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MANAGEMENT DISCUSSION SECTION

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All right. Good afternoon. Welcome back. Just wanted to introduce Hormel Foods; global branded food company; over $9.5 billion annual revenues across 75 countries worldwide; its brands includes Skippy, SPAM, very well-known Hormel Natural Choice, Applegate, Justin's, Wholly Guacamole, Columbus Craft Meats, as well as Hormel Black Label. Over 30 brands very well-known in the U.S. and worldwide.

In 2016, the company actually celebrated its 125th Anniversary, announced a new vision for the future, it's called Inspired People. Inspired Food. Which is focusing on its legacy of innovation and – well, in order to talk about that, joining us today, Jim Snee, Chairman of the board as well as President and CEO; and Jim Sheehan, Senior Vice President and CFO for Hormel.

Jim Snee, he is actually the 10th President and Chief Executive Officer in the company's 126-year history. He joined Hormel back in 1989 in the meat products division. Jim was having multiple roles in the foodservice division, followed by being named Director of Corporate Purchasing in 2006, and then Vice President of Affiliated Business Units in 2008. In 2011, advanced to leader of Hormel Foods International, overseeing the company's growing global portfolio. And finally, he was named President and Chief Operating Officer in October 2015 to become CEO in October of 2016, and Chairman of the board then in October 2017. It's always October, Jim.

Now, Jim Sheehan, CFO for Hormel, he oversees all the financial areas, including accounting, information technology, audits, investor relations and treasury. He actually began his career just about 40 years ago in 1978 as an accountant at the Freemont Plant. He had various positions in finance, accounting throughout his career. In 1998, he became the President of the Financial Services and he later became as a Treasurer. He advanced to Vice President and Controller in 2000, and he was named Chief Accounting Officer in 2016, and assumed his current role in October of 2016.

So with that, I'll hand it over to Jim. Thank you very much.

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

Ben, thank you. And, thanks, Ben. Good afternoon, everyone. Thanks for spending some time with us this afternoon to talk through the Hormel Foods growth story.
As we get started, as you expect, we're going to be making some forward-looking statements, and so I'd just guide you to our most recent 10-Q for any additional questions that you may have.

So as we get started, I think it's important to level set everybody in who is Hormel Foods. And in our most recently completed fiscal year which was 2017, we're just over $9 billion organization that's located in Austin, Minnesota, which is about 100 miles south of Minneapolis, down towards the Iowa border.

We are ranked number 16 on the list of 100 Best Corporate Citizens. And this is really a true testament to our employees and to their commitment to making our organization and this world a better place. And we're proud of the fact that we are also ranked number eight in the Most Admired Food Companies by Fortune magazine. So we take a lot of pride in the fact that we're being recognized as a company that is highly regarded for both social responsibility, but also financial responsibility, as we have also delivered earnings growth 28 out of the last 32 years, and also the fact that we've been able to deliver 52 consecutive years of dividend increases. So that's who we are.

Next is the – what we are. And what we are, well, we're not just a protein company, we're not a commodity company and we are not an ag company. We are a global branded food company and we operate in four very unique and distinct channels. Now, our U.S. retail business makes up just over half of our sales and has some incredibly well-known brands like SPAM, Black Label bacon, Skippy peanut butter and Hormel pepperoni. Our U.S. foodservice business is just shy of one-third of our overall company. And although some of these brands may not be as recognizable on the consumer front, these are all either internally developed or acquired brands that are very well recognized in the foodservice industry.

Our deli business now represents almost 10% of our overall business after the most recent and largest acquisition of the Columbus Craft Meats organization. And our international presence is the smallest portion of the overall company. But it is the business that we believe has the most runway for growth. And I will tell you that all four of these channels are growing and contributing to the overall organization.

Now, Ben started to touch on this, but we have an incredibly strong branded presence across the food space. We have brands that have a number one or number two share in over 35 categories. Brands that have a number one or number two share in over 35 categories. And as you think about the footprint of our retail outlets, there aren't too many places where you don't encounter a product or a brand that's owned by Hormel Foods. And this success is guided by a clearly articulated strategy for continued long-term growth that starts with a very simple formula and that's what we call our formula for success.

First, we know how important it is to build brands and we believe that nobody does it like Hormel Foods. We know that it's both an art and a science. And our brand-building teams have developed many iconic brands over the years that continue to allow us to be brand leaders in so many categories.

Next, we have a relentless focus on innovation. Our focus on innovation across all of our channels started 127 years ago, and it is as strong today as it's ever been. And we also place a strong priority on strategic acquisitions. And we focus on acquisitions that are multicultural to meet the changing demographics of today's consumer on the go, because none of us are getting any more time in the day. Healthy and holistic as consumers want more choice and transparency than ever before and those that can really expand our global presence. And we also want to do this with the right amount of balance to make sure that we have natural hedges or natural offsets built throughout our business.
So a great example of a brand that we internally built is Hormel Natural Choice and we launched the Natural Choice brand in 2006 in both retail and foodservice channels to be a better-for-you alternative to traditional lunchmeat that's made with no preservatives.

Now, we continue to see impressive growth in foodservice and the core lunchmeat portfolio, but what's even more impressive is that we've used this brand as a springboard to help us expand into other categories such as bacon and pepperoni, both of which are growing at a nice clip. But we've also used it as that springboard for innovation. We've developed many new innovative items for snacking that include Natural Choice snacks, Natural Choice stacks, Natural Choice wraps and most recently Natural Choice lunch kits, all of these innovations have enjoyed early success. And to support this brand, we have made significant advertising and marketing investments, and I'd like to share some of the great work that our team has done.

[Video Presentation] (00:09:42-00:10:11)

So Natural Choice has been a great staple item in our portfolio. Everyone likes to talk about emerging, faster growing brands and to be honest we're no different when we tout brands like Wholly Guacamole, Herdez, Jennie-O, Justin's and Applegate. But where we are very different is that, we also love to talk about some of our well-established brands, those well-established brands that are showing growth. Brands like Black Label bacon and Gatherings party trays have been growing retail sales at a 5% clip over the last three years. Center store brands like Dinty Moore, SPAM, Hormel chili and Mary Kitchen hash are also growing in the center of the store. Clearly, a proof that at Hormel Foods, we know how to nurture and grow established brands.

Let me give you several examples. SPAM, an 81-year-old brand that has been growing almost uninterrupted since we introduced it. In fact, this year will represent another year of record sales around the world. Hormel chili, another longstanding brand that we continue to grow. Like SPAM, we hold a commanding share of the chili market and intend to keep investing and growing this brand. And finally, Dinty Moore. This brand has been around for decades and is also exhibiting strong growth over the last few years.

And so the question everyone asks when we talk about our established brand growth in center of the store is how do we do it? But before I show you the video I want to tell you a little bit about this case study. After a decade without investment, Dinty Moore stew had lost significant sales and relevance with both its core target and retailers. So we went to work to change that by leveraging insights from the blue collar working culture, but also taking advantage of a pop culture fashion trend, the brand reclaimed recognition as a real working person's meal. We successfully brought back lapsed users and reversed 10-year declines with an 18% increase in volume, 16% increase in household penetration and all of this was accomplished with a budget of just $1 million and I'd like to share their videos so that we can take a deeper look.

[Video Presentation] (00:13:21-00:15:26)

So a great success story, really talking again about how we're able to nurture and grow established brands in their center of the store. Perhaps though what Hormel Foods is most well-known for is our incredible focus on innovation. We are industry leaders in innovation, generating countless firsts since we were founded by George Hormel in 1891. And there aren't too many places in our corporate office or any of our offices for that matter that you won't hear or see this quote that is directly attributed to George A. Hormel, Originate. Don't Imitate.

You see some of our strong brands here, but what you may not be aware of is all the other technology, packaging and process and product innovation that we've introduced. So we were the first to use pillow pack technology delivering our pepperoni to consumers in a consumer-friendly retail package. We were the first to use high-
pressure pasteurization on lunchmeat, a technology designed to eliminate the use of preservatives in lunchmeat. And we were also the first to develop and mass market cancer specific nutritional offerings under the Vital Cuisine brand and these are just a few of the firsts that we have developed in our industry.

And not only have we delivered industry firsts, we have been awarded industry bests, Natural Choice snacks and Applegate's Natural (sic) [Applegate Naturals] jalapeno and cheddar sausage were selected as Progressive Grocer Picks for best new items in 2017. And we also received back-to-back awards from the Grocery Manufacturers Association for our Skippy P.B. Bites and Herdez Guacamole Salsa.

Now these awards are an indication that our innovation efforts are aligned with the needs of consumers and our retail customers. And this type of recognition doesn't happen on accident. It is the result of a lot of great work by our team.

When we talk about innovation, no brand has been more successful than Skippy at delivering new innovative items to the marketplace. Since we bought the Skippy brand in 2013, we have increased points of distribution by 30%, driven both by our traditional peanut butter business and innovation.

Now, our innovation efforts started with Skippy P.B. Bites, a handheld portable peanut butter snack and we recently extended our offerings into Skippy P.B. Fruit Bites and our newest item that's in the process of being launched right now Skippy P.B. and Jelly Minis. P.B. and Jelly Minis are bite-sized and [ph] rolled (18:55) peanut butter and jelly snacks for busy and hungry kids. And I will tell you they're also really good for adults.

And we have increased advertising support over the past few years, most recently with our campaign Be Smooth Like Skippy, paying homage to Bruno Mars Uptown Funk with a boy that is just as smooth if not smoother than a fresh jar of Skippy. Let's take a look.

[Video Presentation] (00:19:31-00:20:00)

And of course we don't just innovate in the retail channel. In fact, many of our company's best innovations have come out of our foodservice group. In 2013, our Hormel foodservice group launched the highly successful Fire Braised meat line of products. These items are flame-seared and then slow braised to deliver a high-quality unique product that saves time and labor, while giving chefs the versatility to create their own inspired dishes. In the last two years, this product line has been growing at approximately 30%. And then in 2014, the foodservice group followed up the Fire Braised launch with an even more successful lunch, Hormel Bacon 1. Hormel Bacon 1 featuring a proprietary cooking process that took our R&D group seven years to perfect is the first perfectly cooked, pre-cooked bacon, and we love to talk about Bacon 1, and rightly so as it has been growing over 60% over the last two years. So brand building, innovation.

And now let's talk about acquisitions. We've been very busy over the last 15 months. And while it's still early, I'm happy to report that Fontanini, Ceratti, and the Columbus acquisitions are all meeting our expectations. Since 1960, the Fontanini family has done a wonderful job growing their authentic branded line of Italian meat and sausage items. And Fontanini enhances our branded pizza toppings business, and will be fully integrated into our Hormel foodservice business starting in fiscal 2019.

As our first entry into South America, Ceratti is an authentic, branded meats business located in Brazil. We have a great brand with great products, and most importantly a great professional management team in country, working to grow that business.
And then Columbus, our most recent and largest acquisition in our company's history. Columbus is an iconic brand with 100 years of heritage and is differentiated by its high-quality ingredients, old-world artisan preparation and superior taste. The acquisition of Columbus Craft Meats puts us squarely in the sweet spot for where today's consumers are shopping. With Columbus, 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 known as the deli. Hormel, Hormel foodservice, Jennie-O, Applegate, and now Columbus, truly a dream team of brands for any deli operator.

In our approach of building strong brands, driving innovation and making strategic acquisitions has allowed us to create a balanced portfolio of products that resonates with consumers of all ages. And while many of our established brands have been well represented in shopping carts for years, some of our newer, emerging brands are squarely on trend with millennial and Gen X consumers. This broad and balanced portfolio of brands is another key to our long-term sustained growth.

And we've been able to show earnings growth 28 out of the last 32 years. And we're proud of this because you can see that these kinds of results have only been achieved by seven companies in the S&P 500. In our third quarter earnings commentary two weeks ago, we talked about our full-year 2018 guidance and when delivered, we will have achieved earnings growth 29 out of 33 years, a record that we are incredibly proud of. And to deliver these consistent results, we continue to execute on our long-term growth strategy or as what we refer to as our path forward. These are the things that we have to get done to keep our company on track, vibrant and relevant. And we've made tremendous progress since we introduced our path forward at our Investor Day in 2017.

Now, the first thing that we have to do is continue to evolve our portfolio to become a broader food company. And as I've said, we are deeply rooted in the protein space with both pork and turkey and we also have beef and chicken offerings and we truly love the protein part of our business. But if you think about it, just six short years ago, we weren't even talking about or thinking about non-meat protein. Now, we've acquired Skippy peanut butter, we've acquired Justin's nut butters, we've acquired Muscle Milk in the sports nutrition category. In all, we have acquired some great non-meat protein items that have really rounded out our portfolio.

We've also developed a position in the area of flavor enhancers. Through our MegaMex joint venture, we've achieved strong organic and innovative growth with products like Herdez Guacamole Salsa and the rest of our authentic line of Herdez items. I think everybody knows how on trend avocados and guacamole have become. And of course, we're squarely in that space through our acquisition of Wholly Guacamole.

So for us, it's really about rounding out our business in the protein space, rounding out the business in the non-meat protein and flavor enhancers that will allow us to continue to evolve to become a broader food company.

And our foodservice business across the organization is about one-third as I mentioned earlier and it's an area where we believe that we are truly differentiated and have a significant core competency. We want to put our foot on the gas to expand and accelerate the great work that we've been able to do in our foodservice business. This business consistently outperforms the overall foodservice industry in terms of growth rates and we do it because we're front and center with foodservice operators.

We're helping operators deal with the issues that they face – issues around labor, convenience, flavors and healthy offerings and we want to become a more global food company. Today, it represents about 7% of our sales as an organization. And we have the opportunity to expand in China. We've been there for over 20 years now and most recently, we completed a new plant in Jiaxing, which is southwest of Shanghai. We've more than
doubled the capacity available to produce and sell refrigerated and frozen items to the foodservice and retail channels.

And for the first time ever, we have a SPAM production line outside the United States in that Jiaxing facility. And we’re also interested in expanding our footprint geographically similar to last year’s acquisition of Ceratti in Brazil. And we do want to reduce volatility and increase balance. And you saw that earlier in our formula for success. We want a healthy balance between branded refrigerated protein and branded packaged foods. We want to increase our international presence to better offset our domestic business and we want to maintain a laser like focus on shifting our mix to continued growth in our value-added products. And that leaves us less exposed to commodity dynamics while expanding our portfolio of raw materials.

Now, the recent announcement to sell our Fremont plant to WholeStone Farms supports this effort to decrease our exposure to commodity dynamics. And to help you understand the strategic rationale for the sale, I think it’s helpful to look at our pork supply chain. So before the transaction, we had two sources of pork raw materials, externally purchased pork and hogs that were processed into pork raw materials. This raw material was then used in branded value-added products and if necessary, commodity sales.

Now, after the sale of the Fremont facility, we will have three sources of raw materials – pork procured externally; hogs purchased for our Austin, Minnesota processing facility; and pork that is contractually supplied through WholeStone Farms. We believe this strategy fits our needs into the future and most importantly, right sizes our pork supply chain.

And we’ve done a lot of work recently on modernizing our supply chain. Our supply chain is complex as you would imagine with more than 30 production facilities, a broad co-packer network, more than 10,000 supply items that create more than 10,000 SKUs. And so we know that it’s time for us to simplify and modernize and optimize and perhaps even rationalize within our supply chain. And our team is well down the path with this initiative creating the structure and processes that we need to have so that we can get a more holistic view across our entire supply chain and there will be more to come on this in the months ahead.

And as we stated on our third quarter conference call, we expect to remain on track with our previous earnings guidance of $1.81 to $1.95 per share and we are continuing to execute on our strategic initiatives while continuing to invest in growth.

And as we look to 2019, our early read suggests four distinct priorities. First, we expect to continue to see value-added growth across all of our businesses with accelerated growth for brands such as Bacon 1, Herdez, and Wholly Guacamole, as well as our recent acquisitions. Second, we’ll have our unified deli division fully up and running with experienced leadership and a new direct sales force. Third, we’ll continue to deliver innovation to the marketplace at a faster cadence than ever before. Retail innovations like Skippy P.B. and Jelly Minis and Natural Choice snacks are expected to make meaningful contributions to our results. And lastly, we expect our one supply chain to continue to add value to the organization with focus on insourcing production, asset utilization, automation and capturing cost savings.

Our long-term strategy is sound and it will continue to deliver the growth that we expect. And we look forward to discussing 2019 in more detail on our conference call in November.

And finally, I am very confident in our team around the globe that manages our leading position as a global branded food company with an unmatched portfolio of brands that will continue to win in the marketplace and deliver growth well into the future.
Well, at this point, I'm going to turn the presentation over to Jim Sheehan, our Chief Financial Officer to discuss our strategies for driving long-term shareholder value.

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

Thank you, Jim. Good afternoon, everyone. Hormel's highest priority is shareholder return. Our shares have delivered a greater than 15% continuous annual return since 2008. We've achieved this through disciplined capital allocation and strategic investments, while maintaining a strong balance sheet.

As the company grows, I am confident we will continue to deliver outstanding shareholder return and outperform our packaged food peers and S&P 500. Prior to our third quarter earnings call, we announced the sale of our Fremont Plant. This sale is a result of a multi-year assessment of the pork industry as well as a detailed review of the capital required to modernize the facility. We concluded that running Fremont as a single shift operation was not a viable option. We would either have to spend the capital to modernize the plant, find a supply partner, or close the facility.

The sale of Freemont allows us to do a number of things. First this transaction allows us to secure a long-term source of raw material at market prices. Second, the deal reduces the number of hogs we purchase and related exposure to the volatility in hog markets. Finally, the sale of the plant allows us to avoid significant capital to modernize the facility. For example, we invested $80 million in our Austin facility; a similar investment would be required for Fremont along with the additional investments to double shift the facility. We will receive $30 million for the plant and expect to incur $15 million to $20 million worth of expenses in fiscal 2019. These expenses include the cost to move value-added equipment out of the facility and various pension-related expenses.

Since 2013, we have generated $5.3 billion in cash allowing us to make disciplined investments while returning cash to shareholders. Over the same timeframe, we have invested over $1 billion in CapEx with numerous high-quality and strategic investments to grow our value-added businesses. This includes a new state-of-the-art plant in China and increased Bacon 1 capacity at our Dold facility in Kansas.

We have also invested $3.6 billion on acquisitions. All of these acquisitions are in high-growth spaces. We are pleased with the overall success of our acquisitions. We are focused on delivering value to our shareholders through dividends. We will maintain our Dividend Aristocrat membership. Given our unique ownership structure, we share repurchase to primarily offset stock option dilution and based on our internal valuation. These sound investments continue to provide high return on invested capital. Our high return on invested capital demonstrates our ability to deliver shareholder return. We expect our returns to be in the top quartile of our peer group.

Our brand-building, direct sales force, focus on innovation and incredibly strong culture helps us deliver these strong financial results. Our cash flow performance is impressive, [ph] attaining (38:10) an annual growth rate of 16%. With just over $720 million of debt, we remain in a very strong financial position to make any investment required to continue this growth trajectory. Our current balance sheet provides us the ability to borrow the cash necessary for future acquisitions and major capital investments. We will use this capital in a disciplined manner, focus on growth and shareholder return. We are committed to maintaining our investment grade rating.

We are proud of our history of returning cash to our shareholders. We have paid quarterly dividends for 90 consecutive years and increased the dividends for 52 consecutive years. Dividend growth is non-negotiable. We will continue to increase our dividends.
In closing, Hormel Foods will continue to be a long-term growth story. We have the leadership, clear strategy and financial resources to meet our strategic goals, provide long-term growth and deliver industry-leading shareholder return. Thank you.