're going to hear particularly about Bacon 1 today from Deanna Brady and that team so that's a tremendous new product in the pre-cook bacon realm.

We continue to improve our ham products. We have a project called Project Resurgence that was aimed at innovating and enhancing Cure 81 hams. We've moved on from core pepperoni to the turkey pepperoni to pepperoni minis and pepperoni sticks, dry sausage, and also sliced ham and turkey with cheese are keys parts of our party trays and snack trays. And then, we've also innovated in the meal arena. So whether it's Hormel Compleats or refrigerated entrees and sides, microwavable versions of meals are innovations and key to our portfolio.

But then, looking at all those items, our team also, over the last several years, had tried to find kind of what are the white spaces for Hormel Foods; what are the areas that we would benefit getting more deeply involved and to complement that traditional portfolio. And if you look at that traditional portfolio and you kind of take an honest look in the mirror where we looked and said, You know, it's pretty American dominated, still a smaller proportion of our business is outside the US, though growing. Pretty much kind of homogenous old-style American audience for many of the items, so multi-cultural is an opportunity for the company.

A lot of our items are on the indulgence side so we're really never going to be able to sell Spam luncheon meat or a pound of raw bacon as a health food item. But -- so our portfolio could benefit from being more broadly involved in the healthy or what I'm going start calling holistic area in the business. And then a lot of our items really were oriented toward the classic everybody sit down and have the meal of the family, and we all know that's happening frankly less and less. And so, the notion of either buying or creating on-the-go products has been a very important element for our company.



So specifically, when it comes to acquisitions, those were the lenses that we've viewed what otherwise could look as a very desperate set of resources and assets that our company has bought on board, desperate from each other and desperate from the core Hormel portfolio, Hey, you're a pork processor so what are some of these things doing on a portfolio of a pork processor?

Wholly Guacamole. Clearly, multi-cultural. Guacamole, emanating from a Mexican cuisine, although it's spilling over to mainstream as a topping even at subway these days. It does have global opportunities, international business in several countries right now. And it is participating quite well in on-the-go segment of the Wholly minis, one of the fastest growing components of it. And it's also perceived and seen as a very healthful item by consumers.

Skippy was attractive because it bolstered our existing grocery products present in a lot of our consumer products sales worth to become even important with many of our key customers. But also, because it provided that protein source in a non-meat basis so it had a health component to it. And we were also very intrigued and interested in the global component of Skippy brought to our franchise with over a hundred million dollars in sales outside of the United States, and coming with a plant and a team in Jiaxing, China that we were able to integrate very nicely into our other two existing plants within in the Chinese market.

Muscle Milk, another protein source that's non-meat based, a very on-the-go source of protein was attractive for us. It has a small global element to it that we were hoping to grow over time, but clearly, going after a younger consumer which is another area of interest.

And then most recently, Applegate, and that was kind of where I switched - if you've seen any of the - our elements with this presentation in the past week, we talked before about health and wellness as an area.

Now, we kind of couched that is healthy or holistic because I think when you look at what the Applegate's of the world bring; yes, it has a health component to it, but it's more than that. It's a lifestyle brand. I guess the brand I like to point out as an example of a contrast would be the brand on by Unilever, Ben & Jerry's.

So Ben & Jerry's is also clearly a lifestyle brand. But really, frankly, probably not a health brand. I don't think they would even say that Ben & Jerry's ice cream is necessarily a lead item in the health portfolio, but it has the aspects of how it's produced and how the company access the corporate citizen that are very important to its customers, and that's what we have also now with Applegate.

By getting into these new areas of the business, it has provided the ancillary benefit of raw material diversification. So clearly, we still are deeply within the pork supply chain, deeply in the turkey supply chain, corn and soy milk as the components - are still critical elements of our overall cost. But over time, as we've gotten into Mexican food with sauce items and brought in tomatoes, or peanuts for Skippy, or whey powder for Muscle Milk, or avocados for Wholly Guacamole, they do provide an element of cost diversification that we find helpful.

Now, this maybe a little difficult to read but I think it's kind of an important chart because we've touted to you that some of our new acquisitions and some of our new innovations are getting us into new demographic space.

But I think this really bares it out. I think most folks would have the assumption that if you look at our core portfolio, our Spam luncheon meat, and Hormel bacon, and also Cure 81 ham and those types of items, that they're probably oriented to a little bit older audience. And indeed - so if you could kind of see the red that's in the middle in that third column, the boomers or even the matures, indeed, almost the entire grocery portfolio, and a lot of the meat part portfolio does gravitate for that segment.

So if you want to attain more balance, as we did, and if you want to maintain your relevance with modern consumers, you look to what millennials are enjoying and you look at some of the new things we've acquired. So we've gotten in the MegaMex with Herdez and Wholly, and they're much more millennial oriented. Muscle Milk is much on that side.

And in addition to that, our protein-based businesses also have done a great job at honing in new items that attract millennials. The entire Jennie-O portfolio has done a really excellent job at elevating their brand as being attractive to that group. And some of the newer items within the Hormel portfolio in the meat product side as well. The Party Trays, the Revealed Wraps, the Natural Choice, all have registered quite highly with millennials.



Then on ethnic diversity standpoint, as we tried to become more multi-cultural; indeed, if you look at kind of okay, there is the more core items on the top, in the Caucasian column if you will, so that they register index more highly against that audience. But if you move into some of our newer arenas, again, the MegaMex items, Jennie-O Turkey Store, the Muscle Milk, the Applegate have a much broader multi-cultural appeal for them, as do some of the items up on top. So Skippy or Spam have a broader portfolio and we're going to be in a position to continue to foster that.

I have the opportunity, after the announcement of the Applegate business to do an interview with Jim Cramer's show on CNBC. And I want to play you a couple minute segment from that because it really addresses a key theme of what we're talking about today. You know, the headlines sometimes that come out of a transaction like this is, Hormel is going organic or Hormel goes natural.

I think this one, Hormel embraces natural food, frankly, I'm more comfortable with because I think the notion is you are embracing it and it's kind of like a new child in the family. It doesn't mean you tossed the old children out when somebody new comes in the family. You welcome the new and you still value the old, and I think that is our theme, and that's what I try to get across in this interview.

We'll go ahead on that.

(Video Presentation)

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**Jeffrey Ettinger** - *Hormel Foods Corporation - Chairman, CEO*

So for us, it is a about choices. It's about being a significant player in a broad spectrum of customer opportunities and honestly looking and saying, Hey, when it came to this natural organic segment, we really aren't a player or we're a fledgling player in a couple of our categories.

You're going to hear about Wholly Guacamole or Muscle Milk to have organic offerings. This will give us a lot more knowledge about that segment, and we think Applegate will be a great growth opportunity going forward.

I had a recent trip - Jana and I went to London this spring and talked to investors out there, and it just happened to be week of the announcement of the Heinz-Kraft merger and so that was clearly a lot of the talk. When we opened the paper the next morning, the Financial Times, to read about Warren Buffett and different items that they think 3G -- Mr. Buffett might be interested in companies that might be on buying, and they had on the list and Hershey's and others as well.

You know, maybe a little bit of a misunderstanding in terms of our corporate ownership structure, you know, and the fact that we have the foundation in place. But beyond that element of it, I guess the other thing that really struck me in talking to investors in England was - I mean, honestly, we don't have a huge franchise in England. We have a great Spam luncheon meat business. We have Staggered Chili. We did see Muscle Milk. We did see Skippy. But most of our products, otherwise, are not in that marketplace.

And so, when you're talking to the investors, they're often asking questions less about the portfolio and more about things like, how do you do this; what is your culture; what is your long-term orientation. And so this kind of gets us - again, maybe the misunderstanding of articles such as the Financial Times portrays. I think they don't really understand the fact that we're a small-town based company in Austin, Minnesota which is usually an hour and a half south to be here today. It took me three hours, but that's another story.

But it's [ton of 120,000] -- all the folks that you're going to see presenting today with the exception of Glenn who runs our Jennie-O operation leaving in this town. The foundation, being at present, allows us to have a long-term orientation, allows us to foster long-term careers. Jody will talk to you about our financial conservatism and the dividend record, and so forth that, again, are also key and integral element to our story.

And then another really key element to our story is our talented team. So we have - you're going to get to see a lot of them here today. That's one of the things I really like about Investor Day. It's a broad spectrum of folks that you're going to be asked questions to and see in action. Our teams - our officer teams, averaged 10 year with Hormel is 26 years. I really still kind of slightly bring down the average. I'm at 25. But, you know, a really excellent track record of 10 years.

The one last thing I'd like to do today, another folk who has - person who has great 10 years with our company, who has announced to retire. We just had a retirement party last night. But she's still on the sideline and working here today. Many of you know Julie Craven. She's been our Vice President Corporate Communications. Really, the story of Hormel making sure all of our stakeholders understand what we're about. It has an [IRL] mandate. It has a corporate communications element. It has customer element. And all of those things come together.

I want to thank Julie for her work in her space as well over the years as she moves into retirement.

With that, I am going to turn the program over to Jody Feragen. Thank you.

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**Jody Feragen - Hormel Foods Corporation - CFO**

Good morning. I'm delighted to have everyone here, and I'm even more excited by the fact that you get to hear about our great growth story from the people that are actually running the businesses on a day-to-day basis.

So as we get going, I want to make sure everybody is grounded in what we are -- financial growth expectations are. We are looking over the long term to grow out top line by 5% and our operating income by 10%. I will caution you that these metrics don't apply equally to all of our business segment. For instance, grocery product is probably more in the 3% top line and 6% bottom line category. Whereas expectations for our international business would be more 10% top line growth and 15% bottom line.

Refrigerated foods, Jennie-O and specialty products, they should meet or exceed our 5 and 10 goal as we look over the long term. And then, we also have a \$3 billion in new product sales by 2016, and Binder will give you some more details from that.

So how we've done against our goals? Over either six-to five-year period for this - for instances here, but we grew our top line by 7% and our earnings per share by 12%, and that really was by - as just indicated staying relevant with the consumer and knowing who our customer is.

And it's kind of like, we get asked once in awhile, you know, how do look at that top line growth? Admittedly, some of that is going to come from acquisitions. And when deconstructed the 7% growth over the last five years, you'll see that 4% came from organic growth and innovation which is the key area you hear about from all of business leaders today. And then about 3% of it came from acquisitions. So, admittedly, we continue to put our balance sheet to work and acquire great opportunities. Sorry about that.

So as just indicated, we were able to go through all types of market conditions. We have an excellent first half, a record first half, fifth year. We did, on May 28th, announced that we were maintaining our adjusted guidance of \$2.60 per share, but that we would be at the lower end of that range. Certainly, we look for the back half to continue for refrigerated foods with growth in their value-added products as well as benefitting from lower raw material cost.

We look at grocery products to benefit from the lower raw material cost as well as, you know, some easier account -- from last year especially food should continue to grow with the acquisition of the CytoSport and the ability to integrate that business and gain distribution. Donald will talk about that.

From an international perspective, we expect exports to continue to increase growth in our China business. And then Jennie-O is going to face some challenges in the back half. We've talked about, you know, some of the headwinds they're facing with the AI and Donald will get into more detail with that. But we're still very excited about the year that we planned to deliver. And even if we deliver at the very end - low end of that range, we're still looking at 12% earnings growth all through the year.

We did give guidance at the end of our fourth quarter on the segment basis, and I think the two business units will talk to this total company we're looking at the 9% to 12% segment profit range.

So with excellent results with growth and sales, with our conservative financial position, we are able to grow our cash flow by over 27% over the last five years. And so the next question is, Jody, what do you do with that cash flow? So first of all, we'd like to invest in our businesses and also to return cash to our shareholders. And over the last five years, we've spent \$3.2 billion doing those exact things.

From investing in the business perspective, we look at organic investments and included in there would be replacement equipment that we're doing to keep our plants operating in good condition as well as addressing any food safety or employee safety concerns. Those remained priorities for us. But also to provide expansion and capacities for businesses that are growing.

And certainly, we announced the excitement in China with building our first Greenfield plant over there. And we also invest in assets and facilities that allow us to continue to innovate and Bacon 1 would be a good example of that.

Form the strategic acquisition standpoint, we like Grams - that's our number one or number two the growing category. We look for platforms innovation, and certainly to address the four platforms that Jeff just talked about, multi-cultural, global, on-the-go. I guess it's not better for you at holistic now. And was look for assets that are fitted to our growth goal.

And then when we take a look at businesses that we're buying, the team works from a bottom-up approach. We look at the business, develop our own forecast of how we're going to grow the business going forward. We are probably a bit conservative on doing that. And then we'll discount those cash flows at a long term cost of capital. So the same type of analysis is also used when we look at doing organic for internal investment.

So, a little bit about the Applegate. Tom is going to give you a lot more perspective from the strategic side, but I told him I would cover down the financial side. So we announced the acquisition on May 26 with the purchase price of about \$775 million. Of that, a \$165 million about is the net present value of tax cash flow that results from amortization of the set up basis from the asset. A lot of that is said there, but I think you all understand what I'm getting at.

Our 2015 sales were about \$340 million. We do expect the acquisition to be neutral to our result in fiscal 2015 given transaction cost as well as fair value purchase accounting adjustments, but that it will provide \$0.07 to \$0.08 accretion as we move in to 2016. And in that, we've estimated about \$10 million of purchase amortization. And I will caution you that is an estimate at this point because one, we haven't close the transaction; and two, we have not done formal purchase accounting. But that's our best estimate today.

From the balance sheet perspective, we expect to take from the acquisition about 50% cash, 50% debt. So that will move up our leverage ratio to about 17% on a net basis because I'm still feasing some cash for operating purposes; it's about a 10% and that certainly does not put any strain on our balance sheet. And indeed, we are, you know, comfortable with capacity of about \$3 billion of debt, the ability to maintain a solid investment grade credit rating.

We also like to return cash to our shareholders and, wow, what a record we have; 49 years of consecutive dividend increases.

In fact, since 1928, we've not missed a quarterly dividend since we're in public in 1928. We've increased our dividend that are rates faster than our earnings have been growing in an attempt to get our payouts and our dividend yields closer to our packaged food peers.

So I would expect this to be a continuing obligation of the company going forward. And then we are more opportunistic with our share repurchase because as Jeff mentioned, our ownership by the foundation, we want to make sure that we stay in balance with less than 50% ownership.

We're also proud of our return on invested capital, certainly ranking up towards the top of our peer group. And that really is a testament of our ability to grow and be cautious with our investment.

So I often got asked, Jody, are you going to implement zero-based budgeting? I think half of people asked me that this morning already. Or what's your cost-cutting initiative that we've going to have at Hormel? We live at every day. I say that we have the Hormelene culture all the time.



In fact, if you would like to add a salary position, it takes to probably three years, and Jody and Jeff Ettinger will both sign off on it. So we've kind of always had that philosophy of making sure that we stay right size so I don't have any great cost-saving initiative going out for you today.

But we do have a solid track record of sales and earnings growth. And I think you're going to hear some great growth stories from the folks that are presenting here today. You'll hear about innovation that's in our culture, and it's not just innovation in how we make a product, to develop a new product. But it's innovation in how we go forward and do business with our customers. It's innovation in how we run our backroom processes from an administrative standpoint.

We have a strong portfolio. We like number one and number two brand, just fully conservative. I don't think I can say much more about that. Management depth, as you'll here today this is a great team a long tenure. And then, we're focused on the long-term. We're 124 years old. We hope to be around for another 124 years.

With all that, it has paid off well for our shareholders. Certainly, Hormel stock over the last 10 years has delivered significant results over what the S&P 500 or our packaged food peers have over that same period.

And that's all I have for formal presentation today, that I would entertain any questions. And I'll caution you in advance that if I think it's something that's better to ask one of the business unit leaders, I might take the question down the road, but we'd take any.

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## QUESTIONS AND ANSWERS

**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

As a reminder (technical difficulty) the microphone to ask your question and state your name.

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**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

Akshay Jagdale, KeyBanc. Hi, Jody. I'm going to ask you question you asked me to ask you at breakfast so -

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**Jody Feragen** - *Hormel Foods Corporation - CFO*

I see that would be a good question for everyone here.

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**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

So can you just talk a little bit about the conversations or topics in the boardroom that you're having in the last couple of years compared to the previous four or five years. Obviously, you've been much more aggressive with the balance sheet which has been great to see.

You talked about new initiatives on cost-savings which is the focus of investors, but is this something you've perspective on how - you know, what has changed there, if anything?

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**Jody Feragen** - *Hormel Foods Corporation - CFO*

Actually, I said to ask Jeff that question.

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**Jeffrey Ettinger** - *Hormel Foods Corporation - Chairman, CEO*

I said I'd be available after your segment so I'd be happy to take the question.

I think that there on the acquisition side, there has been certainly great support from our board at ratcheting up maybe the size of deal that we had historically been involved then. I mean, if you kind - if you look at the average over the kind of early 2000s to the early 2010, there were a lot of 50s and 80s, and \$120-million deals.

I think recognizing the size of the company we're at now and the fact that we have had reasonable success in integrating and landing a number of good businesses, that we have the added confidence to go after these deals that are more in the hundreds of millions range, and indeed the last three in a row have been in that area.

Clearly, the board is very interested in supporting our growth initiatives and recognize that's kind of you stand out in the modern marketplace. They've been supportive of our efforts to kind of reshape the portfolio into some of these newer areas. You know, just kind of one physical thing we do on a regular basis with the board is we conduct one of our meetings every year off site and that can range from groceries and meeting down at Skippy's facilities so they understood that investment.

And we had our grocery team talk about, not only Skippy, but the other great things going on within their divisions. On our other past meeting, we went to our Wal-Mart team headquarters on the sale side, and had the chance to have eye-level meetings in the corporate offices of Wal-Mart, but also understands kind of how one of our larger sale teams operate. So, you know, they're really trying to stay up with the business. But then you have the usual governance in the area around things that board has to get involved with.

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**Farha Aslam** - *Stephens Inc - Analyst*

Farha from Stephens. Jody or Jeff, could you talk about the foundations in whether you could engage in a larger deal that includes equity and how they feel about dilution? Because you're really pretty much sold out from sharing purchases as clients.

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**Jody Feragen** - *Hormel Foods Corporation - CFO*

I mean, we still do have room to complete the authorization that's in place that is 8.1 million shares or something like that. I think if there were to be an opportunity that would avail itself that would potentially - I mean, we've got a lot of room with just the balance sheets that we have, without needing an equity component. I think that has to be a conversation that we would have with the leadership on the foundation team.

I don't have any other - Jeff, actually, serves on the foundation itself.

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**Jeffrey Ettinger** - *Hormel Foods Corporation - Chairman, CEO*

Yes. The one thing I could add is that there was a piece of litigation nearly 30 years ago involving the foundation and the heirs that talked about levels of control and what was appropriate. And at that time, the foundation position - at that time, the heirs were actually seeking to have dividend diversification. Ironically, I think it's worked out very much in their favor that they lost that case because our dividend record isn't fantastic has took over the last number of years.

But the core, at that point, determined that the foundation was in a proper position. It could maintain significant control over the company as they need to do since they're in appearance with their trust. And that point, they own 39% to 40%. So we're on - some conversation we've had in the past with the foundation, there is a tolerance range that's below 50% and above 40% that we would have potentially some room to involve equity. But if we were to get further than that, that would have to be much different discussion.

**Farha Aslam** - *Stephens Inc - Analyst*

Thank you.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Randy?

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**Robert Moskow** - *Credit Suisse - Analyst*

Hi. Thanks. You know, I was looking at the -

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**Jody Feragen** - *Hormel Foods Corporation - CFO*

Your name?

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**Robert Moskow** - *Credit Suisse - Analyst*

It's Robert Moskow. Thank you, Jody. The criteria for acquisition included accretive growth. And your growth algorithm has already accretive, right? So I know there's lot of other criteria there. But you could say that with the brands you're looking at have been looking more and more like the Applegate world that are growing 20%, 30% in order to meet that criteria.

So I guess I want to know, you know - are there other things that you're scoring now? Are there also like slower growth, kind of steady businesses like Skippy as well or has potential and really shifted in terms of what you're looking at?

And then the follow up is, there's a lot of companies out there that are looking at maybe reshaping their portfolio with frozen foods category, especially frozen entrees - maybe something that's going to have a big shake off. Will the company explore that as an avenue also?

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**Jody Feragen** - *Hormel Foods Corporation - CFO*

So let me start with maybe a clarification on the acquisitions. We sometimes look at that being accretive to the segment that it's going to be operating within. So that would allow us to look at maybe some of those core grocery-type items. But, yes, we do look for growth. We look for things that sit within that platform.

As far as frozen foods, you know, it would have - it would depend on if fits a niche that work within global multi-cultural on-the-go. I think they're probably a multi-cultural opportunity that might exist out there.

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**Robert Moskow** - *Credit Suisse - Analyst*

So in terms of the pendulum shifting, has it shifted or is it - you're kind of agnostic to?

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**Jody Feragen** - *Hormel Foods Corporation - CFO*

I think if it provides the right shareholder returns for us that those are worth looking at. If we can bring something to the table as we make the acquisitions, I think they're worth looking at.

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**Robert Moskow** - *Credit Suisse - Analyst*

Thanks.

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**Lindsay Strickland** - *Wells Capital - Analyst*

Hi, Lindsay Strickland, Wells Capital. I had a question on the margin implication of the potential acquisition. It's a little bit more holistic brand, intend to have lower margin. What's your strategy on that whether premier term or long-term when looking at those opportunities?

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**Jody Feragen** - *Hormel Foods Corporation - CFO*

So I will tell you that as the supply chain gets more robust so that margin picture might improve. We were very pleased with the margins that came with the Applegate transaction as well as the CytoSport transaction and the opportunity there. So I guess it depends on the case like it faces and what we can bring with it as we look at the acquisition opportunity.

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**Lindsay Strickland** - *Wells Capital - Analyst*

Thank you.

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## PRESENTATION

**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

We'll bring up Glenn Leitch, Group Vice President and President of Jennie-O Turkey Store. Welcome, Glenn.

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**Glenn Leitch** - *Hormel Foods Corporation - President - Jennie-O Turkey Store*

Thank you. Good morning. I've had quite a few questions already this morning. They're all on one subject. So Jana, it was actually recommended to me by our analyst friends that we skip the presentation and go right to Q&A, okay? But I don't think you'll want that, and hopefully, if I do good enough job here, we'll explain things to you and we'll be better understood.

So on the agenda for this morning, we are going to talk about the avian flu. I'll get right to that. I did want to give you though some impacts of our branding and our consumer base, and really how good of a year we're having on the value-added side, and really how good of the several years we've had on the value-added from the growth perspective. So I don't want that to get lost in the translation.

From a total industry of live harvest standpoint, we were up as an industry 7% through the first four months of the year. Now, with high path avian flu, that number for the back half is going to be mitigated.

In fact, the government just came out yesterday with their new [USD] report and they cut GBP375 million out of their turkey equation, which we think is reasonable that they're now seeing that effect.

But for the back half of the year, we see that there will be loss production. And I think the USDA number has actually first slight drop year-over-year. It was for two, if you will, at the industry was on a growth mode. We were part of that growth. So our production through the first four or five, six periods of the year was quite strong, intended to be that way, and that's actually helped us mitigate some of the challenges in front of us.

So you've seen and read the headlines. I've read them all, and it has, you know, very much occupied our time here, and really, we've been on this since January. We saw it come down the West Coast. There's been a plan in place. The government had called the Red Book. It's been in place since 2007. We've got talking points that we've done and redone year over year over year, and so, we're ready for this. So why did it impact us?

We'll, I'll get to some of those points. 66 total farms, now, those are our farms plus independent and anything that comes to us in our aggregate system -- I've included in that number. We said at the half - that our second half guidance would be for sale to be down 15% year-over-year and that's from a segment standpoint. We're going to be in the 10% to 12% range versus where we had been running, which as you know, is better than that.

So detection of Minnesota flock, this shows - we call it an epi curve. So it shows over time what's happening. And you can see by week, we went through this really rough period in time when the turkeys were getting at the layers we're getting at, and there were just a lot of virus in the environment. Now that is winding down and I'm pleased to tell you this morning that in Minnesota there has been nothing in the last seven days.

And at Wisconsin where we really represented all the turkey impact, six arms, we haven't anything there in 30 days. And so, things are certainly settling down. It's not over until it's over. And so, we, right now, today, have Wisconsin locations that are outside of the control zone now. Those zones have gone away because we haven't had disease in 30 days. So we're continuing to do all those things that we have been doing while we're in those zones.

One thing we have noticed is that the virus, at least its early stages when it first hit, was almost universally in older flock and that became very to your problematic to your supply chain. So these are not, you know, baby poult; these are birds that are sometimes three or four weeks from market, and then you lose those birds.

So that puts hold in your schedule, that's why you see that this period of time here, where we got to make quick changes. It also forces us to be able to take some birds and move them up in the schedule. So there are certainly some supply chain issues we've had that we're through.

Why is this? Well, lots of reason, lots of thoughts. I can't give you the answer but I can give you an idea. Our birds that typically are brought to 20 weeks of age for the time set of the business. It's seven weeks in one barn complex then they move. While the seven-week birds, we really had nothing impacted - really on. It's only been when the virus is really out in many different locations and layers had to - that we saw some of that, and that's probably for other reasons.

But those are pretty much environments where those have higher heat temperatures. You know, the younger birds, they need more heat. When they get older, they need to be exposed to outside air. In the turkey industry, we drop curtains down. It's all automated. And so, they're exposed to the sunlight and the outside air. Is that a cause in effect? We have few studies that are being done. There are two different versions being done right now. We need to let that work and done. But that's one thought process and so we've got some mitigation factors that we're looking at based on this.

From adjustments that we've made, we had to announce our favorable plant, we'll go to one shift operating. That's [Tom] facilities so that's in place on May the 25th. I'm pleased to report that that second shift which does not process any birds now, we were able to buy some meat. And so, we've got some people back working on modified second shift, if you will.

Melrose is whole bird operation. They've taken seven or eight days so far. We think there maybe a few more. They've also had to work some Saturdays as we try to match up bird weight for consumer interest again in the whole bird side. And we think Melrose - that will be the extent of the impact on Melrose, not that large, when you think of other plants that run about 270 days a year.

[Darren and Wilmer] will experience - those are Tom plants and they will experience in four-and five-day weeks. For example, [Barrin] ran five days last week, five days this week. It looks like it will be in a series of four-day a week shift for the next month or so. We think in August we're going to moderate back and forth between the two. And hopefully, by September, we will be back into more of a regular routine, if you will.



Bird weights will still be a little lower through that period. It takes some time for us to be able to get bird weight back to our system. And then we're looking for opportunities in 2016, the independent growers that you can sign up year to year, maybe right now, geography just a little bit, and we're looking at that.

From a market standpoint, we expected a higher growth this year that breast meat pricing would in a \$2.50 range. But now, well, it's \$4.35 so we made about face and we all know why. We were heavy buyers. We've been buying breast meat since January. And now, breast meat is relatively unavailable. Folks are holding on to it. They're concerned whether they might need it later. So frankly, the breast meat is relatively speaking, unavailable. And hence, part of the reason why we're not able to cover some of our sale shortage by buying meat.

In the dark meat side, it's a better story. On the dark meat side, we have exports that China in January shut down the United States. You know, Russia is kind of shut down for longer than that for lots of different reasons. And so, those are big dark meat markets. And so that meat is back in the US and so we've been able to procure as much dark meat as we need to be able to run our operations.

So let me move more to - okay, what is the story of Jennie-O and it really is long-term growth. This is a company that sells year over year. We were tracking better than that in 2015. And it's really through brand leadership. We've done a lot of work over the last several years on our brand. Our total awareness now for Jennie-O Turkey Store in 2014 is right budding up to the 90% level. And in markets where we run to make the switch, our advertising campaign, we're on 96% range, so really great total awareness numbers for a turkey brand.

In addition, our household penetrations have been going up every year. We're now at 24%. So it's great. It's been going up every year. But 24 is not a great number. We still got room to grow and we have been growing that. The millennials - we're over index with millennials. And that number of 28% is up almost a full point in the last year. And so, we really resonate well with them.

Our brand imagery is really great in a couple of different ways. It's good and healthy lifestyle brand. We're sure good about serving. But the one I really like in that category if people said it taste good, okay? And I'm not sure 10 and 15 years ago, you would necessarily say you're eating turkey because it tasted good. It was the lean protein, right? You took the fat out of everything, right? And okay, I'm having turkey but we worked really hard to make our product better, get better bite to it, more flavor profiles and food service. We've done a lot and meet new things. And so, we're really excited about some of those changes we've been able to make on the turkey sides.

In addition, total purchase intent in areas where we do or make the switch campaign is up in the 54% range, which is again a really nice number for us. That brings more formally to make the switch. Hopefully, you know, I don't have to tell you what that is. You know and maybe you've made the switch already. I know some of you have because you've told me.

But we launched it in 2010. It started with burgers and these are CAGR numbers. So year over year, we've seen an average now of the burger growth of 18%. In 2012, we launched Sleepy Hollow. We took over a small town and we brought a breakfast into them. They woke up at turkey breakfast, predominantly bacon and sausage roll product. And that's up 39% since we started that campaign.

And then we started the taco right here in early 2014 and that's primarily on our grinding side of the business. And grinds have been doing really well, and they're up 19%, and a big category.

We are very focused on the millennials as I mentioned. We know we have to do more in social media. Those are numbers that I'm showing you here that are growing. But frankly, they're not good enough. In the back half of issue, we have plans and strategy to be able to do more with social media. We've now pushed those off as well and make the switch. We are planning to do more media in the back half. We're now not - you know, we don't have the need to support that to roll that in the 2016 as well, but clearly, an area of focus.

On the ground side -- you know, grinds. We're trying to really drive growth in several different ways. I mentioned the millennials, but really everyone is more focused on fresh than they ever have been before. And we have the best fresh supply chain in the industry. There's no question about it, from our shelf life and how we manage our business, and that's been a strength for us.



Our product distribution has been growing on the East Coast. We've done some things to advance it there. Again, what's going on today, we're kind of pushing that back a little bit in the next year. But certainly, some good things are going on there. And ground beef price inflation hasn't heard -- the fact that the pricing has been high and we expect we'll continue to remain high. That's helped our value proposition.

It simply emphasizes that it's a map of the United States by region and you can see that the ground beef is in blue and that through this [IR] period, with the sales were in volume for that period of time against the sales of turkey. And you can see universally, beef is down and turkey is up, and they correlate actually fairly well on aggregate basis.

Our ground turkey share is growing so we've had that advancement every year. And it's a big category. Ground beef, 1.9 billion, that we're chasing. So we got a 1 point, that's GBP21 million. And GBP21 million pounds for turkey process is pretty darn good growth. And so, there really have lots of opportunities for us going forward in this category.

And we're really excited about this. So we are the number two - Jennie-O lean ground turkey, number two amongst all exact meat items in the meat department nationally. Okay, who would have thought it, right? But we're there and we're an important brand. We've got retailers where we don't want to provide any marketing spend. They want to provide it on their own. They know this brings people in and this resonates with the consumer that they're interested in. And so, we've had great growth. The categories have been growing. We've been growing in a faster rate over a three-year period.

Another area of growth where we were really unknown of then three years ago is in the breakfast sausage category. You think of it as being sleepy, well, really, it was just owned by a couple of pork players. And we compared our label to theirs and said, Hey we can play you here. And so it's a category now, it's over \$20 million with us and we're number six in fact of data I just looked at. So I think we're now at number five, and so, some really nice growth here. And when you compare it side by side with the pork roll, we are a significant competitor.

I've been ready with the category that's going a little slower but still in growth so this is the product that goes from freezer to the oven. So if you're not quite sure how to cook a turkey, you don't want to disappoint the mother-in-law, you might be interested in this. And so, we know we'll be at a little slower growth. It's a more expensive product line. But it has resonated and it's the most asked item among our website and people want to know where they can get it. So where we convert people, they are converted and then it becomes a distribution play.

Right now, we have it mostly seasonally. But there is some that's year round and so we're working to develop that category. Again, with high path avian flu, we're pushing some of that growth off. But year over year, we will still be up for this year.

A brand new item for us, turkey breast sticks. The fact that breast is in there, it means that that's also getting a delay just a little bit. We have pushed it into a few markets. We'll call it a test that we have now. But we really like this product line, single-served packaging. It's a clean label. And once - you're really going to like it. If you compare the labels and you look at the relative brands in this phase, you'll go up and down that column and you look at the calories in this, you look at the protein, that ratio, you're going to get more protein per calorie than you will in any of those other comparative items that you see there.

And then, when you think about it, okay, they're really lean. Well, you can go to Jerky item that is lean but you're not going to get the sodium reduction that you do with our products. So very flavorful and competes really well especially when you're looking at the back panel label.

Then I do want to talk a little bit about food service and deli as well, and not leave them out of the picture on the food service side. National account growth has been good. The K-12 school business that we have grows seemingly every year. Street business has been good. What categories help foster some of that growth? The breakfast category, we're leading on retail again. Some of the work that's done there has a rollover and you're going to hear more of that. I'll continue on - as I turn the next few slides.

And then also, the operator wants things that are fast and easy, and so the cook line, the slice line takes some of the work away from them. It's appealing to them. And we see growth in those categories as well.



And I've got something fun for, make the switch on the food service side. If we can do it at retail, why not at food service? This is a low cost opportunity where we go on and we invade cafeteria or someone's dining hall for a day and convert everything on their menu that was some other protein to turkey. We've done two tests of this right now. This one that you're going to see is from Colorado State University. We've got a video and so we'll roll that right now.

(Video Presentation)

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**Glenn Leitch** - *Hormel Foods Corporation - President - Jennie-O Turkey Store*

So we've offered this on a healthcare facility where we've tested it, and we're running video of that as well, and we'll be able to take this out and show this operators and given them opportunity to do this. Again, it should not be a high cost event. And we think it's very effective. It's the, Oh, yeah, what about turkey? And I think this answers that need very well.

Something else that we're doing that says, Oh, yeah, what about turkey? is the menu maximizer. And so, we can go to an operator and we have them use whatever their protein is. So let's say it's 80-lean ground beef and they plug in an 80-lean turkey equivalent or they can put it in a 90-lean turkey, and say if I've got a menu issue coming this fall, whatever those regulations ended up being, you are going to have more focus on calorie counts and fats.

And so, they would be able to either maybe have a value plan turkey or be able to lean up their offerings to be able to meet whatever standard they need. And that's available to them today.

And we've got partnerships on the food service side. We're really proud that this happens to be one MOOYAH burgers, fries and shakes. And they grow as a company. We're growing with them. And this is not a story about our 93/7 burger that we've had with them. It's actually a story about retailing burger because we showed that to them and said, Hey, what about a jalapeno retail? We have them the numbers on the retail side, showed them the consumer base, and they said yes. So that's another tie-in that we have on the food service side.

And then briefly, it's all about premium. We're working really hard on the premium side our business. You know, today, it's a \$1.99 or \$2.49 shaving breast behind the glass, and that's what's going to draw the consumer to the deli. That really doesn't work very well and more operators are trying to figure that out. And as they do, we've got a really nice offering for them. And so, you're going to see these types of presentations available to them where we have our premium offerings.

The industry has been growing up the last year at a smaller rate. But we've been growing that category of 15% a year.

And so that is the future for us. We see lots of tie-ins with Hormel and they want a full-line offering. We've been doing some of that work. And if you want to go grab and go over split-breast business, and we've got some other items as well, so grab and go. If you're tired of that which is with chicken, we've got options for you. And we've seen increases in growth there too.

So, onto my summary, great first half, really some nice numbers. We're on a great roll. And the retail dollar is still up at 11. We have food service up the same. Deli was actually running better than that. And so, some really nice things going on there. Significant second half challenges because of high path avian flu. We've got strong relationships with our consumers and customers. They have been great to work with through this challenge.

And we've got an experienced team and I do remise if I didn't mention that the strength of that team, the work that they're putting in, the hours of the day. We're finding out things new every day that I think will be important, not only to us to solve and move forward, but to help the whole industry. And we're working well with the government. We're trying to turn over every stone we possibly can to be able to get back and move forward as soon as possible. And I'm really proud of the work that they have been doing.

So thank you for your time this morning, and I'll be happy to answer any questions that at least one maybe on a brand or something like that.



## QUESTIONS AND ANSWERS

**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

We've got Diane. Diane?

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**Diane Geissler** - *CLSA - Analyst*

Can you hear me? Okay, Diane Geissler from CLSA.

I just wanted to -- actually, four questions, first one being patient about volume decline in the second half versus the sales decline, some kind of what you have modeled in in terms of where prices will go?

And the second question is actually a question I asked on the conference call, I think it was probably a little bit too early really to answer it because you are sort of in the midst of everything with avian flu but just kind of looking forward with what you have learned with the outbreak, what do you think you will need to do in the future to prevent it from happening again? It's not like there is just some biological issues that you really need to -- you can't [snub] it, the birds need to be exposed to air, they are just going to be exposed to air, but what can you do in the future to prevent this from reoccurring? Thank you.

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**Glenn Leitch** - *Hormel Foods Corporation - President - Jennie-O Turkey Store*

On the volume side, we are looking at 20% on the pound to about 15% on the sales, we have been able to buy some meats, some of what happens here over the back half of the year will depend on it if we are more successful. As far as what we do going forward, one is we have to let the EPI studies work, okay?

So there -- I have met more Ph.Ds in the last 60 days than I knew existed in the world. And they are all working feverishly on the studies that are taking place, will come to some conclusions, but I will tell you that we have had our own group meeting three times a week on the opposite end of that scale, right?

So there is the scientific base where you do all the work, you let the numbers roll through, you have to survey all the farms, you got case farms, and then you go other farms and so you are comparing the two, you are running the data, this is very typical for USDA that will run through this process, and they have given preliminary reports and that is great.

But we have also been trying to say what can we do now? Okay? Let us do something today. If it doesn't work, it doesn't work, and some things that we have done and we think have actually helped, one is that we think there is some sensitivity to the virus that it might be able to move on dust or feathers or somehow it is transmissible.

It doesn't like to travel on its own, in fact, I'm not sure it can, I was asked that question this morning already. I have heard no one say that that is true but it travels with something on or on something. And so we have lots of farms that are by gravel road. And so we have reduced the speed that people travel on gravel roads where we can control and usually within our own environment and it is our people and it is our trucks and facilities.

And so that has helped with the dust level. If that is one introduction point, we are actually wrapping some barns in -- fiber that still allowed air to be able to get in because we dropped these screens that turkeys want air and so you can't present that and so in the summer time, we are into that environment.

When it gets as hot as it was two days ago, we really can't use that, we got to be fully exposed to the open air for the health of the turkey and that is really important. But that is also a -- you know, a short term factor, I mean it was 90 degrees two days ago and it is a really good sign, their virus doesn't like heat, and it is actually not that hard to kill if you know where it is. The key is finding out there it is first.





And so those are -- you know, a couple of examples of things that we have been doing. I could go on and on, and we were cooking equipment before it goes to a site. We do in our plants all the time, that is the routine food safety initiative. You take your equipment and you cook it and so if there is anything in there, you are eliminating that risk.

Well, now we are taking things that we perhaps before were cleaned, and said was clean, now we take in and cook it and at our formula so far, for that virus, as an example is if you cook for 30 minutes at 140 degrees, the virus can't survive that, you know?

So we know that is true, that has been documented and there is a matrix as to what temperature and how long. And so we have all those learnings that we have now that we didn't have three and four months ago that will help us going forward.

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**Diane Geissler** - CLSA - Analyst

Could you just speak on the recovery process how long will it take for your production to recover and what is the process of getting the birds back and in terms of longer term, are you going to restructure the location of your facilities and increase the vertical integration of those?

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**Glenn Leitch** - Hormel Foods Corporation - President - Jennie-O Turkey Store

Yes, I -- you know, I think on the latter, it is all open for discussion but we won't draw any firm conclusions until the virus has run its course. It doesn't make any sense for us today to start deciding we want to be here and do this or this, this is an aggregate of what we were going to do. We have more to learn and so we are going to continue to do that.

And you know, as far as you know, the core of our business and how long it is going to take to repopulate, we are working on an eight to ten week schedule right now, and so because we are long supply chain, we don't want to tie ourselves down to this day, things have to happen. The government has a program that you follow which has a roughly 28 day period where you compost after you have depopulated. Then you clean and disinfect and say that takes a week. And you got 21 day downtime.

And so in a perfect environment, you are kind of in that eight week range that you can be back up for us, we -- at the start, we -- you know, would have taken more time the first one that impacted us down the [Rocky Point] valley, that is a small farm with a family -- you know, three person operation and they wanted to do the composting work themselves and that is fine, you can do that and that takes a little longer, so we are on a schedule so far that has worked fine, the industry is starting to repopulate.

In South Dakota, they buried some birds versus euthanized with foam and when you go through and do that process, that actually is still euthanized and they buried outside versus composting, I should say. And so when you do that, then you are allowed to get back in sooner because you don't go through the compost period. We haven't gone that route because the water table and things like that. So from our perspective, we have been following this eight to ten week protocol, we are still on that protocol. And we will go from there.

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**Akshay Jagdale** - KeyBanc Capital Markets - Analyst

Akshay Jagdale, KeyBanc.

Just -- I wanted to ask you a little bit longer term question, obviously, if you look at, since you acquired the turkey store, the margin profile of this business has now performed significantly anybody's expectations.

And perhaps the biggest contributing factor in the increase in mix of value-added sales. So going forward, I mean with where the margin profile is now longer term, is there a lot more you know, runway there for that to continue to expand and if so, you know, what are going to be the drivers? This value added mix from what I can remember, is around 80% of their sales today, right?



**Glenn Leitch** - *Hormel Foods Corporation - President - Jennie-O Turkey Store*

Yes, because we fit whole birds into that, you know, value added or commodity and people have different perspectives on it. There is clearly room for growth, you saw that wholesale penetration, you know, I mean, and so that has been a good number for turkey but there is no reason why that can't be a lot bigger.

The beef business is 2 billion pounds, and there are lots of opportunity for us and I think that growth that I have showed you on that long-term charge, you know, you got that topline movement that is in the 5%, 7% 8% range, it was better than that in the first part of this year and we can keep doing that as we keep converting people over to turkey lovers.

And as more and more of the next millennials that comes through, we think some of those attributes that we really serve really well by, I think that is going to continue, I don't think that is going away.

So we have enough penetration left to go that I think you are going to continue to see that growth opportunity. From a margin structure standpoint, I guess, you know, you could raise your pricing and keep trying to margin up that way but for us, we are also trying to gain share category and I think volume growth is a big part of where we want to be long-term. Okay.

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**Mario Contreras** - *Deutsche Bank - Analyst*

Mario Contreras, Deutsche Bank.

So I wanted to ask once the avian flu is sort of subsides, what is the risk that you are going to have trouble getting that shows that it is back. Are those conversations that you had with the retailers yet or is it still kind of too early to start looking that far ahead?

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**Glenn Leitch** - *Hormel Foods Corporation - President - Jennie-O Turkey Store*

On the retail side of the business, really we have had folks working with us very well, and there is -- I can't think of anybody that said that is it, you are done, good bye, see you later. The Deli side is a little tougher, because Deli is so much more breast meat based. And so I really don't see any issues at all on retail and deli, I think, will maybe have a little work to gain back but I can tell you earlier this week, we just had one of our sales guys out in Tuscany, and said, you just tell me when you are ready to go.

We try to be something different, if you will, on the turkey side, and we are spending money with consumers to tell a story, and they appreciate that. And what could otherwise be a sleepier category, there is excitement there and they recognize that Jennie-O brings that excitement to them.

And so I'm not concerned at all, obviously we have to be sensitive to their needs and other players can do good things, but I'm pretty confident that we will be able to get that back.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

There is time for one last question.

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**Ken Zaslow** - *BMO Capital Markets - Analyst*

Ken Zaslow with Bank of Montreal. First is how long will it take for you to be able to draw your conclusion, like what evidence are you looking for? Like by now, you said that there are no more cases of bird flu so when you say, all right we made the conclusion that we can now -- restore our growth plan, and then the second question I have is really longer term is there any opportunity -- maybe this is more for Jethro, I don't know what it is but is there opportunity for you to broaden out beyond Turkey and the Deli meat? Is there an opportunity acquisition wise or product wise to go beyond just turkey if you are already in the deli counter, why would you not want to offer more?



**Glenn Leitch** - *Hormel Foods Corporation - President - Jennie-O Turkey Store*

Yes, okay. And so on the first question, our group, we met last night, and the timeline is 30 days, and we think we are going to have to move from what we know to what we need to do, you know, if this virus is to come back in the fall, we are going to be prepared, we are going to be ready for it, and so we got a timeline in place for work that might need to get done. I mentioned already, you know, wrapping barns, can we set that up? It's relatively easy to do and it sounds difficult but it is not that hard for us to get that done.

If we think that is meaningful to be able to do that, and there is a list right now of about a dozen things that we are looking at for the fall that we will need to do. So that is a little more shorter term but that is the time frame we are working on that we think in about 30 days, there will be another analysis done here by the government and it probably won't be the final, final version but we should be closer.

And so I think we will know enough then to be able to make some plans.

You know, as far as the broader question on you know, acquisitions and especially if you reference deli, you know, I think we are in a good place. We have this dark meat engine if you will, and the grinding and the lean and the tray pack and the retail that works extraordinary well, we need to keep in balance and keep deli working with that and that is going well. And so that balance you have been able to strike and that is always going to be core for us going forward and making sure we don't get our stuff with the balance between those two beyond that.

And you know, we are always interested in looking for opportunities that they present themselves.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Thank you, Glenn.

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**Glenn Leitch** - *Hormel Foods Corporation - President - Jennie-O Turkey Store*

Yes.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

So with that, we will take a ten minute break and return -- reconvene back here in ten minutes.

Thank you, Glenn.

(BREAK)

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## PRESENTATION

**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

And so if everyone could please start to take your seats, we'll get started again. I realized in my opening comments, was housekeeping items I forgot a key point that we also have speaker biographies out on the website for you to take a look so we aren't going through those today.

I'm happy at this time to welcome Jim Snee our Group Vice-President and President of Hormel Foods International to the stage. Jim?

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**James Snee** - *Hormel Foods Corporation - President - Hormel Foods International*

Well, good morning everyone, it's my pleasure to share you with some of the great work being done by our international team to grow our brand, our business, and our company around the globe, and to just give you some context to the success we've had doing that.

Over the last decade, we've been able to more than triple the size of our international business and I will use the decade because it was just a nice round number, 10 years, but I was reminded yesterday that if we went back just two more years to 2003, our top line sales were actually under \$100 million, our segment profit was \$7-1/2 million and the international business unit didn't even have a name.

We were actually referred to as all other and so in terms of the progress, the numbers were great but when I talk to our team, we're just really glad to have a title and to be recognized as the international segment. And so you heard Jeff talk about international becoming a bigger part of the organization and in order for us to be able to do that, we need to grow at an accelerated rate. And so what does that mean? It means we have to grow faster and outpace the rest of the company.

So with stated growth goals for the rest of the company of 5 and 10, we know that we have to grow faster than 5 and faster than 10 and I can tell you that Jody's numbers of 10 and 15 as she shared with you this morning, that's not the first time that I've heard this. And so, we've clearly communicated those targets to our team around the world that we have to deliver accelerated growth of 10% top line, 15% top line or 15% bottom line. And so how have we done?

Obviously over the last five years, we've exceeded even the goals that we have set for ourselves. Eighteen percent top line, 25% bottom line. That's the rearview mirror. What did the first half look like for us this year? It wasn't 18, 25 and it wasn't 10 and 15. Top line and bottom line grew at 4%. That was not acceptable, we didn't like it but we have some headwind. Lower pork markets coming up to -- the virus last year impacted our pork revenues.

Everybody heard about the pork slowdown on the West Coast where a lot of our products are exported from and I'll tell you that the pork slowdown started well before it ever hit the media and it didn't conclude the minute that the strike was settled. So those containers didn't magically disappear, it's taken us some time to clear those containers, and of course exchange rates. And so where does that impact us? So for consumers let's say in Japan, they now have to spend more Japanese yen to buy a can of Spam. So, the value of the product or the consumer proposition may become a little less appealing.

And when we thought about how can we perhaps offset some of that? Because guess what we had in the first half of the year? We had some very favorable cost to goods. Pork trim and Spam, peanuts and Skippy. We thought there was a real opportunity for us to go out and maybe drive some strategic trade promotion and really offset some of those cost increases.

Well, our challenge was, we couldn't get the product to the consumer because of the pork slowdown. So, it really was a complex first half for us, but as we look to the second half, we do expect our business to rebound and return to more normalized growth rates. We showed you the margin guidance that we delivered at the -- we have provided at the first part of the year of 14% to 17%, we've been able to deliver on the top side of that and we expect that our second half will continue to be well within that range.

And so how have we been able to deliver this accelerated growth to the organization? Well, we've done it with a number of very strong brand, versatile products, and the growth and success that we've had in China. And so as you look at this foundation of our business, I want to try and explain to you just how we talk about these products and how they enter the global market. So when you think about Skippy, Spam and pork, the three on the right side, I'm going to talk about those in terms of products that are exported from the United States, and when I talk about our China business, we're going to talk about that in a holistic view, not the holistic view that Jeff and Jody used earlier, but the holistic view does include a manufacturing plant for Skippy in China and that's part of our product portfolio in China.

So we have our in country business in China, and then our export business, including Skippy, Spam and pork. And it really wasn't that long ago that all we had to talk about was Spam and fresh pork. And so those are still very important parts of our overall product portfolio, but today, we're going to spend the majority of our time telling you about some of the exciting things that are happening in China that will drive our growth and really what we've been able to do with Skippy since the acquisition.



Our business in China, it's a well developed food service and retail business. And so when you think about what are the components of food service and retail? These are refrigerated and frozen processed meat, and the addition of Skippy peanut butter. So we're selling all of those items across the channels in both food service and retail.

Our business has been strong double digit growth there for the last number of years. As a result, we were starting to encounter some capacity issues. So in order to rectify that situation, we've announced that we'll be building or are building a new plant, we broke ground in April and that plant will be up and running at the end of 2016.

In that plant, we're also going to have in country production of Spam and I'll elaborate on why that's important in a couple of slides. So our business in China overtime really has evolved. When we first went to China, it was a US based, western style processed meat organization focused on retail. We were going to teach the Chinese whether they liked it or not, how to eat western style processed meat and we failed miserably.

But overtime we've evolved and we've adapted and our business now more closely resembles that balanced model that we have here in the US. And so when you think about the inputs going into our products, historically it had always been pork. With the addition of Skippy we now have an offset to that with peanut.

When we think about channels, we started with just a retail channel, that was our focus. We've evolved into not only a well developed retail but food service business. And when we think about our food service business in retail -- in China, yes, we have a lot of our business with the multinational QSRs. I'll tell you that we've also got a very well developed distributor business, and so that's the street business that we would reference here in the United States and that's really the foundation of our business.

The multinational QSRs are going to have LTOs and they're going to have items on and off their menu, but the distributed street business is really the secret to our success on the food service side of our business. On the retail side, we've adapted. Again, we went in there, US style, American flavors, we got more traditional Chinese flavors, we've adapted pack sizes to make sure that we've got the right price points for consumers to go and some of these items are a big portion of their disposal income.

And so for them to be able to pick the chance and rejoin that shelf and take off our product, it's got to be priced accordingly. And so we've made great progress on both the food service and retail side of our business. When you think about the distribution channels, we've gotten very nice balance between frozen, chilled, ambient or shelf stable and I've talked a couple of times already about our ability to deliver both western style flavors and Chinese style flavors.

And so this really is a nice platform for our business. It's a platform for innovation, it's a potential platform for acquisition. We really like how this business has shaped up in China. I mentioned that we're going to be building a new plant or we are building a new plant, and we broke ground in April, expected to have operations and production up and running at the end of 2016, we better have operations and production up and running at the end of 2016 because Chinese New Year 2017 is going to be a bottleneck for us. A great problem to have and we've got the right people working on it to make sure that we get this successfully opened.

And what's really exciting, I referenced to one of my earlier slides, in country Spam production, if you ever have the chance to get there, you're going to find that right there. And so why is that important? Because as we've looked at the Chinese market, there's a huge opportunity in the canned luncheon meat space.

We've exported Spam to China several times now and we've been kicked out of China several times now. Sometimes we don't agree with the interpretation of the regulation, but that's not for us to decide. But we know by the -- for the times that we were in China, that the Spam brand connects with consumers and the velocity, the number of times that consumers are purchasing that product, really sets us up for a nice opportunity to grow in that category and by the way, we also now understand the ambient supply chain even more because we've got two years of Skippy under our belt.

And so, as we looked at Spam and Skippy together, it really sets us up for a nice opportunity to grow in the center of the store which when we went to China, late 90s, early 2000s, that opportunity wasn't there. And so, we're very well positioned for growth. Whether it's on innovation,



acquisition, we've got the right product portfolio, we've got the right people, we've got the right processes and China is going to continue to be a very strong growth vehicle for Hormel Foods International.

When we bought the Skippy business, there were three strategies that we laid out. One, we knew needed to have improved distribution, we knew that there were new markets that we needed to get to, and we needed to understand and connect with consumers. One of the questions that I frequently get or got at that time was, Jim I don't understand. What are you guys going to do differently, why are you guys any better to manage this brand than to people you brought it from?

My answer was the same, it was a matter of priority. The people that we brought it from had it down here in their priority list. It wasn't a bad thing, they just have a lot of other things to do. For us, it became a very big part of our portfolio in a hurry, and just where it is in our priority list. It's right up here, and that's the big difference.

And so as we thought about these strategies and said, you know, we really need to expand distribution, but why? Because an inordinate amount of our business resided in those two core items, 12 ounce creamy and 12 ounce chunky. So what? We still got a lot of business, who cares? We're not connecting with consumers. Don't they have the right to have additional flavors, different variety and don't we owe it to ourselves to have additional shelf space and create that billboard effect that attracts consumers to that part of the store? Absolutely. And innovation. It's who we are, it's what we do.

And so we knew that another opportunity to improve distribution was through innovation. And so how have we done? When we look at flavors, varieties, innovating around a natural line, we've had a tremendous amount of success. But our work here is not done. We've got a lot more opportunities to drive further distribution with the Skippy brand around the globe, and we're doing it the right way.

This isn't just putting product on the shelf and hoping it sells. I want to share with you of how we do it the right way and this is the launch of Skippy Naturals in the Singapore market that took place September of 2014. And I want you to take particular notice of the amount of fun and the smiles included in this video.

(Video Presentation)

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**James Snee** - *Hormel Foods Corporation - President - Hormel Foods International*

And the launch of that Skippy product has done incredibly well in the Singapore market. We've made some investments and those investments have already paid off. So just an example of us doing it the right way and this isn't the only place we've done that. We've got examples of introducing products in the market. In Japan, in Sweden, so our team has really got behind the strategy of expanding distribution and getting things done the right way.

I talked about new markets. And so obviously, you know, our global presence is not as broad or as impactful as the people we bought this brand from. But interestingly enough, the brand wasn't everywhere. We were able to identify some key markets, some opportunistic markets and get Skippy in places where it hadn't been before.

Now we have a business in Panama on Spam and some frozen products, so it wasn't that difficult for us to get that, Colombia, but we don't do anything in Brazil, because of some of the export barriers you don't get meat in there and we weren't able to connect with Spam so we really didn't have a presence in the Brazilian market.

But it's 200 million people, it's a tremendous opportunity, it was intriguing to us and so our Latin American team really put forth a full court press, identifying the right distribution model and they were able to get Skippy into Brazil. Jeff and I were there last April touring the marketplace and there wasn't jar of Skippy to be found on the shelf.

Today, we're in the top three retailers, Pao de Acucar, Carrefour, and Wal-Mart. And so we're making the right strides, we're making great strides with this brand in new markets. And then the last thing on Skippy is we've really been able to as a total company or a holistic approach, develop brand positioning. Skippy really gave us that opportunity for the first time because nobody owned it when it came to the company.

Grocery products had it domestically, we had it globally and we've looked at this and said, why wouldn't we really leverage the best of what we are as an organization and take advantage of a global positioning? And so the domestic marketing team working with the international marketing team they went and they did the research, they did all of the surveys and they did all the things that had to get done and we're able to agree on one global positioning statement. Skippy Yippee.

And so Skippy really is the peanut butter that spreads simple fun and that holds true around the world. And it's important because it really allow us to take advantage of scale and allows us to leverage some of the assets, and it allows us, our marketing budgets aren't as big as some of the budgets elsewhere in the company, but it allows us to now strategically implement fully integrated marketing programs where perhaps we couldn't have done that before.

And so I want to show you an example of that. This is the new Skippy commercial and Mr. Splinter, I apologize if I'm stealing any thunder, but it'll be in a different language. So part of the kickoff of Skippy Naturals in Singapore was supported with a fully integrated marketing program that includes the Skippy Yippee commercial and this is done in Mandarin but I still think you'll be able to get a sense for what the peanuts are saying.

(Video Presentation)

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**James Snee** - *Hormel Foods Corporation - President - Hormel Foods International*

So again, a great example of one plus one equaling three. And so, we really appreciate the work that we're able to collaborate with our domestic team on. So we talked about China in a holistic way, we talked about the great work that we're doing with the Skippy brand around the globe, but any international presentation would be remiss if we didn't at least have one slide on the Spam brand because it is really an important contributor to our overall success. And so as important as it is for us to act globally and act bigger, we also really understand and appreciate how important it is to think locally and we've been able to do that with a number of different flavors that have been introduced into both the international and domestic markets.

So another great example of us leveraging who we are as an organization, working together to become even better. And so the first example is in the Philippines, we created, Hormel International created Spam Tocino which is a sweet barbecue flavor spam that really connected with Filipino consumers. We were then able to take that product variety and introduce it into the United States.

On the flipside, our domestic team has been working to introduce Spam Portuguese Sausage flavor and Portuguese Sausage is a well-known snack or well-known flavor in the Japanese culture. So they're introducing that product in the United States. We have been able to take that product and launch it in Okinawa, Japan which is a huge Spam market for us.

So two great examples of exchanging ideas, and then the last one is an example of working from the ground up on an idea. So we challenged ourselves to say, what would be an appropriate Chinese flavor of Spam? Even though we can't go into China today, there are a number of Chinese consumers around the globe and Asian consumers who have a preference for Chinese flavors. And so together we developed the Spam [Mala], and what is Mala? Well it's a bold spicy flavor, it's actually more of a numbing spice and so that product is in development and when it's ready to go, we'll actually have our first global Spam launch.

So, really making great strides with the Spam brand as well. One last look in the rearview mirror, what have we been able to do over the last five years? Clearly we've been able to deliver growth. First half of this year, certainly has been disappointing but as we think about our portfolio and we think about how we're executing the fundamentals of our business, I can't control ports, I can't control exchange rates, but I can control distribution, I can control connecting with consumers.



And so, we continue to challenge our team each and every day to dot the right things, the right way, make sure you've got the fundamentals of success in place because when those headwinds become tailwinds, and they will, we'll be able to ride that wave.

We thank you for your time today and at this point ...

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

We'll go ahead ...

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**James Snee** - *Hormel Foods Corporation - President - Hormel Foods International*

... we'll take any questions.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

... and open the floor to questions. Farha?

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**Farha Aslam** - *Stephens Inc - Analyst*

Farha from Stephens. Could you share with us the pork situation in China? You have enough pork to supply your plants today and kind of looking into the back half of the year, would you anticipate importing more products and how will that affect your profitability?

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**James Snee** - *Hormel Foods Corporation - President - Hormel Foods International*

Sure. Probably should take a look at what our supply chain is today and our supply of pork. So it is a mix or a balance. We have in country pork that we source, but then we also today, import product from the EU. And so it's a blend of in country and imports today.

Many of you probably have heard about the sow liquidation in China and the speculation is -- many of those sows were probably backyard farms and clearly the least productive of the sows in the supply chain. There has been a slight uptick in pork prices over the last five weeks and on a percentage basis it may seem significant, but when we look back to 2011, it's still well below those levels.

And then the other thing to consider is our retail and food service items that we priced into the market are all market based. And so we will reflect any increases accordingly as we would expect our competitors to do and when you think about, you know, if you correlate that to [PED] last year here in the US, it was the same thing.

You know, people were pricing accordingly to reflect the supply. But we do think that we have adequate supply, what the price will be, obviously we'll -- we can't predict that today, but we will price accordingly.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Good. Adam?

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**Adam Samuelson** - *Goldman Sachs - Analyst*

Adam Samuelson Goldman Sachs. Maybe help us think about the biggest contributors to growth over the next three to five years, presumably China, Skippy, geographic expansion and maybe further growth in Spam, but help us think about the biggest contributors to the growth, the 10%



segment growth as you see it and as well, how big is China of the business today and was there a target with the new capacity that comes on three to five years from now?

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**James Snee** - *Hormel Foods Corporation - President - Hormel Foods International*

Yes, our, you know, we expect more than double our business in China by 2021, '22. So I mean when you think about growth drivers for us, clearly, I mean China is number 1, not only with the existing portfolio that we have today, but what I talked about in terms of what that platform could mean for us in innovation and potential acquisition, that would be the first growth driver.

I mean, we're meeting all of the targets that we set for Skippy during the acquisition process, and that has some healthy growth tied to it, and so we expect that to continue to drive growth, again, separating the China piece, the global part, or the rest of the globe, and then, you know, you referenced geographic expansion, you know, we talked about that, we've looked at that, and that's certainly on the radar and you know, for us to become more of just an export organization, you know, some of that is going to have to take place.

But I think if you think about China and Skippy, I mean that's really what's going to drive our growth for the foreseeable future.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Ken?

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**Ken Zaslow** - *BMO Capital Markets - Analyst*

Ken Zaslow with Bank of Montreal. Can you talk about the puts and takes on the profit margin potential as you expanded to new geographies, so there's a balance between just getting new profits from that or how much do you eat in the beginning of losing profits and how does that work and when do you actually get a return on your expansion opportunities?

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**James Snee** - *Hormel Foods Corporation - President - Hormel Foods International*

Sure. I mean I think a great example that is our business in China, right? So we scale that up rather quickly when we went there. We had two Greenfield plants in late 90s, early 2000s. As I described in my presentation, we certainly didn't have the right product portfolio and so we weren't making any money in China. That took us a longer time. As we think about, you know, where we're going with our business in China, we see continued improvement as we leverage our SG&A. So we've got a very nice platform. The more that we can put on top or into that system, without adding additional resources, you know, is really going to drive our returns if you think about Skippy going into China.

We didn't add -- we did not add a lot of people. We had a very strong food service sales team, we had a very strong retail sales team, there were some distribution expenses that we incurred, putting that in raised our returns on that business.

And so as we think about, you know, new business and where we want to go, you know, I don't know that we want to make that type of investment where it has losses for that period of time, but we certainly could find ourselves in a position where the short term returns are dilutive to the segment. But as long as we have the long term vision, and a path to profitability, and a path to sustained profitability, that's how we think about future opportunities.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

We can take one last question. Eric?

**Eric Larson** - *Janney Montgomery Scott LLC - Analyst*

Eric Larson, Janney. So Jim, you've recently exited several of your joint ventures that's the other international title and it looks like they were probably more problematic, less profitable, and are you of the scale now internationally where you'd rather go it your own when you find new markets or new products to enter or how do you look into the whole joint venture structure strategically at the company?

**James Snee** - *Hormel Foods Corporation - President - Hormel Foods International*

Sure. I think the key take away from that question Eric is, I mean we're operators. I mean we like to operate the business, we like to be in control of our own destiny, but we also understand that you're not always going to be able to uncover or secure that opportunity that lets you do that right off the bat.

And so as we think about potential joint ventures, the idea that we would enter into a joint venture and be a minority partner today for the foreseeable future, we really don't like that. The idea of entering into a joint venture as a minority partner but having a path to control or a path to full ownership, is something that we certainly could see ourselves doing for the right opportunity.

**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Thank you Jim. Next stop is Don Kremin, Group Vice President of Specialty Foods. Don?

**Don Kremin** - *Hormel Foods Corporation - Group VP - Specialty Foods*

First of all, thanks for taking time out of your busy schedule to be here. Today I want to accomplish three things, I want to give you an overview of the Specialty Foods Group in terms of the businesses that make up our operating segment along with a look at our historical financial performance, second give you some insight into how we look at our business in Specialty Foods along with some of the strategies that we have in place to grow our top line and bottom line, and then lastly, update you on CytoSport, why we bought the business and what we've been able to get done with the business since closing the deal last August.

Quick grounding, Specialty Foods Group consist of five businesses. CytoSport, Century Foods International, Hormel Health Labs, Hormel Specialty Products, and Diamond Crystal brand. We really exist for three primary reasons, provide Hormel Foods diversification against the protein markets, we also help cover down on excess capacity within our manufacturing environments. We produce all of our private label products in Hormel plants which also help other divisions increase profitability on the branded side and then there is the expectation that we will be a growth vehicle for the company, and if you look at our financial performance over the last six years, you can see growth is exactly what we provided the company on a top line, bottom line basis from 2009 to 2013.

Two thousand and fourteen we exited the Splenda business, it also coincided with the purchase of CytoSport, it's put us in a position that will deliver about \$1.2 billion in net sales for the Hormel Foods Corporation for fiscal year 2015. We also expect operating margins to also increase direct results to the synergies that we're experiencing between CytoSport and Century Foods a little sooner than we anticipated.

Here's how we look at our business. We have to very distinct portfolio of products, we have what we call our growth platform which consist of our health and nutritional products, these are products that are manufactured by CytoSport, Century Foods International and Hormel Health Labs.

On the right side, we have what we call our core legacy portfolio, products produced by specialty products, desserts, private label puddings, and gelatins, along with our private label canned luncheon meat business and our ingredients business, and then our Diamond Crystal brands, sugar substitute, liquid portions. Each one of these portfolios we have different strategies to grow the business.

If you look at our health and nutritional business, it's all about expanding the Muscle Milk franchise, it's about capturing synergies very quickly between CytoSport and Century Foods International and it's continuing the growth we've experienced with Hormel Health Labs by finding new

channels of distribution and innovation in that area. On the core side, it's all about being efficient manufacturers of products, filling up capacity within innovative solutions, innovative solutions like branded products that are close in to our core competency, that kind of complement private label and contract manufacturing and it's growing the ingredients business, moving that ingredients business up the value line, you know, helping food manufacturers that are looking for cleaner labels, getting them the products that they need to accomplish that.

Last time I was in front of you was two years ago and I spent a lot of time talking about how we were complementing our private label business with branded offerings, branded offerings that were really close in to our core expertise. Going to spend more time on health and nutritional side of the business since the purchase of CytoSport, but I did want to give you some examples of what we've been able to accomplish.

Our specialty products business unit, one of the largest manufacturers of private label store brand desserts, puddings, gelatin, they're launching branded offerings under our Kid's Kitchen brand, again, very close in to our expertise. We have close relationship with retailers. These are products that are meant to help the retailer increase sales and profits in these respective categories. They also move us up at the margin ladder. The margin we make on these items area accretive to what we would make on private label products.

We also signed an agreement with Emeril, to be the exclusive manufacturer and distributor of desserts and pancake mixes at retail. We're launching those items as we speak. And then if you look at the Diamond Crystal business, we no longer have the heavy restrictions that came with the Splenda contract. We're now in a position where we can be a full line sugar substitute supplier offering yellow, pink, blue sweeteners and we're doing that under our Cafe Delight line.

We also signed an agreement with Wholesome Sweeteners, they're the largest organic sweetener in the United States. We have the exclusive right to sell that product, manufacture that product within the food service channel. It's given us a lot of leverage to be a full line supplier of sweeteners to our customers and we've been able to leverage that to really increase distribution.

Going to switch gears now, look at the health and nutritional side of the business and if you look at CytoSport, Century Foods International and Hormel Health Labs, they really have one thing in common and it's protein. We're very passionate about positioning protein against three lifestyles. Recovery, active and performance, we got a complete portfolio of products under the Hormel Health Lab lineup that helps people recovering from strokes, malnutrition, dysphagia, which is a swallowing disorder and if you look at what we have at CytoSport and Century Foods International, we have brands like Muscle Milk, Cyto, Monster that help people in the active and performance lifestyle stages.

Looking at how we're growing our Hormel Health Lab business, we are the number 1 brand in the United States for dysphagia. We distribute our product to hospitals, nursing homes. We've enhanced our website to take advantage of when patients leave these facilities that they can get our product and you know, and the caregivers that take care of these people. Home healthcare is a growing area, this is a way for us to kind of participate in that growth.

We're also making our items available on retailer websites along with hospital websites, drugstore websites, where they can offer our product. We also are aligned with the cancer consortium to make our products available to patients that are going to cancer treatment. A lot of the attributes in our product are positioned perfectly against people that are suffering from this disease, you know, people that need nutrition, protein in their body to help them kind of recover.

Looking at CytoSport. We've had a relationship with this company that goes over 15 years. Century Foods International has been the largest single supplier to CytoSport over this entire timeframe. We were there to help them develop the Muscle Milk brand. When the opportunity came up to own CytoSport, it wasn't why CytoSport, it was why not CytoSport? A dominant leader in the ready to drink sports nutritional category.

We had a relationship with this family, the family that founded this business. We were very excited about the potential this brand offered for future growth. And one of the things that really excited us, this is the only sports nutritional brand out there that compete in all four channels.

They're in the specialty channel. We're about 22% of their business comes in a channel that we know very well from Century Foods International. The DSD channel, they have a very large footprint through their relationship with Pepsi. This was an area that Hormel Foods Corporation wanted

to increase our presence in and then food, drug, mass and club, an area that we know very well and we felt that we could help them really kind of grow their business through increased distribution.

When we closed this deal last August, this is what we inherited. We inherited the opportunity to compete in a very large category with a growing brand, we also felt there was the opportunity to quickly go after distribution voids within food drug channel. And we were confident that we could quickly exploit, you know, synergies between CytoSport and CFI. This is wasn't without its challenge.

We did inherit a business that saw club store and specialty sales declining and there really had been a lack of innovation across all the channels over the last couple of years. So this was our hit list. Day 1 when we owned this business, it was quickly realize the synergies between CytoSport and CFI, it was address the innovation issue, rolling out items that they had in their pipeline along with ideas that we had at Century Foods and then it was really addressing the slowdown in the specialty channel. There really had been nothing done in this channel for over six years and then the one thing that we have been very aggressive around is filling distribution voids, and food, drug, and mass.

Looking at the synergies between CytoSport and CFI, they really fall in two buckets, operational and procurement. We made the decision to close the CytoSport power production plant in Benecia, California and move that production over to Century Foods in Sparta, Wisconsin.

That accomplished a couple of things for us, help fill out capacities at CFI which reduce costs, it also helped us improve customer service. Century Foods has four plants in Sparta and more importantly, there was a substantial cost savings that we were able to take advantage of very quickly in fact, sooner than we thought we were going to be able to.

But the one thing that we were really able to accomplish is it allowed Century Foods to do what they do best, that be in sales innovation company and it helped us do what we do best at Century Foods, be a manufacturer of high quality sports nutritional powders and drinks.

In terms of the innovation challenge that we were confronted with, we have rolled out Muscle Milk Organic in both powder and ready to drink in food, drug mass channel. Those items are already in the market with a lot of the large retail and club formats. The DSD business we partnered with Pepsi to launch the Pro 40 Series. The Pro 40 Series is growing at triple digits, the Pro Series line up within one year has delivered over \$50 million in sales for us. It's been really well received in the marketplace and then we really got after the rebranding of the specialty channel business which I'm going to address right now.

There had been since the last refresher, it was about six years ago. What's important about the specialty channel this is where a lot of new products start. They have a Cyto Monster brand that look pretty similar to Muscle Milk, their branding, we re-launched the branding effort, came out with a whole lineup of pre and post workout items. We launched that in March. It's with all the major retailers in this marketplace, and it's been very, very well-received.

Food, drug, mass and club, you know, we immediately captured distribution that had been lost in the club channel at Costco, also expanded distribution at Sam's and then if you look at the top 15 retailers in the United States, we immediately expanded distribution, both on the ready-to-drink line and on the powdered line.

And also, secured new distribution through Pepsi in the front of the store in a single serve ready-to-drink. They've been a great partner with us.

You look at what we've been able to accomplish from a market share perspective, this is the thing that I would have you kind of zone in on this chart. We compete in three segments, single serve, ready-to-drink take home, ready-to-drink and powder, all three segments are growing as a category. We're performing better than the category in a lot of these different areas and if you look at powder, maybe the smallest part of our business.

We're the fourth player in that market but we're growing in a rate about twice of what the category rate is doing. So, as we look to the future in the specialty foods group, it's all going to be about execution of these strategies, capitalizing on the opportunities we have around health and nutrition, being as efficient as we can on the core side of our business to deliver our shareholder [value].



Any questions?

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Rob up in front here.

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**Robert Moskow** - *Credit Suisse - Analyst*

Thanks. Don, you know, the volume in the heritage business is down a lot and I wanted to know if you could kind of speak to that?

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**Don Kremin** - *Hormel Foods Corporation - Group VP - Specialty Foods*

In our core business?

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**Robert Moskow** - *Credit Suisse - Analyst*

Yes.

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**Don Kremin** - *Hormel Foods Corporation - Group VP - Specialty Foods*

Yes.

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**Robert Moskow** - *Credit Suisse - Analyst*

Yes.

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**Don Kremin** - *Hormel Foods Corporation - Group VP - Specialty Foods*

Yes. And what -- we made a decision particularly around our Diamond Crystal business is to walk away from some sugar business, but if you look at the profitability of the business that's up. We've kind of repositioned ourselves with the new opportunities that we have now to be a complete sugar sub supplier along with our partnership with Wholesome.

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**Robert Moskow** - *Credit Suisse - Analyst*

So, are you -- is that decision helping drive more growth in sugar substitutes?

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**Don Kremin** - *Hormel Foods Corporation - Group VP - Specialty Foods*

Yes, it is, yes. And more importantly, helping us on the bottom line.

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**Robert Moskow** - *Credit Suisse - Analyst*

Okay. And then just another question on CytoSport, you said that the decision was not why but why not ...

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**Don Kremin** - Hormel Foods Corporation - Group VP - Specialty Foods

Yes.

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**Robert Moskow** - Credit Suisse - Analyst

... when it came up for sale, but my understanding is that this was up for sale maybe six years ago, how is the thinking about this is whole history but how did the thinking about whether to really get aggressive about [finding it] ...

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**Don Kremin** - Hormel Foods Corporation - Group VP - Specialty Foods

Yes. I wasn't here six years ago, but I think you probably had something around valuation. I think they were looking in -- at around \$1 billion spend in -- you know, knowing the family I don't know how serious they really were about selling the business, if company would have paid that they probably would've given them the keys. But, we were involved in the process very early on, a lot of -- took a lot of different turns, but this was a business, you know, they were a customer of ours for a long time, we developed, you know, close personal relationships with this organization, we were intimately involved with their R&D team doing flavoring, so this was a business we were really excited about getting.

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**Robert Moskow** - Credit Suisse - Analyst

Last question. Do you have a growth rate in mind for CytoSport for the next few years, double digit kind of grower?

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**Don Kremin** - Hormel Foods Corporation - Group VP - Specialty Foods

I would tell you this, Jeff has kind of given guidance of five times, the expectation is that we will do better than that.

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**Jana Haynes** - Hormel Foods Corporation - Director - IR

Akshay.

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**Akshay Jagdale** - KeyBanc Capital Markets - Analyst

Akshay Jagdale, KeyBanc.

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**Don Kremin** - Hormel Foods Corporation - Group VP - Specialty Foods

You still got anymore questions after ...

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**Akshay Jagdale** - KeyBanc Capital Markets - Analyst

We had a really good conversation before but, you know, everything you said especially about CytoSports really exciting ...

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**Don Kremin** - Hormel Foods Corporation - Group VP - Specialty Foods

Yes.

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**Akshay Jagdale** - KeyBanc Capital Markets - Analyst

... but what I'm trying to understand is, how do we make sense of that in light of what you're reporting? Because there's a lot of noise in the numbers, right? So, in terms of organic growth as is reported in the segments, down since you acquired Cyto and started reporting organic growth down like, you know, 7%, 8%.

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**Don Kremin** - Hormel Foods Corporation - Group VP - Specialty Foods

Right.

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**Akshay Jagdale** - KeyBanc Capital Markets - Analyst

I think it's quite more than that and profits are not up too, so there's a lot of noise there, you know, with the takeout the plant, and the base business walking away from some volume, how -- when should we see that inflect in terms of what's being reported?

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**Don Kremin** - Hormel Foods Corporation - Group VP - Specialty Foods

Are you talking CytoSports specifically?

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**Akshay Jagdale** - KeyBanc Capital Markets - Analyst

Yes, I mean what Cyto is driving a lot of, at least my excitement, about this segment, so the reported numbers since the Cyto acquisition from a segment perspective, have not been great, they had shown decline both on sales and profit, so ...

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**Don Kremin** - Hormel Foods Corporation - Group VP - Specialty Foods

Yes.

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**Akshay Jagdale** - KeyBanc Capital Markets - Analyst

... I'm just trying to understand when we should see that inflect as we start to lap some of these issues you're having with the base business and the cost that you've incurred with taking out the plant, et cetera.

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**Don Kremin** - Hormel Foods Corporation - Group VP - Specialty Foods

Look, I'd start out by let's talk about the cost and the plant. I think Jeff had given guidance that CytoSport would deliver about a nickel a share, despite all the costs associated with the one time cost that's associated with closing that plant. We're still going to -- we still feel very comfortable with delivering what we said we would do.

If you look at the distribution opportunities that we're going after, a lot of those we have just locked down. Those will deliver incremental volume as we look to the future. If you look at the cost savings that we have received from closing that plant and the synergies that we have at CytoSports, we're really comfortable that this business will be accretive to that 5, 10 goals that Jeff has said.

And if you look -- again, look at the Nielsen numbers, we're growing, categories growing, we're outperforming the category in ready-to-drink and powder, so very, very comfortable to growth. I, you know, it's -- did I answer your question?

**Akshay Jagdale** - KeyBanc Capital Markets - Analyst

I think so.

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**Don Kremin** - Hormel Foods Corporation - Group VP - Specialty Foods

So, did I answer at least the CytoSport part?

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**Akshay Jagdale** - KeyBanc Capital Markets - Analyst

Yes.

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**Don Kremin** - Hormel Foods Corporation - Group VP - Specialty Foods

Okay.

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**Akshay Jagdale** - KeyBanc Capital Markets - Analyst

And just one -- another housekeeping item, so when you acquired the brand, I don't know if had 370 million or something in sales, but you were co-manufacturing part of it, so the incrementality of it through your reported numbers is going to be less than 370, correct?

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**Don Kremin** - Hormel Foods Corporation - Group VP - Specialty Foods

Well, you know, we're doing about 350 million, that does not include international, doesn't include some of the specialty businesses, if you look at Nielsen, but yes, there -- there's been a substantial savings and again the one area I didn't really talk about is procurement of protein. We've been -- with our size and leverage, we've been able to receive very, very favorable pricing which has enhanced our bottom line [in this] business.

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**Jana Haynes** - Hormel Foods Corporation - Director - IR

I think Jody is -- going to add ...

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**Jody Feragen** - Hormel Foods Corporation - CFO

So Akshay, just to further on your question, when we report the carve out numbers for CytoSport, those are just the CytoSport numbers that Don has, but the segment in itself is being impacted by a reduction at CFI because what used to be outside sales now just an internal transfer. So, hopefully that helps and if you need some more guidance I'm sure Jana can follow up with you.

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**Jana Haynes** - Hormel Foods Corporation - Director - IR

We have one -- time for one more question for Don, if we have any on the floor? Baring none, thank you Don.

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**Don Kremin** - Hormel Foods Corporation - Group VP - Specialty Foods

Thank you.



**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

And at this time, we'll break for lunch, we have many of our great products featured, please join us. I was in the lobby area to pick up your lunch, you know, we're in the conference room to dine and we will start again at 12:20. Thank you.

(BREAK)

## PRESENTATION

**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Well, thank you. I hope everyone enjoyed that delicious lunch. And now, I'd like to introduce Steve Binder, Executive Vice President and President of Hormel Business Units.

**Steven Binder** - *Hormel Foods Corporation - President - Hormel Business Units*

Well, good afternoon. It's my pleasure to kick off the afternoon session with the Hormel business units so -- and with an overview of how we're working more closely together in the refrigerated foods and the grocery products reporting segments. Later, you'll be hearing from Tom Day, Jim Splinter and Deanna Brady I more detail about our retail and food service businesses.

The Hormel business -- let me get that -- there we go. The Hormel business units share a number of resources from our CPS, our consumer product sales organization that we have on our retail business to our supply chain, logistics, innovation, consumer insights and corporate innovation.

Our goal as a Hormel business unit is to reduce complexity and to leverage the common processes across the business units to improve efficiency. We're doing a better job today. We're coordinating activities to avoid cost reduplication, collaborating on projects and on research and streamlining processes and communications in order to make better, quicker decisions.

Refrigerated foods and grocery products operate distinctly different businesses but share a common consumer, or should I say in ever-changing consumer. What we know about this consumer is that consumer s getting older and younger at the same time, households are getting smaller, and urban migration is taking place, consumers are more diverse and multi-cultural. There's a widening income gap, and consumers are ever more connected through technology than ever before.

Where we eat, whether it's at home or away from home, what we eat, how we shop and where we shop where food and meals is changing. Both our retail and food service businesses will discuss on how we identify and [solve for] for those opportunities.

But the more we know and learn about consumers and consumer clusters, the more important it is for us to share that information across the entire organization all to create loyalty and drive customer satisfaction.

Create loyalty is one of our six cultural beliefs that guide us to meet this market-driven demands. These cultural beliefs are disciplines that allow us to work effectively across the Hormel business units by improving communication and collaboration.

Results matter by taking personal accountability for delivering key results. Speak up by listening and voicing opinions and providing focus feedback up and down the organization. Build bridges by working cross-functionally.

Grow talent through the development of our most important asset, our people. And be bold by embracing change, innovation and risk taking. It is the power of one working together as one team.



We have aligned the efforts of our Hormel business units and we have seen benefits in four specific areas, operations, innovations, sales and brand building. And what I want to do is provide a backdrop of some of the workings that we're using to support the growth and provide the organization with a competitive advantage.

Starting with operational excellence, in our legacy connection to a hog supply chain. Our goal is to optimize returns by coordinating and upgrading our fresh pork from our live operations and harvest facilities into further process value-added products.

As raw materials flow through manufacturing facilities, we look to maximize capacity utilization and create an efficient, low-cost production platforms. Safety is our number one priority, both people safety and product safety.

Now, Hormel operates three sow farms with approximately 55 -- 54,000 company-owned sows or 12% of our harvest needs. We contract with independent hog producers for the balance of our needs.

Hormel represents 8% of the industry daily harvest of 37,300 hogs each day. Combined our grocery products and our refrigerated foods businesses manufacture at a total of 16 production facilities.

A number of those plants will utilize raw materials from our harvest supply to produce products like Spam, Black Label bacon, Cure 81 hams, Hormel bacon bits and Hormel Natural Choice luncheon meat. We procure additional raw materials as needed.

An area you heard about this morning and you'll hear more about this afternoon from our -- from our other presenters is innovation. We are keenly focused on our \$3 billion of new product sales by 2016 challenge.

Some of our closer end innovation is driven by our marketing teams while our corporate innovation team is working on further out game-changing product innovation that often involves proprietary technology.

I will direct my comments this afternoon to our corporate innovation work which begins with data and insights, uses a disciplined stage gate approach of fostering creative work to deliver meaningful new products that are incremental to our business and align with our company's growth strategies.

Our first innovation challenge was \$1 billion, as challenged by Jeff Ettinger in 2004, and we reached that two years earlier than what we had originally planned. Our \$2 billion challenge soon followed and was achieved by 2012. We still have work to do to meet our \$3 billion innovation goal over the next 18 months, but I'm confident that our team is upwardly challenged.

Each of our company reporting segment has a goal for the challenge that we track very, very closely and know where we are and how we're contributing to that \$3 billion. Three of our newest product innovations were recently recognized by IRI, our 2014 pacesetters for new products from CytoSport, when you heard from Dan, our Muscle Milk Pro Series 40, from our grocery products MegaMex, a joint venture, our whole Wholly Guacamole minis, and our refrigerated foods, REV snack wraps.

Using REV snack wraps as an example, I would like to illustrate how our corporate innovation team approaches a new product launch. It starts with the use of data. Our consumer insights, our shopper insights, our anthropology teams are all embedded in our innovation group. This ensures all the work begins with a consumer need.

We use the combination of primary and secondary in home, in store, in situation research to better discover the unmet needs.

What's the consumer proposition and business case are developed, our innovation process moves to the design stage. In the case of REV, we aligned design with the functional needs, the values, and the must-haves of the core target.

During this stage, we have come to understand the role of food in the life of our targets through long-term embedded ethnography work. The voice of the customer was included from start to finish and early discussions with our retailers on the execution at store shelf take place.

Our R&D food scientist and package technology teams are involved starting back in our discovery space. They attend consumer and customer sessions to hear firsthand the needs of each group.

Shared learning across the company is encouraged which leads to the use of the -- of the learnings and the science and technology in new ways. When appropriate, our teams use outside resources such as partners like the Culinary Institute of America for faster and smarter results. We aggressively seek patents to protect our advantage in the marketplace.

And now, our initial work resulted in the development of REV snack wraps, a simple combination of real meat, cheese and bread.

Now, most recently, you may have heard -- we announced and we decided to change and make adjustments to both our product and our pack size to the original product that we -- that we introduce. And so we're reducing the pack and the package size of products.

You know, and so this was -- you know, when I have -- we believe and we're very confident that this will change and put us back on the growth trajectory that we were experiencing with REV. But this is consistent to what we look and how we look at it and that's why you see the innovation model is a circle. It's an iterative process. The more we learn about the consumer, the more we understand, the better we can make adjustments and make sure that we're meeting consumer needs.

And you might be able to guess that our innovation on REV and the work that we did on -- with on-the-go protein and the solutions, we'll be leveraging some of those with existing brands and targeting different consumers. And Jim Splinter -- I'm happy to announce Jim Splinter will be talking and sharing with the group, two of those, today during his presentation.

The last stage of innovation process are deploy and delight. We take advantage of our direct sales floors to accelerate product placement and launch support. Our early customer interaction eliminates surprises and deepens our partnership.

We also conduct extensive, post-launch and analytics to track our success against other benchmarks, which leads me into the next area, sales execution. We believe this is a differentiator for Hormel Foods.

We have a dedicated direct sales floor that involves our retail and food service businesses. We find the best way to capitalize on the innovation and our branded value-added marketing approach is with a focused direct sales organization.

And some of our key sales -- or some of our key customers also recognize and appreciate the commitment that we've made and the effectiveness that we have with this approach.

Hormel foodservice has 177 dedicated sales professionals including segment specialists for convenient stores, colleges and universities and healthcare businesses. Foodservice has 10 brand managers supporting marketing efforts. In this past year, Hormel foodservice was recognized by key distributors and operators alike.

On the retail side, Hormel has 279 dedicated sales professionals including our business planning and support teams. Between grocery products and meat products, we have approximately 30 brand managers for these businesses. Again, our retail team is recognized by retail customers and industry publications.

Given the extensive branded portfolio on both retail and foodservice businesses, you will see our continued investment in brand building. Our integrated marketing efforts include traditional media, digital media, social media, PR to fully engage and activate consumers. Our presenters this afternoon will share with you some of our most recent work.

While many of our retail brands are number one and number two in their respective categories, they also have low household penetration, and what we consider a long runway for growth. Through operational excellence, relevant innovation, superior sales and brand building investment, we believe Hormel business unit have good upside potential as we go forward.



At the beginning of the year and as Jody mentioned earlier, we provided operating profit margin guidance for each segment which is the estimated margin potential over the next few years given the current business structure, product mix, and typical market volatility.

We have guided to find an 8% operating profit margin range for refrigerated foods. You may have noted and some of you have commented that refrigerated foods has performed above this range for the last two quarters.

Our team is constantly focused on driving refrigerated foods segment margin upwards and we're very pleased with the performance of our recent earnings performance. But we're not prepared at this time to move our guidance range from this segment until we achieve sustained higher margins in the variety of market conditions over a longer period of time.

We expect our grocery product segment operating margins to be within the range of 12% to 14% over the next years. Margins have trended down in grocery products over the past few years with the addition and growth of our MegaMex joint venture which tends to dilute segment operating margins due to the way we state sales and profits and recognize this in our accounting -- for our accounting purposes.

We have always reported our 49.9% share of the MegaMex joint venture profits in our equity and earnings section of the grocery product segment. Because our CPS sales team sells all the MegaMex products, now we report 100% of our joint venture sales in grocery product segment and steadily diluting our operating margins as we've grown the MegaMex business to \$600 million in sales.

With that, I'll entertain any questions understanding that we have three presenters coming up and diving in more specifically into their each -- each of their areas, but I'm more than happy to answer any questions.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Questions?

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**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

Akshay Jagdale, KeyBanc. I don't want to steal your thunder, you know, that people coming up, but can you just give us a background on the evolution of this standalone innovation group?

And secondly, where do you stand in terms of, you know, relative to your peers with your ability to execute on the sales side? I mean I feel like it's one of the largest direct sales force remaining, everybody has been going indirect, if I may, to brokers. So I'm wondering if there is like an overall ranking that you have for your sales force in terms of how big it is?

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**Steven Binder** - *Hormel Foods Corporation - President - Hormel Business Units*

Yes, so to start, the innovation group was formed under Jeff to really begin looking at innovation differently. Again, closer innovation -- closer end innovation in terms of flavored packaging, those things that line extensions is handled, you know, by our marketing teams.

Well, the innovation group is to look at more of the white space, the area that were -- may not be playing in the areas that may provide us with new opportunities and understanding some of the things that maybe the consumer isn't asking for today.

And so the effectiveness we expect to see bigger things coming out of that group and over a period of time. And REV was -- I'm using that -- the reason I used REV, REV was our first major success that we had in there as we began to look at the snacking area.

And so we have other things that we have and I don't want to steal Jim's thunder here that we have in the snacking area that we're going to continue to be able to blow out. That really was part of the work that was done by the innovation team.

With regards to sales, I -- we have no metrics. We're confident about the way we go-to-market that it is an effective way and it really is because we're a branded organization and because we have innovation introduced and that we execute in the marketplace.

And so our customers look at us for those types of things both on the retail and the foodservice sides of our business and it's an effective approach that we have.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Adam?

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**Adam Samuelson** - *Goldman Sachs - Analyst*

Just a question on the way to measure the innovation goals moving forward, you do have the \$3 billion target by '16. I recall, correct me, that's products introduced in 2000 and I don't think most people in the room would say products introduced in 2011 at this point would be considered necessarily innovative.

So if you move forward, is the company thinking of different ways to measure the innovation and the vitality of the portfolio, and maybe share some of those thoughts?

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**Steven Binder** - *Hormel Foods Corporation - President - Hormel Business Units*

Yes. The answer would be yes. So you wouldn't see a \$4 billion challenge that we're going to put out there. We're going to -- we are going to look at it differently. I will say though, while things may not appear to be innovated, again, with low household penetration, you can see, there is an awful lot of increases and growth in a lot of the items that we introduce quite a while back.

And we see that in our party trade business where we introduced some of those things. Those items are still growing and incrementally contributing to the organization. But to answer the question, we will have a different metric on our innovation goal coming -- going forward.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Farha?

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**Farha Aslam** - *Stephens Inc - Analyst*

Can you share with us the Wholly Guacamole now that they're finished with their earn-out? Is it completely under your sales now? And kind of what growth and innovation we can see from that part of the business? Thanks.

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**Steven Binder** - *Hormel Foods Corporation - President - Hormel Business Units*

I'll answer the first part and I'll leave the second part for Jim in terms of what we're doing, but yes, it is all under the grocery products. Our -- the sales are 100% of the grocery product. And we have a number of things that we're working on there. We're quite excited about Wholly Guacamole and the opportunity for growth.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Any other questions for Steve? Thank you, Steve.

As Steve mentioned, next up, we have Jim Splinter, Group Vice President of Grocery Products. Jim?

**James Splinter** - *Hormel Foods Corporation - Group VP - Grocery Products*

Well, good afternoon, everybody. And I trust everybody had a Skippy king pound cake for desert and I will try to keep this lively so that we can all enjoy a great presentation here as we talk about grocery products.

It really is my pleasure to be able to present to you, you know, a lot of contexts around the growth prospects for the grocery products division and growth in terms of both near-term and as well as long-term.

So I'm going to give you an update on the GP growth guidance, Jody touched on that, I'll give a little bit more detail around that. We're going to follow that by a conversation on the new American consumer, I'll pick up where Steve left off, bring it down a little bit more and focus for our center store consumers.

And then I'm going to talk about some of the key growth strategies that we have in some of our bigger businesses within the total franchise that we have, and that's our legacy core brands which are still vibrant.

You know, they've been around for upwards of 80 years yet, they are still producing very well for us. I'm going to talk about microwave meals, how we intend to kick start that business and get it growing at our rates that we want to have. And then, of course, MegaMex, which really is a real growth engine for our overall division.

Then finally, we're going to conclude the presentation with a review of the innovation that we have coming up on Skippy, so we're very excited about the Skippy brand and what it represents and its potential, so we'll have that conversation as well.

So with that, let's begin with the kind of a reprieve of where we're at with our growth guidance within total grocery products. When I think of this category, I mean the \$172 billion category and it's growing at, you know, a kind of a lower rate at about a five-year compound annual growth rate of about 2.1%, you can see unit sales are fairly flat. So the rate of growth really is about the same rate as food inflation within center store.

But we can take another look at this and slice it a little bit differently. And what you did when you look at these select center store food categories, you really see a wide range of different sales performance overall.

Now, of course, the condensed soup categories and the cold cereal categories, they're kind of grabbing a lot of the headlines out there. They fight to maintain their consumer relevancy but conversely, you can see by this example that both dollars and unit growth is coming within the peanut butter franchise as well as within the Mexican foods category.

Now, peanut butter certainly is benefitting from extended usage of peanut butter into alternative forms and that really it's helped driven that growth over the last five years and there's also been some price inflation within that five-year timeframe. And as many of you know, most recently, there has been some price deflation going on within the peanut butter category.

Very excited about Mexican foods, the sources of growth within Mexican continued to, you know, make this a category that's very attractive, millennial shoppers looking for more authentic meal experiences and the growth of the Hispanic population in the US just in itself is going to give us a nice tailwind within the overall category.

And you can see canned meats, you know, despite some of the aggressive pricing that we've taken in the category in the past couple of years, you can see that the average five-year unit sales have been flat, so demonstrating some pricing power within that category.

So diving a little bit deeper within total grocery products, you can see grocery products net sales and segment profit performance over the previous years indicates both sales and profits have benefitted from our acquisition activity namely Don Miguel Foods and Skippy peanut butter.

And then, of course, 2014, last year, I mean, you know, you can see the outlier year that that represents and we really had a lot of headwinds that we confronted last year. We had to take a lot of pricing action within our core categories.

We had higher input costs due to the PED pork virus. We had the final year of the earn-out for management on pressurized foods. And we also had some asset restructuring one-time charges that were reflected in 2014. But as you can see, if we look at grocery products on a three-year compound annual growth rate basis, it looks to be right at that 6% level.

So we conclude by looking at both this internal and external exercise that the revised growth rate guidance that we're providing you today for 3% top-line and grocery and 6% bottom-line, really feels like, you know, that's the appropriate level for our grocery products division.

And we're really going to be focusing our growth strategies on building brand as well as innovation. So, today, the bulk of the presentation you're going to see is just that. It's how we're going to win with consumers by, you know, adjusting to their changing needs so that we can, you know, meet those growth estimates of three and six.

So, Steve touched on it. I want to go a little bit deeper into the consumer segments that are most important to the grocery products division. And we call it the new American consumer. And really, this new American consumer has undergone very profiling change.

We are simultaneously in aging society, millennial society that is increasingly becoming much more multicultural. Millennial is really changing how we shop, how we eat, and as they further their cognitive connection between, you know, what we eat and how we feel, that's we want to go and continue to grow as they equate good health to good life.

The Hispanic consumer, you know, the built in tailwind for us in terms of 50% of the population growth by the year 2020 will come from Hispanic consumers. And probably unique to our division is a clear focus on value shoppers. Now, value shoppers have grown in an accelerated rate and as we increasingly become this bifurcated society of premium shoppers and value shoppers.

So, really, as we think about it, how we're going to respond to these trends, these three consumer cohorts, really, will have a large bearing on how successful the grocery products division will be going forward.

Now, within our group, we've been really focused on making sure that we're delivering against the needs of this changing consumer, you know, really evolving our product portfolio whether it's organic versions of Wholly Guacamole or La Victoria Salsa made from fresh tomatoes that have gone from the field to the jar in less than 24 hours or all natural versions of Hormel Chili or a product relevancy with on the go items such as Skippy with Skippy Singles or even higher protein items such as we are offering with Hormel Complete.

We really are intent upon adjusting and adapting our core portfolio to meet the changing needs of today's consumers. Now, all of these efforts are necessary to connect to this next generation of consumers and when we intend to do just that.

From an innovation standpoint, the division has been performing quite well, the combined efforts of our grocery products core marketing team as well as the MegaMex marketing team has really allowed our division to consistently exceed the company's billion dollar innovation challenges that Steve Binder outlined. We are currently on pace to exceed our portion of the 3 billion by 2016 innovation challenge.

Now, our innovation focus remains really on meeting the needs of this consumer population that is more multicultural, increasingly looking for this on-the-go offerings, very health and wellness oriented type products. So, and for grocery what we continue to look at is value shopper as I indicated and we'll give you examples of all of those in just a little bit in the presentation.

So, for us, we really then remained how are we going to drive this baseline sales rates within this core legacy categories as well as some of our faster growing categories of Mexican as well as peanut butter. And, really, it's going to come through not only the innovation commitment that we have and we'll give you some actual examples of that innovation a little bit later on but also, there's increased focus on marketing and investment. We really are committed to being brand builders within the category and we believe that that's the quickest way to connect with consumers.



So we're going to continue to build upon our consumer targeting capabilities as brought about by big data and our ability to reach consumer, very distinct consumer cohorts with digital technologies but we're also going to mix in a lot of traditional media. So you continue to see us use traditional media vehicle such as print, TV that really drive our baseline sales overall. So, we really look at our marketing investments as essential to growing the consumer brand and franchises that really do comprise the grocery products division.

Now we can get in to some of the fun stuff, really diving in. So, what are you doing? That sounds great. But we have some great example of how we're putting that strategy into practice and it begins with the Spam brand and, really, essential to protecting, you know, our legacy core portfolio is growing iconic Spam family of products.

Our current Spam Can campaign uses a combination of regional spot TV, national digital advertising, and a heavy reliance on public relations. This Spam Can campaign is all about delivering two consumers, effortless creativity. And it really has lead to an increase in market share if you can believe it, increases in household penetration and overall increases in volume sales as a testament and you can look at our Q half-one earning results.

On the earned media front, Spam was featured recently on the Rachael Ray show featuring our celebrity chef spokesperson Sunny Anderson. Rachael shared her own Spam story and she talked about her first encounter with Spam Musubi when she was in Hawaii.

She also referenced the fact that Spam is hip, cool, and trendy right now. So, you really can get better public relations than Rachael Ray with that statement. And as a further testament to the strength of this brand, we are - have announced the groundbreaking of a brand new Spam Museum in Austin, Minnesota. So, hopefully, you will get a chance to come down and see us and see our brand new Spam Museum.

Now, the Spam brand continues to leverage as iconic equity with a 13-city experiential marketing even that we call the Spamerican Tour. This community engagement effort is really exceeding our expectations.

In fact, I'm going to be down in Nashville this weekend at the CMAs and we're going to have our Spamerican Tour or make a stop there so we'll get to interact with a lot of fans in Spam and country music. But this is really generating to see enormous amount of positive social media as well as public relations for the Spam brand. But, you know, don't let me tell you about it. Let's take a look at a video and we'll give you a full sense of the event.

(Video Presentation)

Well, some of the new news coming out on the Spam brand franchise is around innovation. We're very proud to introduce today the market introduction of Spam Snacks. Spam Snacks is a portable, on-the-go version of Spam.

It's using proprietary dried meat technology. It's a single-serve shelf stable Spam snack that's perfect for any Spam lover. Available in three varieties, classic, teriyaki, and bacon. These fun to eat Spam brand product snacks are a perfect complement to the fast growing dried-meat snacking category. Spam Snacks will be available in limited geographies this summer as we are now in the process of introducing this to the marketplace.

Hormel Chili really has been, for a very long time, America's number one brand of chili and that tradition really continues on today and we are intent on keeping this category fresh and appealing to both current and new consumers as we offer up exciting new varieties such as Hormel All-Natural Chili and Hormel All-Natural White Chicken Chili.

As we revamp -- we also revamped how we talk to consumers. So, we're looking at it both from a standpoint of the innovation and the brand building and we use a heavy saturation of pre-roll videos. We are Chili Nation is our advertising campaign. It's designed to remind consumers about the great taste of Hormel Chili and that it goes just about on anything.

So, let's take a look now at our current digital marketing execution. So, please roll the video.

(Video Presentation)



The next brand I'd like to talk you about is Hormel Compleats. So, very similar to Hormel Chili, we really upped our commitment to growing the microwave meals category. Now, clearly, the Hormel Compleats brand and category sales have waned here in the last few years and we continue to innovate in this category because we do believe in its long-term growth prospects.

Following our more recent introductions of alternate eating occasion product such as Hormel Compleats Breakfast and hot dip snacking items, we are now in the process of rolling out yet more items and what we are calling a value tier line Compleats. This new value tier items are designed to appeal to that more price sensitive shopper that I mentioned earlier that has already embedded into this category and its franchise, we call it the value shopper.

So, by way of example, current retails, the leading retailer is a \$1.84 for our value items versus \$2.22 for our everyday Compleats items. That's a 17% at the shelf price discount for those value shoppers and we really think it's going to really be very appealing and enticing for a large segment of those consumers that love Hormel Compleats in this portable on-demand aspect.

So, we've also upped our investments in marketing and we have a new marketing campaign entitled "Be Completely Satisfied" and this campaign really speaks to the core user, really goes directly at the core benefit, or initial reason why Hormel Compleats was so successful, it's a quick, hearty, on demand hot meal in less than 90 seconds.

So, let's take a look at the video.

(Video Presentation)

Since the formation of MegaMex, our joint venture with Herdez del Fuerte, leading food company located in Mexico, we've acquired through that joint venture two additional businesses being Don Miguel Foods and Fresherized Foods, the makers of Wholly Guacamole. And our vision remains very constant. We are intent on bringing the spirit of Mexico to every table.

And our role in this \$10 billion Mexican foods categories to be the only nationally distributed and branded supplier of both authentic Mexican products as well as a supplier of consumer relevant regional brand such as Chi-Chi's and La Victoria.

Today, MegaMex is a very large entity, has five locations worldwide and employs more than 3,500 employees all coalescing to make MegaMex the growth engine of grocery products.

Herdez is truly the only nationally distributed line of authentic Mexican sauces and foods here in the US marketplace. Our five-year net sales growth rate for this brand is 15% and we've gained more than 5.6 million new households into the franchise in just the last two years.

This brand is very appealing to Hispanics and multicultural shoppers as well as millennial shoppers who are seeking that authentic Mexican meal experience. Now, we engage these consumer targets with culturally relevant and lifestyle messages using traditional media, social media, and digital media. And new items such as Herdez cooking sauces, tortilla chips, and frozen meals keep the brand fresh and relevant for both current and perspective new shoppers.

Really, the star of the portfolio right now has been Wholly Guacamole. You know, this brand has just proven to be just a tremendous growth vehicle for the overall company. It's a proven category leader commanding a 42% share of the category with more than 1 million Facebook fans. So, very socially engaged product category and brand.

It really is the popular choice for millennial and multicultural consumers looking for that authentic all-natural clean label, snacking and dipping foods. So, it hits on all aspects. It really is a power food in today's consumer branded franchise. And the on-trend nature of this business really gives us a lot of confidence is going to continue to grow very successful, new product launch this year, gives us reasons to believe that, Wholly Guacamole minis and Wholly Guacamole organic items has, you know, really helped this brand exceed both our top line and our bottom line expectations from a pro forma acquisition standpoint.

So, finally, I'd like to turn our attention now to Skippy Foods. In 2013, I had a chance to describe grocery products access to this \$2 billion category and it's 88% household penetration rate. But, you know, we took a little bit different approach. We offered up a strategic plan that said we're going to, you know, get back to doing the basics within the peanut butter category with the commitment to advertising support and a commitment to innovation and not only just innovation in the jar but innovation out of the jar.

Well, today, I'm very pleased to be able to demonstrate our follow-through on both brand equity building efforts as well as breakthrough innovation.

Now, research has shown that the Skippy peanut butter is the peanut butter that spreads the fun and Mr. Sneer offered that up during his international presentation. Our television advertising campaign supports this simply fun positioning and is entitled Yippee Skippy, this time in English.

(Video Presentation)

I think it's better in English, but that's my [point]. So, in addition to limited time offers, seasonal peanut butter varieties in the marketplace that we've already introduced, we're also going to be talking about Skippy baking cups, new item that was recently introduced in the marketplace.

But really, today, we're here to announce a brand new product which we're beginning to hand out samples for and this is new Skippy Bites. You know, we had talked about our innovation out of the jar, this is our first really, you know, purely innovative effort to do just that using our innovation resources and our marketing resources, our R&D groups.

We really invent that we think is a product that's really new and differentiating within the category. We're very excited about the national launch opportunities for Skippy Bites.

So, let me tell you a little bit about this product. It's truly the breakthrough that combines Skippy peanut butter, real Skippy peanut butter with pretzel center or a double peanut butter center for that delicious, on-the-go protein infused snack and we are currently in the process of launching this item on a national basis so this will be a full national rollout for us. It's in multi-served containers, six-ounce size, five grams of protein. You have that soft outer shell and then you have that pretzel or double peanut butter inner shell.

So, we are very excited about this new offering. The retailer response has been fabulous and we fully expect to get national distribution on this item very soon. So, lots of innovation, lots of brand building going on within the Skippy franchise.

So, in summary, I had the opportunity to describe for you our 3% top line growth and our 6% bottom line growth. I placed that into context with both in an internal and external exercise. How we're - I described how we're adjusting to the new American consumer with both product relevancy and the innovation and marketing support and how we're managing our legacy core.

They are still fundamentally important to consumers. They are staple household items and they continue to perform very well for our division. We are restructuring microwave meals with a focus on that core user, getting back to the basics, making sure that we are right with the value shopper.

And we expect MegaMex to grow at a faster rate than the overall divisional average. It is our growth engine based on all of those dynamics that I mentioned with a multicultural consumer and millennial consumer looking for authentic meal experiences.

And finally, we are delivering on our Skippy growth thesis that we outlined two years ago, really focused in on brand equity building as well as innovation. Our growth prospects for Skippy had never been brighter.

So, at this time, I'd like to thank you for your attention and I'll answer any questions that you may have.



## PRESENTATION

**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Mario?

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**Mario Contreras** - *Deutsche Bank - Analyst*

Mario Contreras, Deutsche Bank. So, in the past, the companies talked about C stores is bringing opportunity for better distribution and it seems like with this new product that you've announced here, the turkey sticks that were announced earlier, would you view your current distribution in that channel and do you see, you know, these products as accelerating then?

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**James Splinter** - *Hormel Foods Corporation - Group VP - Grocery Products*

Yes. What I would tell you is that C-store continues to evolve very quickly. You know, our grocery items, I will say, they haven't been very high growth in C-store. The growth has been coming in more food service-type items, you know, more of the Don Miguel type products that - like the empanadas and mini tacos.

We've seen fabulous growth rates with those overall business and I believe that items that we're really inducing that are more on the go, we will be talking to the C-store chain at about, you know, Skippy Bites and, hopefully, the turkey product as well. So, you know, that is a growth opportunity for us.

It certainly is growing. We just have to come up with the right combination of item.

Jana Haynes (Inaudible - microphone inaccessible).

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**Lindsay Strickland** - *Wells Capital - Analyst*

Hi, Lindsay Strickland, Wells Capital. I had a very similar question. But can you say how much of the overall company sales might be in these stores. Is it below 5% or even smaller?

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**James Splinter** - *Hormel Foods Corporation - Group VP - Grocery Products*

I don't think we really break that -- okay. I can give you a shot. So, we've had a C-store base initiative for the last couple of years. In part because we saw with our own portfolio, we were going at it in a fragmented but in part because of the acquisitions we've made. So, Don Miguel has a significant C-store component. Muscle Milk has a significant C-store component.

And then cold-- it's still not a real significant portion of our sales. I'm sure being in the 2% to 3% range but it's consistent with this notion of attracting meals occasions on the go and so we need to make sure we provide solutions in that avenue as well.

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**Lindsay Strickland** - *Wells Capital - Analyst*

The 6% profit growth target goal sounds aggressive in the context of US packaged food companies. How hard do you think that will be to achieve in over the next three years? Does it feel like if the - if it's within shooting range or and how much of it relies on margining up the business because it's very different from the sales growth target.

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**James Splinter** - *Hormel Foods Corporation - Group VP - Grocery Products*

Yes, I would say it's less about margining up the business and more about changing the mix to the faster growing categories. You know, we'll - we'll hopefully continue to grow Skippy as accelerated rates and very --

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**Lindsay Strickland** - *Wells Capital - Analyst*

...understand what the target is and how optimistic you of it and what's the price too?

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**James Splinter** - *Hormel Foods Corporation - Group VP - Grocery Products*

So, the impetus behind this was actually Jeff's challenge to us as we acquired the business and that was to get innovate out of the jar. So, since the acquisition, you know, we did a couple close-end things. There was a void in the portfolio with Skippy Singles. That's not really breakthrough innovation but it certainly filled the void.

This represents breakthrough innovation and we did work very closely the grocery products brand team as well as the corporate innovation team, to ideate around this area of snacking and looking for that opportunity and we knew that on the go was important but officiating protein and the role that peanut butter plays in a delivery system really was, you know, gave us the confidence that we have that have it correct.

You know, I've heard numbers that when the candy industry moved to bites, you know, they've seen it to be, you know, as high as 25% incremental in terms of their overall category performance. And so, that's an opportunity for us. We think bites are very on trend and that we hope to capture this proportion and share that.

You know, as far as the, you know, SRPs on this, we're looking anywhere from \$2.99 to \$3.49 depending on if you're an everyday low price retailer or a high-low retailer.

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**Adam Samuelson** - *Goldman Sachs - Analyst*

Adam Samuelson, Goldman Sachs. Compleats, which has been an areas that's been more challenging in the last couple of years, can you talk about some of the lessons learned as that business has faced a more difficult performance and what's really changed in the go-to market whether it's assortment or the channel, et cetera?

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**James Splinter** - *Hormel Foods Corporation - Group VP - Grocery Products*

Sure. So, I would say that the key learning for us was how difficult it is to go up market within the category. We watch what was going on in frozen foods and we had some competitors at the time that came in and went right after, you know, more of an upscale marketplace and in our determination at that time was, you know, we think we can compete in that areas as well and that provide to be more difficult.

We got trial, we did not get the repeat, so it was more difficult for us to meet the needs of that more upscale shopper that was looking to replace, maybe a frozen meal.

So, really, the lesson for us was stick to your core and we really are focused now, more heavily back to what really got that business to grow in the first place and that was a focus on those value shoppers. And value shoppers is a huge growth market. I mean, we look at that as pure incremental growth and it's growing in the US and we can take advantage of that.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Thank you, Jim.

And now, we've reached a point to take a 10-minute break. So, we'll reconvene at 1:25.

If everyone would please take their seats. We'll get started. We'll let everyone take their seats and we'll get started in a minute.

I'd like to welcome to the stage, Tom Day, Group Vice President of Refrigerated Foods.

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**Thomas Day** - *Hormel Foods Corporation - Group VP - Refrigerated Foods*

Thank you very much, Jana.

Good afternoon. It's a privilege for me to be here today to represent the members of the refrigerated foods team and my goal this afternoon is really threefold.

Number one is to introduce you to the Refrigerated Foods team, number two is update our retail Refrigerated portfolio and provide you insight into where we see continued growth. And then finally is to introduce you to the newest member of the Refrigerated Foods team, Applegate Farms.

Well, let's get started. The sales and marketing arms of Refrigerated Foods consist of the meat products marketing team, our Foodservice group which is lead by Deanna Brady who will our next speaker and our Affiliated Foods Team that is comprised of Farmer John, Burke Foods and Dan's Prize which is our roast beef company out of Northern Minnesota.

The newest member to our team is Applegate Farms. This purchase was announced on May the 26th and we plan to close this business within the next 45 days. Over the past 124 years, we've built a strong portfolio brand that compete in a variety of Refrigerated Foods categories across the country. Consumers have supported many of these brands and as a result, they enjoy either a number one or number two market share in the categories in which they compete.

Today, I'm going to focus on six of those categories which have been strong contributors to our organization in the past and where we see considerable upside and growth for the future of the Refrigerated Foods Group.

Let's begin with Rev. We've shared with you that each item within the Rev line has a minimum of 10 grams of protein which provide sustainable energy to keep you going. As Rev nears the end of its second year in distribution, we are pleased to report that our advertising and promotional schedules have delivered a 60% - 60% brand awareness. We are specifically encouraged by the fact that we are meeting our trial and repeat rates and look forward to continuing that effort as we go into the end of 2015.

These strong repeat rates provide us the confidence, that we have a product that will continue to grow in the marketplace. Our focus at this time is to add new users to this category. Further evidence that the business fundamentals of Rev are solid is the fact that we are recognized on the list by IRIP Centers this past year.

The Rev brand demonstrates that it has broad consumer appeal because its portable, allows for consumption immediately, and addresses the need for a healthier snack option. Research has also shown us that it has good acceptance by both men and women. You see, Rev is made for anyone at any time and can be enjoyed anywhere.

Let's look at the newest commercial which is based on the book that many of us grew up with entitled "The Little Engine That Could" and the classic phrase, "I think I can."

(Video Presentation)

The next area where we've experience great growth and expect that to continue is in our strong Pepperoni brand. This is a century old product for our company and has delivered a 7% CAGR over the past five years.

It appeals to a number of our loyal consumers who continue to find new ways to use this product. Our recent addition of low fat and low sodium pepperoni are bringing new users to the category.

We are also experiencing growth in our Gathering line which is led by Party Trays. We recognize that our current household penetration at 6% is lower than we wanted to be but we are encouraged, we are encouraged with a strong repeat rates that are -- and we are focused on building additional trial that will attract new customers.

The magic of our Party Trays is that there are already ready. When gatherings happen and they do, the fact of the matter is that that host could have a Party Tray on hand and spend their time concentrating on their guests and getting all the credit for having items that they can serve.

Here's a digital video highlighting our current campaign.

(Video Presentation)

Now, let's take a look at a Hormel classic, Black Label Bacon. We've experienced a 13% CAGR over the past five years and our Bacon to the Core positioning demonstrates to our consumers that we are as serious about bacon as they are.

Recently, we've extended the Black Label Bacon and introduced several new premium bacon flavors, some that you had a chance to try this morning. These premium offerings are focused on flavors that customers love.

Our sales team has done an excellent job of securing placement that many large retailers across the country and the consumer feedback has been very, very positive.

It is certainly true that everything is better with bacon and now, our customers can kick up any meal occasion or event with our thick-sliced, hardwood smoked Black Label Bacon.

Our founder, George Hormel, said it best. Innovate, don't imitate. We continue to live up to that mission everyday by providing new products to meet the demands of an ever changing consumer base.

I want to give you an update on several of the recent product innovations we have made. First, we've reformulated our always tender line of marinated meats to deliver a simpler, cleaner flavor and easier to read ingredient statement.

Consumers will see a reduction and the number of ingredients used and are already telling us that they like the improved flavor of all of these new products. The new always tender is now available in stores with the declaration that it has now artificial ingredients. Bottom line, we listened to our customers that have adapted our product line to meet exactly what they are looking for.

Next in the dinner space, we've launched a line of Taco Meats to give consumers an easy way to enjoy taco night. The product is a direct result of our research as well as listening to consumers who tell us they're very busy and want convenience but also want to be an active participant in creating an evening meal. Now, they have it. Our new line of Taco Meats accomplishes both of these objectives.

Finally, we've recently introduced a competition style barbecue under Lloyd's Barbeque Company. All of these products are hardwood smoked and deliver the high standard of excellence that anyone can expect if you go to a barbecue fest or for anyone who has a smoker in their backyard.

We've made it possible to enjoy great tasting barbeque not only on the weekends but on any day of the week. All of these new introductions are now available in stores across the country and we look forward to sharing our successes with you at our next updated.

The last item that I want to speak to you about in our core portfolio is our Natural Choice lunch meats. Natural Choice continues to be a strong growth engine for us and experiencing a CAGR of 9% since 2009.

Since its inception, Natural Choice has been positioned to provide consumers a choice, the natural choice. We have recently refreshed our packaging with a look that consumers tell us is natural, fresh, and simple. We are also investing in a major advertising campaign that targets those consumers interested in purchasing natural products.

On the right hand corner, you can see our print ads that are currently in publication. And now I'd like to show a digital ad that we've recently produced featuring Judy Greer.

Approximately three weeks ago, we announced that we signed an agreement to purchase Applegate Farms from its founder Stephen McDonnell. We are very excited about this partnership with Applegate Farms. As I mentioned earlier, we look forward to finalizing this transaction at the end of July.

When we first began to evaluate our partnership with Applegate, we were impressed that they hold the number one position in the organic and natural value-added protein space. We also saw and continue to see great value in the broad appeal that Applegate has with younger and health conscious consumers. We're confident that this partnership will expand our breadth of protein offerings and offer consumers the choice that they look for when they go shopping.

In addition, the Applegate line has a full portfolio products that encompasses all major proteins including beef, pork, turkey and chicken as well as offering cheese. Far beyond the acquisition of the Applegate brand itself is a number of important assets we also acquire behind the Applegate brand.

First and foremost is a 27 years of trust and affinity that they have built up with over 5.5 million households. This has driven double digit increases in sales for the past decade. They also have a dedicated sales and marketing team that will continue to work from their headquarters in Bridgewater New Jersey.

Along with this agreement, we will have several supply and manufacturing agreements in place that will support our growth in the future. The acquisition also includes a strong and diverse network of farmers and growers that we will continue to develop to meet our growth projections.

One of the interesting aspects of this partnership is our ability to expand our presence and relationship with key retailers in the natural and specialty channels. This will also complement our other organic offerings that you heard about earlier today in regards to Wholly Guacamole as well as our organic Muscle Milk.

Finally, a partnership with Applegate will also allow us to leverage our relationship with key retailers across the country where Hormel is already viewed as a strategic partner.

One question that we're being asked a lot is what changes can we expect? My answer, not many. At the time we made this purchase, we made a commitment to the Applegate employees and customers that Applegate will continue to be Applegate. Applegate consumers can be assured that we will continue to honor all the things that Applegate stands for including farm practices, product formulations, and of course, company mission.

The response to our commitment is we'll believe it when we see it, then I encourage you to watch us closely and you will believe. We welcome your observations and we look forward to your analysis and feedback as we begin the next chapter in the history of Applegate.

Finally, this afternoon, I want to take this opportunity to complement all of the members of Refrigerated Foods team for the work that they've done for the first half of 2015. They come to work every day and are dedicated to consistently delivering results. I believe that by providing our team with the proper focus, clarity of the mission, and making sure that we are all in alignment in all aspects of our business that we will meet our company's key results today, the second half of this year and into the future.



I'd be glad to take your questions at this particular time.

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## QUESTIONS AND ANSWERS

**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

Akshay Jagdale, KeyBanc.

Can you talk a little bit about the portfolio within Refrigerated Foods, how much of it is value-added versus, you know, not value added? And I know with traveling, you've mentioned that your goal, personally, longer term is that you have no commodity mix itself, so can you help me in terms of understanding the roadmap to that, achieving that goal?

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**Thomas Day** - *Hormel Foods Corporation - Group VP - Refrigerated Foods*

Yes, I think the present number today would be about 70% that would be, I'll say, commodity is 30% value added in regards to that. We're -- I'm sorry -- change that around. I apologize. Everybody stop. Drop your iPhones, it's okay, the company is still - still secure. Okay?

Seventy percent value added, 30% commodity and I think with the acquisition, certainly, of Applegate, you can see, obviously, the direction that we're going. You and I did have a conversation from a standpoint of aspirationally, want to be great day one day that we could wake up and we would not have any fresh pork to sell and that would all be going into value-added products.

But clearly, that's all the way down the path. But I think if you look at where our advertising, the support in regards to both internally as well as sales support and where our M&A is, is that the fact of the matter is that that's the direction in the future of the company and obviously contributing to a stronger performance for the organization and taking up the volatility that we've seen, certainly, from some of the commodity market.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

We had a question up here.

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### Unidentified Participant

Hi, could you talk about the margin that your segment is delivering? It's quite exceptional. Is it simply a commodity benefit that your receiving short term or is there structurally things that business has done that allows those margins to be higher, longer?

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**Thomas Day** - *Hormel Foods Corporation - Group VP - Refrigerated Foods*

First of all, thank you for the question and, again, a compliment to the entire team in regards to the results we've delivered.

Two things I would tell you, clearly, there are some tailwinds that we are taking full advantage of from a standpoint of the team but I think if you look at what's taking place and I'll give credit to Steve Binder in an organizational change that was made about 18 months or 2 years ago in regards to providing more clarity and alignment throughout ourselves internally and the fact of the matter is that, today, we are working better together within our company.

I think the direction and where we are going is much clearer to every aspect of the organization, be that sales, marketing or operations. And as a result of that, we've got the team, I'll say, all pushing or pulling together to make sure that we are, in fact, delivering our side of it. I would tell you as we look at the back half of the year, we certainly understand that Refrigerated Foods needs to be a part and help our balance portfolio. And so,



all hands are on deck to make sure that we do deliver a strong second half in order to make sure that we meet our 5 and 10 expectations as a company.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

I think we have time for one more question. Mario? Here.

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**Mario Contreras** - *Deutsche Bank - Analyst*

Mario Contreras, Deutsche Bank.

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**Thomas Day** - *Hormel Foods Corporation - Group VP - Refrigerated Foods*

Yes.

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**Mario Contreras** - *Deutsche Bank - Analyst*

I guess, just on the second half of the year, can you talk a little bit about the competitive activity you've seen across and I realize this is a broad question but some of the different segments that you compete in, you know, companies are passing through a lower pork cost?

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**Thomas Day** - *Hormel Foods Corporation - Group VP - Refrigerated Foods*

Yes. I think what's happening right now is that we've seen quite a bit of discipline within the industry from a standpoint of that. I think if you sit and look at we spend more of our time, to be quite honest with you, focused on what we're going to do versus what the competitors are going to do. We're very pleased in regards to the strategies that we have in place and we believe by providing our time in regards to execution of those strategies, we like our odds in regards to, certainly, a strong competitive base that we face every day and I'll say we'll - we'll continue to deliver on what we're going to do and to be quite honest with you, I don't spend a whole lot of time worrying about what moves they may make. We spend our time, obviously, delivering on the results that we've been expected to deliver.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Thank you, Tom.

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**Thomas Day** - *Hormel Foods Corporation - Group VP - Refrigerated Foods*

Thank you.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Now, I'd like to introduce Deanna Brady, Group Vice President of Food Service.

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**Deanna Brady** - *Hormel Foods - Group VP - Foodservice*

Well, thank you for your time today and thank you for holding on with me till the end here.



It's my privilege to share how we approach Foodservice at Hormel and how our division has become over a billion contributor to Refrigerated Foods in the Hormel Foods Corporation.

The Foodservice division was founded 25 years ago with the vision that if we can sell our food products to people at home, then why not sell our food products to operators who serve people when they eat away from home at a restaurant, a hospital, or on a college campus.

Our mission is to be the premier provider of solutions, products and use those ideas to all facets of the food-away-from-home market. This has been our mission and really is at the heart of how we've approached the Foodservice industry over the past 25 years.

The Foodservice industry was very healthy 25 years ago and the first decade, we are able to grow at double digit. In early 2000, as the Foodservice industry began to slow down, we responded by adjusting our approach to align with some of the dynamics taken place.

Those strategies prove to be successful as we navigated a host of challenges that started in 2007 and as a result, we've delivered profits that are created to Refrigerated Foods. Our strategies and tactical execution have positioned us to consistently exceed the industry growth rate by twofold.

One thing that I've learned in my 25 years in food service is that the industry is constantly balancing dynamics which can impact growth throughout the entire supply chain. As a leading national branded value-added partner in the food service arena, it's important to point out, how critical it is to have strategies that are pushing our products in the distribution while at the same time pulling them back out to our operators and both the commercial and noncommercial space.

As you can imagine, there are multiple opportunities for a breakdown to occur and that's why succeeding in foodservice is really not as simple what they appear.

If I look at the industry, there are really five factors that are either aiding or challenging the industry. Like many other industries, consolidation is a constant challenge and we're experience consolidation with our competitors, our distributors, foodservice operators and brokers.

Consumer confidence has a direct effect on foodservice. And really, we rely on consumer confidence for expansion and growth. We've certainly seen the negative effects of core consumer confidence from 2007 until just recently. We started to see consumer confidence rebounding in 2014 and that positive direction continues today.

Unemployment rates are another important factor that can impact the foodservice industry in multiple ways. When unemployment is high, obviously, people don't have money to spend on eating out. Extremely low unemployment challenges our operators to find quality labor to run their operations. However, low unemployment can actually work to our advantage because we have a whole portfolio of labor-saving solutions for our customers.

Finally, the biggest concern -- or excuse me -- one of the - another factor is gas prices and, really, this is a very important factor on growth. Anytime we see gas prices take off around the country, this really has a slowdown of effect on the commercial side of the business.

Finally, the biggest concern on foodservice operators minds today is labor. Minimum wage mandates and healthcare reform are both two requirements that will require a food service operator or could have an impact on decrease in their profitability and would cause them to potentially have to take menu price increases at a time when consumers are still looking for thoughtful menu prices when eating out.

While there are many dynamics that can have an impact on the industry, there are also new trends that will change how and where the industry will grow. And it's critical for us to keep an eye on those trends and to see which ones are going to be around for the long haul.

Today, consumers are looking for authentic food. Food they know, ingredients they understand and food from a company that they can connect to us and trust. Protein is a powerful trend that we, of course, welcome and it continues to build momentum across foodservice.



According to culinary trends of America, Americans are continuing to seek out protein due to a variety of health and wellness concerns. It doesn't seem to matter what form it's in, whether it's a high protein plate at a local coffee shop or high protein snacks on campus, high protein foods are one of the most sought-after nutritional choices among American consumers today.

Snacking small plates and mini meals are a popular across the foodservice complex and definitely have our attention as we determine how to approach a variety of customer type and ensure our products remain relevant to today's trends.

Product versatility is not only a trend but it really has become table stakes on bringing new items to market. Our clients need to use one item in multiple ways to maximize their return on investment. Fire-Braised Meats are an excellent example on how we can provide the products which conserve as a culinary canvass for a chef to create multiple menu items.

The food service team at Hormel has the experiences to navigate difficult industry dynamics and the instinct to leverage industry trends to exceed industry growth rates. We do this through its thoughtful application of the right people with the right solutions and with the right partners.

We believe we have the right people. Meet the foodservice machine, a 187 sales national account and marketing professionals who execute both to push and the pull strategy that I described earlier. A large factor for our success and our business is effective sales executive and this is why we choose to go to markets with a direct sales force.

In order to achieve accelerated growth and focus with college and universities, healthcare, and convenient stores, we've added several sales managers who help us drive strategy. Our growth rates exceed double digits in each of these areas as a result of this strategy and we're confident that there is more growth to follow.

In 2001, we created a national account team that, today, delivers excellent growth and profits to our division. Traditionally, national accounts can yield high volume and low margin, and in many cases, this is true. But our approach is to align ourselves with the emerging chains that are growing, chains that need and appreciate innovation and chains that are interested in longstanding partnership, chains with the brand you see here.

Internal alignment between sales and marketing is what enables us to achieve excellent success with innovation. Bacon1 a recent innovation our team launched is perfectly positioned to meet the needs of today's food service operators. Assigning the right people to develop innovation, positioning, the brand, and the concept, and flawlessly executing a lot is key to the success.

We believe we have the right solutions. In order to achieve growth and remain relevant in today's marketplace, it's imperative for our division to bring winning solutions to our customers and our sales teams.

One way we do this is through innovation. Our team's commitment to innovation separates us from our competition and serves as a calling card to bring exciting new items to customers.

Bill Dion serves as our food service innovation team lead and he oversees our process from start to finish. Let's hear how Bill approaches innovation and I guarantee that he'll leave you excited about the future role it has - it has to play with the success of our company.

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**Bill Dion** - *Hormel Foods Corporation - Product Innovation Team Leader*

Food, as we all know, is really a fundamental pleasure of our life. Food has the power to really unite people, to inspire people, to excite people and I believe our role in this industry is to really deliver solutions, food products that do just that.

I think about our customers first and the ability for Hormel Foods and for me to help them be successful, that's what drives me, that's what drives our division. We observe customers what's going on in their kitchens and products are born out of the need that we see back at the house.



Other times, these are products that are just born out of how our countries changing. So, all of products, each one has a unique story. When talking to customers, one of the things that they're always looking for from manufacturer is they want to see innovative products because in order for them to survive, their menus have to change. They realize that.

Customers are hungry for new products and new ideas. So, anytime we sell them a new innovation, they get very, very excited. A brand is just a reason to make a choice. And if brands are reason to make a choice, I want our customers choosing Hormel and the only way that's going to happen is if our products stay fresh, stay relevant.

We're doing more research than we've ever done. We have more contact with more customers than we've ever had before. We are building what I call the circle of innovation. All these touch points that we have with all of these customers that are feeding us, all the feedback we need to have this sort of pipeline of innovation, I believe we're going to be able to fill with more speed, with more agility than ever before.

One thing that differentiates us from many companies is we just don't settle. I tell you in a process of innovation, I'll look at iterations of our product that R&D is showing and I know that I can be sort of a pain to them because I'm going to tell them, no, it's not quite good enough. We're always asking and pushing for one more thing. We have this relentless desire, just to do a little better all the time and that's in the Hormel DNA and that is certainly in my DNA and I think that causes us to do a better job than most.

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**Deanna Brady** - *Hormel Foods - Group VP - Foodservice*

Applying innovation to other aspects of our business is important to our customers and our sales team. We continuously look for powerful and effective ways to bring solutions to our customers.

Several years ago, we created and underwrote three programs. We host two different symposiums called In Front of the Future. One is specifically designed for college and universities and the other for history.

These programs provide relevant information to our customers and continuing education that they can't get anywhere else from the industry. It also allows us to showcase our commitment to their success.

Another well received initiative that we've created is the Culinary Enrichment and Innovation Program. Through collaboration with the Culinary Institute of America, we developed this program to actively support culinary innovation and growth within our industry.

Recently, Foodservice Distribution led by Sysco, Gordon Food Service and others has embraced and adopted a retail category management model. Based on our company's retail competency and category management, we were able to leverage and adopt this skill set to benefit our foodservice distribution partners. As such, we're playing a leadership role and establishing category management in Foodservice.

We believe we have the right partners. The foodservice industry, scale, breadth, and complexity requires strategic application of resources to achieve accelerated growth. Choosing the right partners continues to be a very important consideration for our division. This does the company relies on a balance portfolio product.

The Foodservice division relies on a balance portfolio of distribution partners to bring our products to operators. We align our distribution programs with national broad line distributors, strong, regional players and key independent distributors across the country. Foodservice operators traditionally buy from multiple distributors and this is why it's very important for our brands to be broadly available for our customers.

One of the strategic pillars of our division is our focus segments of healthcare, college and university, convenience and lodging. Continued success and growth in these segments provide a balance through our traditional restaurant business.

These focus segments enjoy stronger growth rates in the foodservice industry as a whole which is projected to grow at 2.5% real growth in 2016. Additionally, these segments relish innovation, appreciate labor saving solutions, and as a result have become heavy users of our high focus and high growth brands you see here.

Our six cultural beliefs are embedded within the core of the foodservice division. This culture gives us the power to consistently deliver uncommon results even when unprecedented industry dynamics are at play.

The food service division has applied clarity, focus, and alignment against our two key results. Exceed goal and positively impact profitability. With the right people, the right solutions, and the right partners, we remain humble, yet confident in our ability to continue outpacing the foodservice industry and achieve the company stated growth goals.

Thank you.

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## QUESTIONS AND ANSWERS

**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

We'll open up the floor to any questions for Deanna.

Farha?

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**Farha Aslam** - *Stephens Inc - Analyst*

Hi. Over the years, you have invested in your direct DSC -- sorry -- direct foodservice, could you share with us couple of examples how that might have helped you better than going via an outside sales force?

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**Deanna Brady** - *Hormel Foods - Group VP - Foodservice*

I think some of the biggest things that we've done is we've had the, I'll say luxury and support of the executive team to continue to build our sales force. So, even in 2007, '08, '09, when the food service head of the business was struggling, we were - we had the luxury that we're [did a] cut back on people, we continue to be smart with our resources but we were able to continue to hire new people into our division, train them and our training programs are something that is super powerful and super important.

Our training philosophy is hire to retire and we touched our teams along that way to ensure that they continue to get training. Some newer programs that we've added on top of some of the existing ones are through our partnership with Harvard and our leadership programs that continue to provide the tools and resources to our leadership team to continue to develop the people that we need who are going to be a part of our leadership in the future. And then most recently, the last couple of years, we piloted and have successfully launched an emerging leader program.

And just this last week, we promoted the ninth person out of 12 - excuse me, the 10th person out of 12 people who've gone through that program into management, and really, so this program is designed to prepare high potentials to move in to our management ranks and be used - talent to be used around to that company. So, those are few couple things.

And then, this year, we launched a new mobile app which gives our teams tools and resources they need in the palm of their hands to answer questions that are on our customers minds, where there is ingredients in the product, nutritional attributes, maybe menu ideas and being able to see pictures of how one item might look in a couple different menu applications. And by having that in the palm of their hands, they can be a much more effective resource for their customers.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Adam?



**Adam Samuelson** - *Goldman Sachs - Analyst*

Thanks. Adam Samuelson, Goldman Sachs.

I think one of the things we struggled with on the outside is evaluating the actual importance of food service into the context of the segment. How big is foodservice of refrigerated at this point and you - you alluded to it being accretive to profits so I assume you meant accretive to segment margins. And maybe just give us a little bit of more clarity, if you could, on the actual financial performance of the foodservice group over the last three years, top and bottom line. And am I right to say that the margins of the above segment average at this point?

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**Deanna Brady** - *Hormel Foods - Group VP - Foodservice*

Yes, so we don't, I'll say, give exact numbers but what I can tell you is we've been over \$1 billion for several years. We're a main contributor to Refrigerated Foods from a sales and profit standpoint. We've continued to be profitable and have a very successful track record and don't know that we would see anything differently for the few years ahead of.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

I think Eric had a question.

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**Eric Larson** - *Janney Montgomery Scott LLC - Analyst*

Yes. Eric Larson, Janney.

There's a lot of it - in your consolidation of the major distributors in the industry and we know that today and I noticed on your chart, there was one, maybe, two pretty large distributors that weren't on that list. I'm not sure if that's relevant or not. But does the industry consolidation present more -- one of the challenges and it's ultimately a benefit to you or how would you view that, you know, that development?

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**Deanna Brady** - *Hormel Foods - Group VP - Foodservice*

So I think the - the list or the brands that we put up as far as customers were - we're in a complete list so it's possible that we did do business. We've had a longstanding philosophy since we are a national branded company that we've worked very hard to have a balance and our distribution and because we don't do private label, it's really important that our products be broadly available.

In regards to your second part of the question in the industry consolidation, it's very important for us to maintain that balance and we're fortunate that we didn't have to start last year when some of the big mergers started rambling and still tentative today but we've always remained very, very focused and our each scenario marketplace making sure that we've got, you know, at least three points the distribution both on a broad basis system and then into out on a market basis.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

We can take on more question for Deanna.

Okay. I'm seeing no further questions. Thank you, Deanna.

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**Deanna Brady** - *Hormel Foods - Group VP - Foodservice*

Thanks.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

And we'll bring Jeff back up on the stage to finish up the day.

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## PRESENTATION

**Jeffrey Ettinger** - *Hormel Foods Corporation - Chairman, CEO*

I want to take this opportunity to thank the audience for coming to Minneapolis and for spending a full day with our management team and I also want to thank that team for the time they spent preparing their presentations and for doing such a fine job explaining our story.

Couple main themes we want you to walk away with, first of all, we're all about brands. Leading brands, we have more than 30 in various categories of the grocery store. They're either number one or number two within the marketplace and as Deanna just reinforced, new brands are very important to the Hormel service unit as well.

Secondly, we love our traditional portfolio. We continue to find ways to innovate our traditional portfolio but we also have broadened our portfolio to provide more choices for consumers in these key growth areas.

And so James Snee explained to you what he's been doing on the international marketplace growing our global presence with multiple brands. Jim Splinter talked to you about the multicultural aspects of the grocery products portfolio, the great MegaMex franchise along with some of these new unique ethnic flavors to such items as Spam luncheon meat.

We're doing all sorts of nice things in the healthy and holistic area with Glenn Leitch's Jennie-O Turkey Store portfolio with some of the items that Tom Day mentioned to you such as Natural Choice and Rev and now, of course, Applegate and Don Kremin's growth within the Muscle Milk segment.

And then lastly, in terms of on-the-go, really a company-wide effort. Steve Binder and the innovation team has led the way in terms of some of these new items, the Rev launch and the Skippy PB Bites. Hopefully, many of you are taking some of those homes and you'll be the first in the market or first in your home to have some of those items. But clearly, this is also a key area to Deanna's group as well as they look to provide on-the-go solutions.

But lastly, I want to finish with one financial slide. Jody Feragen did a fantastic job this morning giving you our overall financial picture and the leverage capabilities of our balance sheet and our portfolio. She also gave you the great track record we've had for the last five years. All concluded with a little bit longer look which is okay over the last 30 years when you looked at our earnings per share delivery, very consistent, 27 up years out of the last 30, 11% CAGR and with the exciting initiatives and brands that you've heard about today, I really see no reason why we cannot continue to deliver on this kind of a trajectory going forward.

With that, I am here to take any remaining questions that you might have. If you have thought of other specific segment questions, all of our presenters are still here. I've asked the folks with the mike that they will mike you up for the question but we may also provide a mike to someone else for an answer if that's the appropriate person. So, we'll see who has any remaining question.

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## QUESTIONS AND ANSWERS

**Robert Moskow** - *Credit Suisse - Analyst*

Rob Moskow again. Are you reaffirming guidance today or are you just saying this was a guidance as of a month ago?

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**Jeffrey Ettinger** - *Hormel Foods Corporation - Chairman, CEO*

Yes, I mean, we're really barely a period in to the quarter. We provided the guidance range in the last quarter so we're really not giving any different approach to that. Really, that would require kind of more complete exercise and internal reforecasting and our folks, frankly, I think, tired enough of the estimates that we provided. We've been on a quarterly basis. So, to start doing it every single period is something what we really have chose not to do.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Mario?

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**Mario Contreras** - *Deutsche Bank - Analyst*

Mario Contreras, Deutsche Bank. So, there's obviously been increased focus on antibody-free proteins whether it's, you know, various manufacturers, some restaurants, obviously, it's been more focused on chicken to this point. So, I'm just wondering how you view, you know, the public's perception that for pork and turkey and, you know, what does that mean for you and, you know, where do you see that going in the future?

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**Jeffrey Ettinger** - *Hormel Foods Corporation - Chairman, CEO*

I'm warning Glenn, I'm going to throw an aspect to the question to him but I'll start here.

So, what I see happening in terms of the race without antibiotic question is the bar is going to get raised, frankly, in both segments of the business. So, Applegate clearly is among the elite leaders in terms of providing that benefit to consumers so that's - that's a very high standard. But I'll also think that the main stream industry is also going to have to address this.

You've got to, well, national players such as McDonald's and Walmart talking about these types of standards and the reason I asked Glenn to comment is because his business, in particular, is going to be impacted by some of the new reg's suggestion that they're ready to comply with by the end of this year on the antibiotic usage in turkey.

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**Glenn Leitch** - *Hormel Foods Corporation - President - Jennie-O Turkey Store*

Yes, Regulations 209 and 213. We expect we'll be able to comply with those and do so a year in advance of the requirements.

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**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Akshay has a question, I think.

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**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

Akshay Jagdale, KeyBanc. Jeff, can you talk about Applegate? Obviously, operated as a standalone entity for now. I think I asked you this question when you did the call on Applegate. So, what exactly longer term do you expect to add to that franchise that it couldn't do by itself?





**Jeffrey Ettinger** - *Hormel Foods Corporation - Chairman, CEO*

So, I mean, you've put the caveat for now out there and I guess that's one that, I mean, I'm not putting that out there. Our game plan with Applegate is that we'll be a standalone entity. We think it's important in terms of its connection point to consumers as well as its understanding of supply chain.

But I do appreciate that it's harder than to get your hands around what's the synergy value, then? What are -- what are we bringing to the party? And I guess that, to me, there's some more subtle examples for that but I do think we're going to be able to provide. Perhaps they're more on the top side in terms of sales growth but I think they're also present even in terms of some efficiencies and other aspects of the business.

Clearly, areas such as, you know, if they're noncritical of product packaging type synergies, there could be shipping areas that whereby providing a bigger footprint, we'll be able to be involved with.

One other example I gave at breakfast this morning with the group that was at my table was there are, in [D team], for example, has done a great job of creating products but they have no pilot plans. They've been creating their products basically by utilizing line times that they're co-packers sort of on the side whenever they can get a break in that. That's not the most efficient way to create new items. We have available space in the pilot plan and are ready to work on a collaborative basis with that team to enhance their ability to create innovative new items going forward.

I think, you know, Tom Day mentioned to you the synergy opportunities that we would see just on the relationships of kind of who knows what customer. And frankly, those should flow both ways. I mean, I think our stronger sense with the traditional customer base, yes, Applegate is present in those customers but they're still fairly young in terms of their development there and I think our understanding of those customers could enhance the growth there by the same token. Their understanding and depth of commitment with that specialty channel, the organic and natural retailers that we have next to no presence, I think, overtime, will help some of our other portfolio item.

We think, overtime, it really is a matter when you plug a great brand like Applegate in to a great organization like ours that has a depth of resources and knowledge that we will find other ways to make that one plus one equal more than two but it is harder to give you a specific quantification if we're not closing a plant or the traditional synergies that you're used to seeing.

Going once. Eric? You've done so well with the mike, [David]. We'll give you two.

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**Unidentified Participant**

Jeff, would you -- you're using co-packers for Applegate nor Applegate does use co-packers. Would you envision ever pooling that inhouse at some point? And, obviously, you can leverage your raw material sourcing capabilities into overtime into more organization, natural organic sourcing capabilities. Would that - would that be something from [main actual point] that would make sense, you know, at the right time?

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**Jeffrey Ettinger** - *Hormel Foods Corporation - Chairman, CEO*

You know, the model they created has been very - this virtual model of not owning the assets has been an important of how they've been able to nimbly address the consumers within the marketplace. They've developed a very good, strong, loyal set of co-packers that our intention right now is to stay loyal to as well if they want to keep producing with us.

You know, as the business continues to grow, we're either going to have to look collectively for new co-packers or there may will be a time when our production basis, if it's something not unique to the natural or organic specialization of the product that perhaps we could utilize internally but that's not going to be our first priority to look for those.

**Jana Haynes** - *Hormel Foods Corporation - Director - IR*

Okay. Hearing no other questions, thank you, Jeff. And thanks to each of you for coming here to Minnesota today and joining us. Please be sure to grab some samples of our great new products on your way out and safe travels home to. This meeting is adjourned.

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