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Hormel Foods Corp. (HRL)
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MANAGEMENT DISCUSSION SECTION

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Hi. Please find your seats. We'd like to welcome Hormel back to CAGNY for the last presentation of the day. Please join me in thanking the company for sponsoring a tasting of new products right outside this room following this presentation.

Hormel has been busy today having just reported earnings this morning. And thank you very much for coming. Hormel is a 125-year-old company with $9 billion of sales in branded foods and meat products. Hormel has been acquisitive in growing into a broader food company and continues to invest in faster growing channels. We have today Jim Snee, Chairman, President and CEO; and Jim Sheehan, SVP and CFO.

Well this is Jim Snee's second time presenting at CAGNY. This will be his first time presenting as Chairman, President and CEO. Now let's kick it off Jim Snee.

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

Great. Well, thanks, [ph] Janet (00:00:54). And thanks to all of you for sharing the end of your day with us. Jim Sheehan and I are truly pleased to be in sunny Florida, because about six hours from now we’re going to have a much different environment after we get back home to Minnesota. It's a pleasure to be here to share our first quarter results, update you on our progress, again several key initiatives and provide more detail on the next growth engine for Hormel Foods.

As you would expect, we will be sharing some forward-looking statements that may differ from actual results, and you can see a detailed list of risk factors in our recently filed Annual Report, which is available on our website.
As a primer for those of you who may not be as familiar with our business, Hormel Foods is a $9.2 billion company with approximate market cap of $18 billion. And we are ranked number 8, as one of the top corporate citizens. And we take a lot of pride in that ranking as we believe that's a true testament to our inspired team of over 20,000 people. We have been around now for 126 years and we've got a very long track record of success on a number of different fronts. We’ve been able to deliver earnings growth 28 years, out of the last 32 years, and we’ve been able to increase our dividend every year for the last 52 years, including double-digit increases over the last 9 years.

And our business operates in four distinct reporting segments, the largest of which is Refrigerated Foods and represents approximately 50% of our sales. And think about the business being one-third refrigerated retail, one-third foodservice and the remaining one-third being fresh pork and some of our subsidiaries. Now this portfolio continues to be focused on value-added branded sales growth.

Take a step back here, Grocery Products is our next largest segment at about 25% of our sales and have some of the strongest and most iconic brands across its ever-broadening portfolio, brands like SPAM, which celebrated its 80th birthday last year and also had record sales in 2017, along with Skippy, which has been a great core business for us and also a fantastic innovation platform as our Skippy P.B. Bites were selected as the most innovative new item in the grocery industry last year. And those iconic legacy brands are now joined by some of our more recent brands like Justin's and Wholly Guacamole.

Jennie-O Turkey Store is our vertically integrated turkey business focused on putting more turkey on more plates. On-trend brands like Jennie-O lean ground turkey and Jennie-O Oven Ready turkey continue to resonate and grow with today's consumer. And finally, our International segment is our smallest segment, but offers us a lot of opportunity. And we operate this business through a combination of exports, joint venture and licensing partnerships and multi-national in-country businesses both in China and now Brazil.

And we do have a very strong branded presence across the entire food space. I talked about our International business which is housed entirely in our International segment. But our foodservice business which is about 30% of our business is housed in both our Refrigerated Foods and Jennie-O Turkey Store business. With our foodservice business, we sell to a number of different segments, so think about hotels, restaurants, hospitals, colleges and universities. On the retail side of the business, which is over 60% of our business, we've got very strong brands in our Refrigerated Foods business, in our Jennie-O Turkey Store and in our Grocery Products segments.

We have 35 brands that are number one or number two in the categories in which they compete and we cover the entire footprint of any retail grocery store with those 35 brands. So there aren't too many places that you can go into a retail outlet and not come across a strong Hormel brand.

At our 2017 Investor Day, we outlined our business imperatives, and I'm pleased to report that we have made tremendous progress since that time. We talked about evolving to a broader food company. And while that certainly is about our product portfolio, it is also about meeting the consumer when, where and how they are shopping. And the acquisition of Columbus Craft Meats puts us squarely in the sweet spot for where today's consumers are shopping.

We are expanding and accelerating our foodservice business through the acquisition of Fontanini, and value-added capital expenditure investments like the one we're making in Wichita, Kansas to support our growing retail
and foodservice franchises. We are increasing our global presence with the Brazilian acquisition of Ceratti and capital investments that we have made in China.

And we will continue to evaluate all facets of our business to make sure that we have alignment with our growth strategies, and where we don't we will take the appropriate action. And our teams continue to move more and more business away from commodity sales into branded value-added sales as we look to reduce volatility and increase balance in our portfolio.

And finally, we are in the process of modernizing our supply chain. We've made good progress, but we still have work to do. And we will continue to drive towards our corporate key results with our unmatched ability to develop and grow brands, our relentless quest to drive accretive innovation and continuing to find strategic acquisitions that allow us to continue to grow and evolve.

So there are a few key messages that we want you to take away from today. Obviously, we reported our first quarter earnings, a strong quarter of earnings growth and we also increased our guidance for fiscal year 2018. Since CAGNY seems to always fall during our first quarter earnings release, we'll take this opportunity to provide more color about the quarter and what the rest of the year has in store for us.

Second, the benefit of tax reform clearly provides additional funds to invest into our business and allows us to enhance our invest-and-grow approach for the balance of 2018 and beyond. And our third key message is to provide a deeper dive into our most recent acquisition, Columbus Craft Meats, and detail for you why and how we see this as our company's next growth engine.

So this morning, we announced our 2018 first quarter results and were pleased to report a quarter of strong earnings growth. We had a record quarter driven by a strong performance from Grocery Products as well as the positive impact of tax reform. Now, these were partially offset by the continued oversupply situation at Jennie-O Turkey Store and significant freight increases with the biggest impact of those freight increases coming in our perishable freight both in Refrigerated Foods and Jennie-O Turkey Store.

On a segment basis, this is the first time we are reporting a merged Specialty Foods and Grocery Products segment. First quarter sales growth came from numerous brands across the portfolio, including Wholly Guacamole, Muscle Milk, Herdez and SPAM. Our MegaMex joint venture and lower SG&A expenses helped drive earnings growth. Our Specialty Foods and Grocery Products team are working on the integration of those two divisions into the new Grocery Products, and this is what the new Grocery Products will look like.

Our private label business is being merged into the existing Simple Meals pillar. These businesses utilize the same production assets and will now have the same reporting and decision-making structure. We've seen our Grocery Products portfolio evolve over time. And the addition of CytoSport Muscle Milk will provide another strong branded business under the pillar of Functional Nutrition. And our new leadership team at CytoSport is making great progress with this business.

Refrigerated Foods saw sales growth across its very broad and branded portfolio. Foodservice brands like Hormel Bacon 1 and Masterpieces pizza toppings were joined by retail brands like Black Label bacon and Applegate. Earnings were impacted by the divestiture of Farmer John, which has now annualized after the first quarter, Columbus acquisition costs and higher freight costs. We also saw continued input cost volatility which was expected for fiscal 2018.
Jennie-O Turkey Store continues to face industry oversupply pressure, continued sales growth for Jennie-O lean ground turkey and Jennie-O Oven Ready turkey were offset by lower whole bird sales. Reduced harvest levels, lower commodity prices and increased freight costs all pressured profits. Turkey breast markets were lower than last year and below our expectations. We plan to continue to invest in this strong brand through advertising and promotional spend in order to keep this brand front and center with both operators and customers.

Our International business was in line with our expectations. Sales increased with the addition of Ceratti, increased exports and strong business in China. Production of SPAM is now up and running in country in China and sales are contributing to the top line. Higher input costs for exports negatively impacted margins.

Now, I'd like to also take this opportunity to update you on the progress we are making since the announcement of our reorganized supply chain. I want to reiterate that we do not have a broken supply chain, but we do have a complex supply chain with over 30 plants, a broad co-packer network, using over 10,000 supply items to make over 10,000 SKUs. Now over the years, we've done a nice job with our bottom up continuous improvement process. However, there is work that we need to do to take a more top down approach to simplify, modernize, optimize and where appropriate perhaps rationalize.

Now we told you that we were focused on the structure and the process. Now we've made good progress on this structure. We now have Glenn Leitch in place as the Executive Vice President of Supply Chain. And he's been in place officially for about a month, as we work through other transitions backfilling his position. As for the process, we are confident in our ability to identify and capture efficiencies, but continue to improve our ability to purposely retain and allocate those efficiencies. Our supply chain structures is built on four somewhat redundant platforms, and we know there will be significant efficiencies available by combining into one strategic and integrated supply chain.

So as we look to the full-year, we are increasing our guidance from the current range of $1.62 to $1.72 to a range of $1.81 to $1.95. Our expectations for Refrigerated Foods, Grocery Products and International have not changed. We are expecting a slower than planned recovery at Jennie-O Turkey Store as well as continued freight pressure. The positive impact of tax reform is increasing earnings.

Now, we recognize that this is a complex reconciliation from our previous guidance to our new guidance. While there are some headwinds related to the Jennie-O business and freight, the cash benefit of tax reform has allowed us to take an invest-and-grow approach versus a protect-and-defend approach. We are making investments this year that we would not have otherwise made. We are making new investments in our people, brands, communities, as well as automation and technology. And as we always do, we'll be monitoring key industry dynamics closely.

It is now my pleasure to turn things over to Jim Sheehan to discuss our financial strategies.

James N. Sheehan
Senior Vice President & Chief Financial Officer, Hormel Foods Corp.

Thank you, Jim, and good afternoon. I'll start by identifying a few key factors impacting our Q1 results and the remainder of the year. I will provide insight into each of these factors, including our outlook.

In the turkey industry, poult placements and cold storage inventories are key indicators of market conditions. The chart on the left shows poult placements. As you can see, poult placements have fluctuated, but we have not seen sustained decreases. As the chart on the right indicates inventory levels remain above last year. The
continued high cold storage inventories that oppressed whole bird markets and poult placement metrics have tempered our expectation for turkey for the remainder of the year.

At the pork industry, we continue to focus on export and domestic demand as well as the balance between production capacity and hog supply. Export demand remains robust. Domestically pork continues to clear the market at favorable prices. As we expected, hog prices were volatile in the first quarter, we expect continued short-term volatility to occur as additional production comes online. The hog supply increased 3% last year and we expect an additional increase of 3% to 4% in 2018.

As shown on the chart, cold storage inventories are returning to normalized levels. We feel the additional capacity is impacting inventory levels and will eventually provide us with additional sources of raw material. We also feel inventories returning to normalized levels will decrease the volatility in the markets. Our analysis supports that under the existing market conditions, our current harvest level provides the company with favorable raw material costs. We are closely watching the fundamentals. We have the flexibility to adjust our source of raw materials based on long-term changes in market conditions.

Key markets were generally in line with expectations for the quarter, but the continued short-term volatility remains a challenge. The chart shows the volatility at the belly market since 2017. The magnitude and speed of the changes demonstrates the challenges of managing margins and forecasting consumer demand. Although, less dramatic than bellies, volatility is also impacting the company with hog, hogs pork trim and beef. Some of the earnings fluctuations we are seeing in quarterly results are driven by the timing of the market changes. With the exception of turkey, we still expect market trends to be in line with our overall expectations at the beginning of the year.

Although we planned for much higher freight costs, the level of increase has exceeded our expectation. Freight expenses negatively impacted the first quarter, especially Refrigerated and Jennie-O. We are working with our customers to find mutually beneficial solutions that are sustainable and will mitigate the impact for the remainder of the year.

Hormel will receive a significant benefit from tax reform on both an earnings and cash flow perspective. Along with the lower statutory rate, the first quarter benefited from the onetime reduction of our deferred tax liability, resulting in an effective tax rate of 0.6% for the quarter. We expect our effective tax rate for 2018 to be between 17.5% and 20.5%. The long-term expected tax rate is between 21.5% and 24.5%.

The cash flow benefit from tax reform in 2018 is approximately $110 million. The long-term impact will be between $100 million and $140 million annually. The impact will allow us to provide enhanced shareholder return, while investing in our business, employees and communities.

Investments in the business will begin in the second quarter. We will provide additional support to advertising and promotional activities. In 2018, we expect to increase advertising expenses in excess of 20% above last year. The company will invest additional capital in the projects focused on plant automation, technology, and value-added capacity.

Investing in our people and communities is a priority for Hormel. The lowest allowable starting wage will be increased to $14 per hour by the end of 2020. We recently announced stock option grants for all 21,000 employees, and we are increasing community donations by $25 million over the next five years.
In the first quarter, operating cash flow increased 56%. Beginning in the second quarter, our strong cash flow will be enhanced by the impact of tax reform. As Jim has already stated, our long history of increasing our dividends, we are committed to maintaining our Dividend Aristocrat membership, by continuing to increase dividends in the future. We will continue to repurchase shares to offset stock option dilutions and based on our evaluation of the market.

Previously, we have communicated our goal of optimizing the balance sheet for growth. We utilize the balance sheet to make $1.4 billion worth of acquisitions in the past year. 2018 also represents the largest capital expenditures in the company's history at $425 million as we modernize and expand our facilities to support value-added and innovative products. We currently have $880 million in debt, and the clear capacity to make additional investments through disciplined acquisitions and internal projects. We have taken all of these actions, while maintaining our investment-grade rating.

These are the key initiatives to organize the business for growth and focus on strategic cost management. The goal of strategic cost management is not to just cut costs, the goal is to deliver long-term growth. It is a thoughtful approach of reallocating resources to strategic initiatives, while finding efficiencies and synergies throughout the organization. The Fontanini, Columbus, Grocery Products, supply chain and deli integrations are in progress. We are on track to attain the expected synergies in 2018 and we have found second phase synergies for the future.

Zero basing which was implemented in selected departments last year has already delivered benefits. Zero basing is being expanded into the remainder of the business, including supply chain, sales and subsidiaries. We are developing tools and processes to validate and communicate our progress in capturing and retaining the identified savings. Before disclosing the savings, our priority is to assure the information is accurate and reliable. Thank you. I'll now pass the presentation back to Jim Snee.

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

Great. Thanks, Jim, for an update on very complex, but beneficial topics.

The third key message and final part of our presentation this afternoon is focused on our company's next growth engine, and that's our newly created deli division, and make no mistake about it. Hormel is poised to win in the deli. It's the right category to be in with a right portfolio of product offerings and strong brands, including the newly acquired Columbus Craft Meats brand.

The growth of the deli is far outpacing other parts of the retail outlet. And in fact it's outpacing total food by over 4 times. And not only is the deli growing at a faster rate of other parts of the store, it's growing its footprint as more and more space continues to be allocated to this very important part of any retailer's business. And this deli business is made up of four key areas. The first of which is behind-the-glass. And this is what we all remember as the deli, right, either whole pieces of meat, sliced to your preference or more recently, a wide array of already sliced product. I will tell you the rumors about the demise of behind-the-glass are a bit presumptuous. As you can see, this remains a sizable and growing segment with premium brands fueling this growth.

The next segment is grab-and-go. And grab-and-go is where you'll find typically prepackaged meats, prepackaged cheeses or perhaps a combination of the two. Next, prepared foods. This is no longer about just macaroni and cheese and mashed potatoes. As consumers continue to have less and less time, they are now including this area of the store in their consideration set for on-the-go food and retailers are looking for higher quality signature offerings. And finally, in-store restaurants or what many of us know as grocerants. Many times,
they’re freestanding restaurants within the retail outlet, but wherever they are, it’s clear that this is in the wheelhouse of our strong branded foodservice business.

And all of these segments combined, they’re all significant in size and growing. Combined, this is a $35 billion opportunity and growing. But the opportunity in growth doesn’t come without challenges for today’s retailers, whether it’s finding labor, dealing with shrink or dealing with changing consumer preferences. Our solutions based approach takes the burden away from our retail partners. We have the right products and insights to keep this business growing and relevant.

And while the shopping landscape continues to evolve and change, traditional retailers continue to have a unique point of difference to attract customers. They can provide a very authentic and fresh experience in an area where consumers come to discover and are inspired to try new products. And it’s safe to say that today’s consumers are all about the experience.

So one thing should now be crystal clear, this is not our parent’s deli. The deli is no longer only a place where you order a pound of your favorite protein sliced to your desired thickness. Simply said, the deli of the past is not the deli of the future, where today, terms like quarter pound, half pound, paper thin, extra thick are joined by words like charcuterie, artisanal, crafted and millennials. So now you know what the deli of today looks like. And you also know why this sizable high-growth category is so attractive and appealing. But none of this matters if there isn’t a how. And for us that how is the recent acquisition of Columbus Craft Meats that positions Hormel to compete and win in the deli of the future.

For those of you, who aren’t as familiar with Columbus Craft Meats, allow me to formally introduce you to this great company that delivers premium products, premium growth and premium margins. And I’d like to share a short video that highlights this amazing heritage and success.

[Video Presentation] (00:32:08-00:33:44)

So I think you can see why we’re so excited to have Columbus as the newest member of the Hormel family. Because, to compete and win in the deli, you need to have a wide array of high-quality product offerings being marketed and sold by a direct sales organization that has experience, expertise and relationships that can capitalize on having meaningful scale to provide a package of total deli solutions.

Hormel Foods is well positioned to compete and win. And it starts with the products. Hormel Foods has always had a strong product representation in many of the deli segments, but the acquisition of Columbus really helped us close some of those gaps with items like charcuterie trays and high quality artisanal meats. Additionally, our unmatched array of deli solutions far outpaces any of the competitors in this space and they simply cannot match the breadth or depth of our solutions.

Now, we’ve had strong behind-the-glass expertise with brands like Jennie-O and Di Lusso Deli. We are the turkey experts at Jennie-O, the ham experts at Hormel. And now, we are the dry sausage experts with the addition of Columbus. The addition of our Applegate brand now affords us the opportunity to offer the leading natural and organic brand as well.

We also bring innovation to the fast growing grab-and-go section with our party tray gatherings and culinary pairings, while the addition of Columbus allows us to add authentic items like Columbus Paninos and Salame. As you can imagine, we have a very long runway for growth with high-quality signature offerings. And no one provides foodservice solutions like Hormel does and we are incredibly well-positioned to deliver our host of
branded solutions to prepared foods and in-store restaurants. Great food service brands like Austin Blues, Café H and now Fontanini are perfect solutions as retailers search for high-quality signature offerings.

And when you put it all together, we now bring unmatched knowledge in both deli and foodservice. Expertise in bringing solution-based selling and game changing innovation, while leveraging incredibly powerful brands to this high growth area, Hormel, Hormel Foodservice, Jennie-O, Applegate and now Columbus, truly a dream team of brands. And we are supporting this initiative by putting one of our best performers in charge of this new deli division.

Last week, we named Jeff Baker as the Group Vice President of Deli, a newly created role. This role will consolidate all deli sales into one highly focused division reporting into Refrigerated Foods. Jeff most recently led our highly successful foodservice business and he also has deep retail deli experience. He will be able to leverage our foodservice strategy as he understands how to manage and motivate a direct sales organization and provide thought leadership, solution-based selling and industry changing innovations to the marketplace.

I said we had a large deli business before acquiring Columbus, but the Columbus acquisition dramatically increases our points of distribution that can be leveraged against a much broader portfolio. Columbus also boosts our presence out West where we are traditionally weaker with our current Hormel brands. We believe we have a very long runway as we start to help Columbus migrate East successfully. Columbus brings an excellent direct sales force that is a perfect complement to our current sales team and will allow us to deliver our solutions based selling model to any major retail channel. Combined, our new deli group will be almost $1 billion in sales, which gives us meaningful scale.

So, Hormel is poised to take full advantage and win in this high growth on-trend deli of the future and this is the next growth engine for Hormel Foods. We're positioned to be the new leader in the deli with approximately $1 billion in sales, aggressive growth expectations that are in line with category growth and our corporate growth goals and margins will be accretive over time.

Now, the good news and [ph] Janet (00:39:38) mentioned it upfront, we brought some of the great Columbus products today and they're being served by some of the great team members from Columbus. And we hope that you will be able to enjoy some of the premium craft meats and charcuterie on your way out of our session.

So, to recap three key messages for today; strong first quarter earnings and increased guidance for fiscal year 2018; tax reform does provide additional funds to invest in our business; and third, our new deli group will be the company's next growth engine.

I want to thank you for your time this afternoon, and with our remaining time, Jim and Nathan and I would be happy to take any questions that you may have.
Thank you. Just wondering if you could give a little more color, you touched on this a little bit, but with the tax reform savings, it looks like if you take the midpoint of the prior tax rate range and the new one, that's maybe around a $0.33 lift, does that seem about right? And could you give us a sense of how it breaks down in broad strokes at least some of the discretionary items versus maybe some freight headwinds? And then a little bit related to that, could you just touch on what some of your options are for how you're thinking about offsets on the freight side, is it just pricing, is there some flexibility in how you think about that and what kind of trajectory should we expect on how that might play out?

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

I'm sorry, I missed the last part.

Just in terms of the freight pressure, what are some of your ways to handle that and how long would it take to see some of those come through?

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

Okay, great. So I think the first part in terms of the gap perhaps that you're talking about for the tax benefit as you think about it probably the best way would say that about half of that could be allocated to the headwinds at Jennie-O Turkey Store and freight. And then the other half really would be allocated to some of the additional investments that we described. I think the one thing that we want to be clear about and we said it in our presentation, but I think it's a very important piece, in this idea of taking an invest-and-grow approach versus a protect-and-defend approach, I mean, we are making some investments this year that we would not have otherwise made. And so, it's giving us that opportunity to do that. But that's really how you should think about probably the – perhaps the gap.

On the freight side, we talked about having this cooperation or collaboration with our customers, so that we can reach mutually agreed upon solutions that are sustainable. We know there's a school of thought out there that says it's all going through to the consumer. We believe that we can work with our customers, whether it's how we're filling trucks, the routes that we're doing, the number of shipments that we can work hard to potentially offset that. Those conversations are taking place right now. But we – I mean, we don't have a timeline for when that's going to happen. And the other part of it is I mean, we're not opposed to passing along those freight costs, but before we get there, we certainly want to have those conversations to see if there's another way to reach a more sustainable solution.
Thank you.

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

Yeah.

Nathan P. Annis  
Director-Investor Relations, Hormel Foods Corp.

Rupesh?

Rupesh Parikh  
Analyst, Oppenheimer & Co., Inc.

Thanks for taking my question. So, on the Jennie-O segment, I was wondering how you guys were thinking about the outlook for the balance of the year for Jennie-O? And then as you look I guess post this year, when do you expect to return to potentially positive trends within that segment?

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

Do you have the breakdown, Nathan, the breakdown, when it'd be more positive for the back half of the year, when it'll be comp positive?

Nathan P. Annis  
Director-Investor Relations, Hormel Foods Corp.

I need to follow up on that.

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

Yeah. Nathan will follow-up on that. But I think for us, obviously this recovery has been slower than we expected. We had taken a pretty aggressive approach in how we were forecasting the whole bird market, and it's been below even what we expected. And so that's really been the key driver for the balance of the year. And we're seeing some moderation in value added pieces of business, and now we've got to work through this whole bird piece. You know, Jim's charts did a great job of identifying really the still continued volatility in poult placements, we haven't seen the sustained declines and then also really still the elevated cold storage supply, and we said those are really the two key variables that are going to get us out sooner and faster.

Nathan P. Annis  
Director-Investor Relations, Hormel Foods Corp.

Ken?

Ken Zaslows  
Analyst, BMO Capital Markets (United States)

[ph] I have (00:44:40) two questions. With the investments, the recovery in turkey and cost savings, when will you return to your growth algorithm and what would prevent you from achieving that in 2019? My second question is,
can you frame the magnitude of savings in terms of order of magnitude where we’re seeing it from? Those would be my two questions.

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

Yeah. So, I mean, I think as we think about 2019, obviously it's early in the process, but the way we're thinking about it is, is we would expect recovery with Jennie-O Turkey Store. We really like what we've done with the Refrigerated Foods portfolio with the addition of Fontanini for foodservice, what we described to you today as the next growth engine for Columbus. Our International business is going to continue to move right along. We feel good about what's happening in China, the addition of Ceratti. And Grocery Products quite frankly is rock solid right now. So that core legacy portfolio those pockets of growth are doing well. We saw improved performance from Muscle Milk. And so, we believe that that growth algorithm is still a very achievable number. And from a cost perspective – I mean a lot of what we've been doing is what Jim describes as strategic cost management. And Jim if you want to?

James N. Sheehan
Senior Vice President & Chief Financial Officer, Hormel Foods Corp.

Yeah. I think one of the things to look at is the integration of the supply chain. If you think about running four separate supply chains that’ll go into one supply chain, if you think about everything from logistics and warehousing and manufacturing, so that manufacturing plants become more available to the broad line of products that probably provides us with the largest amount of opportunity for savings.

We'll pick up the smaller savings along the way. I think the integration of deli will provide great savings and synergies. Again as you take three or four different groups that are trying to do things separately and you bring them into one, we've seen that savings by being very centralized in the back office. And I think as we put that into the supply chain you're going to see some big benefits.

Ken Zaslow
Analyst, BMO Capital Markets (United States)

Would you be able to frame the number, are we talking about a $100 million, $200 million or $300 million, what are we talking about?

James N. Sheehan
Senior Vice President & Chief Financial Officer, Hormel Foods Corp.

We're working on that right now. The big issue is, is everybody has their own ideas about savings. And very honestly if I would have taken everybody's savings number that they originally gave me, it'll probably be a couple-of-billion-dollars because everybody thinks they're going to save a lot of money. So we're going through and we're really drilling down on those. So what's going to get the bottom line? Our example that we view ((00:47:30) you can have purchasing come in and say we've saved 5% on those packaging, but have cost on other packaging have gone up, we're coming back and saving no. You've held your packaging costs. The other thing is how much we retain is a big issue for us. You can come up with a savings number, but unless you repaid it, delivered to the bottom line, it's really not that – it's not benefiting the shareholders. So we're working hard to come up with a number, we're getting much closer.

Nathan P. Annis
Director-Investor Relations, Hormel Foods Corp.

Akshay?
Akshay Jagdale
Analyst, Jefferies LLC

Thanks for the question. I just wanted to ask somewhat of a follow up to what Ken was talking about. But over the long-term, so I'm just really looking for your perspective here, because this year is unusual from a growth perspective, right. If you take out the tax, positive impact, this is going to be one in – I don't know 30 years. You said this is going to be the third year where your earnings might be down, right. So, you're making a strategic investment, right, in terms of brand building and other capabilities. It seems like a great move long-term, but how do you delineate between sort of commodity moves that are sort of transitory that you might be dealing with on turkey and on pork versus sort of the strength of your brands and portfolio long-term? So why do you have confidence, is really the question, why do you have confidence that you're going to get good long-term returns on these investments when you're in a sort of "transition year?"

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

Yeah. I mean I think you know specifically if you want to talk about turkey, I mean we're probably the only company in that turkey space that really is advertising and supporting the brand and promoting the category, and we know that that's important to us, because we don't want to be – if we're not doing that, we run the risk of becoming just a commoditized company. And so, we believe that communicating the benefit of the brand and the value-added products is incredibly important. And so we're going to be back out in front. Several years ago, we ran the Make The Switch campaign, we did it again two years ago. Last year as we got into the heat of the battle, we made some different decisions in terms of reallocating funds. We don't think it's a wise move to be off-air or away from consumers for more than one year. So we're going to make sure that investment is front and center this year.

And we have that mentality across all of our brands, we've got 35 brands that are number one or number two, and when we start talking about these pockets of growth that we've identified and we've been able to capitalize on, a lot of it is because we are great brand builders, we are great innovators and so we need to be able to continue to support that over the long-term.

Unverified Participant

And I think with that, we'll move the rest of the Q&A to the breakout. Please join me again in thanking Hormel for the Columbus tasting. And just as a reminder, please take all of your personal belongings as this room will be locked and they'll be in the office if you do leave anything.