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Hormel Foods Corp. (HRL)

Investor Day
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MANAGEMENT DISCUSSION SECTION

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

[Abrupt Start]

...2019 Hormel Foods Investor Day. We have a great lineup of speakers today. But I have a few items to cover before we get started. On your table you'll find a card with the New York Stock Exchange Wi-Fi username and password. We also have an Investor Day website where you can find all of the presentations for today. Just go to investorday.hormelfoods.com and we do not have any printed presentations today.

If you have any questions throughout the day, you can feel free to track myself down or David Dahlstrom, who'll be walking around today and then also you can go to the registration desk. We have a full agenda for this morning. The day will be divided into two sets of presentations with a break in the middle. So we've set aside almost an hour for question-and-answers for today throughout three different sessions and we ask that you hold all your questions until the Q&A session.

I'll moderate the Q&A throughout the day, but please keep in mind we are video casting the presentations. So if you have a question to ask, please raise your hand and we'll come around with a microphone. And please state your name for the benefit of those on the webcast.

Our first set of speakers will be Jim Snee, Tom Day, Luis Marconi and Deanna Brady. Following their presentations, we'll call them back onto the stage along with Jeff Baker and Mark Ourada to answer your questions related to their business.

Our second set of speakers will be Steve Lykken, Glenn Leitch and Jim Splinter. Following their presentations, we'll call them back onto the stage along with Larry Vorpahl to answer the questions related to their business. And then our final speaker will be Jim Sheehan followed by a longer Q&A session with Jim Snee and Jim Sheehan. And finally Jim Snee will wrap up the day with a closing presentation.

Since we are a global branded food company, we won't let you leave without an excellent lunch. Our own Chef, Tony Finnestad will spend a few minutes at the end of the day describing the lunch that we've prepared for you.

As you probably expect we'll be sharing some forward-looking statements and those may differ from actual results. You can see a detailed list of our risk factors in our recently filed 10-Q available at hormelfoods.com under the Investor site.

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

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

So how's that for a wakeup call, right? Well, good morning. Thank you for joining us. It's absolutely our pleasure to have you with us this morning. You know it's been two plus years since we were last here at the New York Stock Exchange for our 2017 Investor Day and as many of you know, we have been incredibly busy since that time because Hormel Foods is on an exciting and bold path forward. So today, we'll highlight some of the great
work that we've done over the last two plus years, but the majority of our time will be spent demonstrating our ability to deliver sustainable long-term growth. So let's get started.

You know the make-up of our global branded food company continues to evolve. Refrigerated and ambient or a center of the store retail business continues to represent over 50% of our company. Our domestic foodservice business continues to outpace the industry and is closing in on almost a third of our company. With the acquisition of Columbus Craft Meats and the creation of our newest growth engine Deli, that now represents 10% of our company and while International remains the smallest part of our business at only 7%; we still believe that represents a long-term opportunity for us. And today you'll be hearing from these world-class leaders who run these businesses.

This leadership team has an average of 30 years of experience with our company. 30 years of experience not in the industry but with our company. And what you will hear from them is how we are building a global branded food company with the ability to deliver sustainable long-term growth. You will learn that we truly are an uncommon company. We will show you how we have improved the quality of our earnings. We'll show you our clear strategy for growth and finally, you'll hear about how we are advancing our business forward as a global branded food company and hopefully, you all enjoy the breakfast and as you would expect, we'll continue to feed you plenty of our amazing food throughout the day.

So let's start, Hormel Foods, an uncommon company and we really are uncommon in so many ways. Uncommon in our longevity, founded in 1891, 128-year-old independent food company. Uncommon in that we've provided 81 years of profit sharing for our employees, and uncommon in that our largest shareholder is the Hormel Foundation, who owns 48% of our common stock. And our vision, our vision is simple. Inspired people, inspired food. 20,000 inspired team members creating inspired food that's our vision. But our purpose, our food journey, our food journey is more than just our business, right. It's not just about the food we make, but the difference we can make in the world. It's our responsibility, our obligation to be a great employer, to be a great partner, to be a great neighbor. And I'd like you to take a closer look at this food journey we're on.

[Video Presentation] (00:10:33-00:12:35)

And so this journey starts with our 20,000 inspired people. None of the success that we've had over a 128 years happens without these people and we are incredibly proud of the fact that we have been named as one of Forbes magazine World's Best Employers for a third consecutive year. We have a diverse experienced workforce across the company and we will continue to develop this very important area. In 2018, we granted universal stock options to every team member to provide them the opportunity to become shareholders to become owners of this amazing company. And we invest in our people because it's the right thing to do. And improving communities, we understand that we have a responsibility, we have an obligation to the communities where we live and work. It's not just a financial responsibility, it's a social responsibility. And our ability to achieve, to deliver on these sustainability goals makes our communities better.

Last week we announced that we've achieved the 10% reduction in non-renewable energies. This early achievement marks another milestone in our path to these 2020 goals. But we know there is more we can do and we know that our work is not done.

And then at the core what we do is creating products, creating food that improves the lives of customers, consumers and operators. And we have a vast portfolio that meets consumers where they are in their needs state. It ranges from products that help patients who can't swallow because of a condition called dysphagia. All
the way to helping foodservice operators who are struggling to find the labor that they need to keep their business going, or perhaps just a parent wanting to feed their children, great tasting and nutritious SKIPPY Peanut Butter.

This product portfolio, this product reach is both broad and deep and so this food journey is possible because of the uncommon ownership that we have. The uncommon ownership structure that supports our long-term perspective. I mentioned earlier that at 48%, the Hormel Foundation is our larger shareholder. And they have three very well-defined goals.

The first to preserve the independence of our company; second, to support the community of Austin, Minnesota and third to provide for the financial welfare of the Hormel family heirs. Probably the greatest gift we ever received from the Hormel family is the Hormel Foundation. So Hormel Foods, a very uncommon company. And an uncommon company also and that we've been able to clearly execute on the strategies that we put forth. When we were here at New York Stock Exchange for our 2017 Investor Day, where we laid out our path forward. And I'm very pleased to report that we've made excellent progress on all six initiatives. We've made acquisitions like Columbus and Ceratti to become a broader more global food company.

We've innovated, acquired and made significant value-added capital investments as we continue to expand and accelerate our foodservice business. And we've divested some non-strategic businesses to improve the quality of our earnings and reduce volatility. And we've also taken on some significant internal reorganization in order to create our one supply chain. And these intentional and strategic actions that we took as part of this path forward have led to improved quality of earnings for our company. We have reduced our exposure to volatility from commodity profits. We have reshaped our portfolio through divestitures and acquisitions that will lead to higher growth and less earnings volatility. And finally, we have made continued progress growing profits for our branded value-added businesses.

So, let's take a closer look at all three of those. First, how we've reduced our exposure to commodity profits. As you look at the commodity elements of our business, we've taken intentional actions to reduce the exposure. In 2015, commodity profits represented 17% of our segment profit – 17% of our segment profit – and on a year-to-date basis in 2019 just 5%. Our actions include divesting Farmer John and the Fremont plant, in addition to the relentless quest to convert commodity sales to value-added sales. And we've also seen drastic market-driven decreases in our commodity business with Jennie-O Turkey Store, Refrigerated Foods and International. And as I said, we've reshaped our portfolio. Again, we've taken intentional actions to reshape our portfolio for higher growth and less earnings volatility.

Since 2015, we have divested $1.1 billion in sales at margins below 10%. During that same time, ironically, we have acquired $1.1 billion in brands across all parts of our business with better growth rates and margins that are above 10%.

And the third point, our ability to deliver branded value-added process. Despite that the client and commodity profits, the tremendous amount of work by each team to divest and acquire over 10 businesses since 2015, we have been able to maintain our focus and grow our value-added profits by over 4%, and that's in spite of some of our recent challenges in our Jennie-O lean ground turkey business, really quite an accomplishment.

And this growth has been led by our foodservice business, which consistently outpaces industry growth by 2 times to 3 times. And we've also seen tremendous growth in numerous retail brands. Brands like, I'm going to say it, SPAM, on track for a fifth consecutive record year of sales growth, Hormel pepperoni, Herdez, the most authentic Mexican brand in the marketplace. And we have delivered industry-leading innovations such as Hormel
Bacon 1, Hormel Fire-Braised meats, Herdez guacamole salsa, just to name a few. And you'll hear many more throughout the day.

So we are an uncommon company who has executed on our strategies and now it's important for you to see how we are positioned to win in the food industry. And the food industry is undergoing unprecedented change at a rate that we've never seen; whether it's demographic shifts, blurring channels, the need for personalization, right; the ongoing craving for a globally inspired flavors. It really doesn't matter because Hormel Foods is perfectly positioned to address all of these significant changes. And we're able to do this because of our competitive advantages.

As we're competing in this rapidly changing food industry, it's important to us that we remain focused on our differentiating capabilities. Those things that we know set us apart in the marketplace. And they're five distinct capabilities, brand stewardship, insights-driven innovation, customer relationships, our supply chain. And I'll say it again our inspired people.

Brand stewardship, the brands that we develop internally or acquire are very strategic and very important to us. And whether the brands Retail, Deli or Foodservice, our brands are meaningful and relevant to our customer, our consumers and our operators.

Herdez, Natural Choice, Applegate, Jennie-O, those just represent some of our 40 number one or number two brands. And again, you'll hear a lot more about them as our leaders talk about our businesses and brands throughout the day.

Now many of you may not recognize our foodservice brands, but I can guarantee you that our foodservice operators know and respect and value our brands such as Bacon 1, CAFÉ H and Fontanini. And these are the brands that have allowed our foodservice business to grow at 2 times to 3 times the foodservice industry growth rate.

Insight driven innovation, a key advantage for Hormel Foods is how we utilize our ability to generate consumer and operator insights, which drive our world-class innovation and R&D teams. And we continue to win awards from respected institutions each and every year. Just last week we won Progressive Grocer's 2019 Editors' Picks for five new innovative products. We've also won back-to-back awards from the Grocery Manufacturers Association for our SKIPPY P.B. Bites and Herdez guacamole salsa. And as you think about some of our highest growth brands, Natural Choice and Bacon 1 those were all developed, nurtured internally.

Our direct sales force, it's one of our more important and unique competitive advantages. Over 800 customer-focused sales professions dedicated to delivering solutions, solutions based products for our Retail, Deli and Foodservice customers. They are on the front-line hearing firsthand from customers and operators about their challenges and allowing us to capitalize on those challenges to create opportunities for our company. Our Deanna Brady is going to give you an excellent overview of how we are using our direct sales force to drive growth in the food industry today.

Our supply chain, each day our refrigerated, frozen and ambient supply chains become better, more efficient and more agile. And we're doing this in a way where there's a focus on where and when capital gets allocated, through automated solutions, such as robotics, developing the right logistics and customer service models. Glenn Leitch who has one supply chain will talk with you specifically about how we're making incredible progress on our one supply chain initiative and our culture of accountability. None and I mean none of our bold results happen without our team members. And these team members are empowered to think differently to be bold and to hold
each other and our organization accountable. You see these are our core set of cultural beliefs that underpin our culture of accountability that guides how we work together and how we get things done so efficiently.

Now these may have looked just like words on a slide, but it's so much more. This is the lifeblood of our organization. And our culture of accountability ensures that every team member's work matters. And that we have clarity, focus and alignment in everything that we do. And all of this rolls together to perfectly fit into how we intend to grow in the future, right, with what we call our formula for success. This relentless quest to build incredibly strong relevant brands, understanding how important consumer and operator insights led innovation is, strategic acquisitions and all with a sense of balance in everything that we do.

So an uncommon company executing on our strategy that's positioned to win because we have a clear path forward. And for those of you, who have followed our company you know that before 2013, we primarily were a meat company. Much of our external focus was on pork and turkey at retail. And we were much more commodity driven. Now understand, we’re really proud of our pork and turkey roots and it's important part of our organization.

But since 2013, we've moved beyond just meat into other proteins, not butters, avocados, guacamole, and our foodservice business is larger and stronger. And many of the commodity elements have been de-risked. In 2020, we’re taking another step forward on our path forward as a global branded food company. So you'll see there is nothing revolutionary here. There is no new strategy of the day. This is simply the continued evolution of Hormel Foods. And we do aspire to be more global.

We will maintain, protect and grow our leading brands across retail, deli and foodservice. And we will have an even deeper emphasis on being food forward than we ever have before because we are a food company and it's all about the food. And so our 2020 path forward is built on six strategic priorities.

First, we need to continue to aggressively grow in foodservice and deli. And Tom Day will provide an excellent overview of how we plan to do that with his Refrigerated Foods presentation. Now, while Jeff Baker who leads our Deli Division and Mark Ourada, who leads our Foodservice Division, they won't be presenting today but you will have the opportunity to ask them questions during our Q&A sessions.

Second, we must continue to grow in ethnic cuisines with brands like Herdez and Wholly Guacamole. Luis Marconi will give you some insights into where we are taking those brands in our grocery products organization.

Third, we must continue to pursue bold new insights led innovation. You will hear across the presentations today, many of our presenters talking about the innovation and the pace at which they're bringing innovation to the marketplace. And Jim Splinter will give you some insights into how we brought our new plant-based product, our new plant-based brand to the marketplace in an incredibly short amount of time. And Steve Lykken will also give you some insights into how we are thinking differently at Jennie-O Turkey Store.

Fourth, I've said it several times already, we aspire to be more global and so we do need to expand our presence internationally. While we've made progress, good progress in China and Brazil, we can do more. Now Larry Vorpaht's not presenting today, but again, you'll have the opportunity to ask him questions during our Q&A sessions.

Fifth, we must protect and grow our core brands like Black Label, Dinty Moore, Hormel pepperoni, and SPAM. They are vital to our success and we will make the necessary investments to keep those brands vibrant and relevant. And finally, we must continue to modernize our company. We've been doing this through our one supply chain initiative and we will continue to do it with Project Orion initiatives. Glen Leitch and Jim Sheehan will give
you insights into these important projects. And you see these text initiatives will help us drive growth over the long-term.

Now, one of the things that you have heard us say in the past is that about half of our growth has been through organic growth and half has come from acquisitions. So today we want to give you deeper clarity on how we can continue to attain that growth. As you consider our ability to achieve 2% to 3% organic sales growth, I would focus your attention on a few key driving forces.

We must continue to grow our foodservice and deli business. We have to accelerate our growth in Mexican foods and grocery products and we must get Jennie-O back in growth mode and finally international needs to continue growth in China and Brazil. To achieve 5% to 7% organic profit growth, we need to continue to improve our margins by shifting our product mix from commodity to value added and generating innovative new items.

Our brands will continue to demonstrate their pricing power in the marketplace. And we need to generate cost savings through our various company initiatives to help with the reinvestment in those brands. And we absolutely believe that our long-term key results are realistic and achievable over the long term. We know that we must continue to augment our internal growth with discipline and strategic acquisitions.

As we've done in the past, we love acquiring leading brands across the foodservice, deli, retail and International channels. We certainly have the balance sheet to make multiple acquisitions and integrate them across multiple businesses or one large acquisition. And Jim Sheehan will talk about that about that later in the day.

Our organic growth and strategic acquisitions, that's what ladders up to our key results of 5% top line growth, 10% bottom line growth, 15% innovation sales coming from items created within the last five years and holding controllable expense growth to less than 1%. I'm pleased to report we're on track to achieve our 15% innovation goal by 2020. And this growth is supported by the internal goal that I just mentioned and we've had it really for over a decade. Our ability to hold controllable expenses to less than 1% growth per year. Clearly being focused on that is another important accomplishment.

So this morning, we also did update our full-year guidance and I want to take a second to walk you through where we are as we wrap up our fourth quarter and fiscal year. So we've narrowed the range. We've gone from $1.71 to $1.85 to a range of $1.76 to $1.80.

As you think about the driving forces in the quarter in a year, Refrigerated Foods continues to successfully manage volatile commodity markets. We've talked about a stabilizing Jennie-O Turkey Store business and how we're reinvesting in the business and you will hear more from Steve Lykken.

Grocery Products continues to effectively navigate pricing and promotional initiatives and the declines in fresh pork exports due to lower global prices. So all of these things have figured in to this narrow, more tighter range, but this really is consistent with what we talked about on our third quarter earnings call. And so, we'll have more clarity on the fourth quarter and our outlook for 2020 when we get to our fourth quarter earnings call in November.

And what we really want you to focus on today are the key messages, the key messages that you'll hear throughout the day and you'll hear many of these key messages reiterated in many different forms. First, that this truly is an uncommon company; that has improved its quality of earnings; that has a clear growth strategy with significant opportunity ahead. It's going to be a great day.
We’ve got great presentations from great presenters and I’m going to now turn it over to Tom Day, our Executive Vice President of Refrigerated Foods.

Thomas R. Day  
Executive Vice President-Refrigerated Foods, Hormel Foods Corp.

Thank you, Jim. Appreciate it. Good morning, ladies and gentlemen. It’s a privilege for me to be here today representing the men and women who are the Refrigerated Foods group. During my presentation today, I’ll share with you how the Refrigerated Foods group has grown over the past six years and provide you insights in regards to how we see our retail, deli and foodservice businesses growing in the years to come.

As you may know, Refrigerated Foods is the largest group of our company and can be thought of, in general terms, as 40% foodservice, 25% retail and our newest division in Refrigerated Foods is our Hormel Deli solutions team that is celebrating its inaugural year. Our Deli Solutions team represents approximately 20% of our group. And finally, Commodity business represents approximately 15% of Refrigerated Foods.

Before I begin the major portion of my presentation, I do want to address an issue that is certainly on the mind of everyone that is in any way connected with the pork industry, African swine fever. To level set everyone listening to this presentation, I’d like to define exactly what ASF is. African Swine Fever is a virus that impacts pigs, not people. It is not a public health issue or a food safety concern. Please know that we have been engaged with this issue an outbreak since it was first reported in China back in August of 2018. At the time, we established a cross-functional team that has been working diligently to understand the global impact that this will have. We have also worked in conjunction with federal and state agencies to develop specific contingency plans while working with our communications department to provide our sales people and customers with the most accurate information that we have available.

We are very confident in the bio-security that we have in this country. We believe it’s some of the strongest that exists anywhere around the world and if ASF were to reach our soil, it would be identified quickly, contained and we believe the necessary steps taken to protect the larger hog supply.

Finally, our company’s past performance has demonstrated our ability to address and successfully navigate through these types of issues while at the same time protecting our company's assets. So let me begin by providing you a deeper understanding of how we’ve grown over the past six years.

Our team’s mission since I assumed responsibility for the leadership of Refrigerated Foods in 2013 has been to transform our portfolio and increase our return on sales. Our strategy can be summarized simply as clarity, focus, and alignment. We have delivered organic growth with brands like Bacon 1, Fire-Braised and Hormel pepperoni.

During this time, we’ve made several strategic acquisitions as we have added Applegate, Fontanini, Columbus Craft Meats to our portfolio. Finally, we had the courage to make several difficult decisions and exit some businesses that no longer were meeting our vision for the future. This strategy has provided us with sales growth of 3.5% on a compounded annual basis and margins of almost 13%.

We began with a total review of our portfolio in 2013 and this ultimately led us to divest Farmer John and Saag’s as well as the decision to sell a plant that we had had for a long time in Fremont, Nebraska. Each of these decisions although difficult allowed us to redeploy our assets and reduce the volatility within our business.

The story of Refrigerated Foods has been and will continue to be the growth that we have delivered in branded value-added products. In 2013, approximately 70% of our sales came from value-added products. Today, that
number is very close to 85%. Internally, we describe this shift as moving up the value ladder. Please note on the right side of this screen, the progress we have made. As you can see in 2013 the concentration of our sales shown by the green shaded area was in the lower margined items. As we moved into 2018, the concentration of sales has significantly shifted to higher margined items.

We have accomplished this by keeping our sales team focused on selling the items that are higher on the value ladder. Bacon is a great example of how we've added value to our portfolio. This slide shows what the bacon value ladder looks like as we've focused our team on selling more premium products like Applegate organic bacon or our new Black Label reserve precooked bacon. These products provide a point of difference to our consumers and deliver us better returns than us selling traditional raw bacon.

Now, I'd like to take a moment to review with you the three main areas that we choose to compete in, retail, foodservice, and deli. Each of these business units have a different customer need in our service by one of our unique and dedicated direct sales forces. Each segment has also a very distinct product portfolio, which has been developed to address each of these segment's needs.

We compete in large and growing categories within the retail channel. Large categories like package deli, breakfast meats, value-added pork and heat & eat meals. Our retail business represents approximately $1.4 billion in sales and is composed of 10. Yes, 10 number one or number two brands such as Hormel Black Label Bacon, Hormel Natural Choice, Hormel pepperoni and Applegate.

Through our segmentation process that you will hear more about that later this morning, we've identified additional opportunities for growth in club stores, e-commerce and the dollar format channels. Foodservice is around $2.1 billion in sales and has been able to grow at 2 to 3 times the foodservice industry growth rate.

Brands such as Bacon 1, Fontanini, Austin Blues and Burke are all vital parts of this business. We continue to leverage our direct sales force to discover additional opportunities for growth in college and universities, hospitals, C-stores and lodging segments. Our foodservice team is focused on creating solutions for operator's main challenge, which includes finding and retaining labor. Operators and their chefs also struggle to find items that are convenient while at the same time unique and can be used in versatile ways.

Finally, operators are always looking for the newest flavors and trends. Hormel foodservice meets these operator concerns by innovating and creating products such as our Hormel Fire-Braised Meats, CAFÉ H globally inspired proteins, Austin Blues authentic BBQ products and as you can see, the growth of these items has been very strong.

There's no doubt that we are beginning to see the lines blur between retail and foodservice. Today, you can go to a traditional retail grocery store and find a restaurant inside that will serve you a meal. You can also go to a deli and find chef prepared entrees to take home to your family. We understand the uniqueness of each of these channels and the specialization that is needed in order to help them solve their challenges, so this past year we formed our newest division, Hormel Deli Solutions.

This division is approximately $800 million in sales and their primary growth is coming from the grab-and-go categories, with brands like Hormel Gatherings and Columbus Craft Meats. Growth is also coming from prepared foods like Fire-Braised and Austin Blues that historically had been sold by our foodservice group. These two areas, addressing major shift that are occurring within the deli. One, consumers desire more convenience. No one wants to wait in line anymore. And number two, the expectation for great tasting food whenever and wherever they want to buy it.
Our Hormel Deli Solutions team was designed to include people who have a knowledge and understanding of the deli, the foodservice industry and know how retailers think. As this team's name suggests, our sales teams exist to solve today's challenges for the deli department, but even more important, offer assistance in helping them create the deli of the future.

Now that you understand our business and the recent evolution that we've been going through, I'd like to discuss two very large categories that refrigerated foods competes in and are important to our future. The first is bacon. So what do you think about when you see bacon being cooked. Does it take you back to when you were growing up and someone who was preparing you bacon and eggs in the morning or how about last weekend when you prepared bacon and eggs for family or for friends that were visiting, either way there are very few foods that inspire as much enthusiasm and excitement as bacon.

Everyone has an opinion on how it should be cooked and just watching this video probably has your mouth watering and you can almost smell it. I trust you enjoyed the bacon that you were served this morning for breakfast. The bacon is very versatile with usages from traditional breakfast to bacon cheeseburgers to bacon salad toppings to jalapeno bacon wrapped around a shrimp. There is no denying America's love affair with bacon.

For Refrigerated Foods, Black Label bacon is the cornerstone of our bacon business. While our traditional one pound raw Black Label bacon is our flagship product, we know that offering more premium products to consumers is how we will grow in the future. Products like microwave ready bacon or our new Black Label thick cut reserve bacon made from our proprietary bacon one technology are driving tremendous growth.

Since 2014, sales of our premium bacons are up double digit. In addition to Black Label, we've also enjoyed excellent growth in our other bacon brands such as Natural Choice, Applegate Natural and Organic bacon, and Columbus turkey bacon. Not only are these brands driving top line growth, they are also adding higher margins and offer a truly differentiated eating experience to our customers.

Bacon is equally important to our foodservice operators while recent growth has been led by Bacon one fully cooked bacon, our foodservice team has shown growth across the entire portfolio of products. Our sales team is able to offer the perfect bacon for any operator whether they need premium bacon like Natural Choice or Old Smokehouse or a mid-tier product like Hormel Layout Bacon or in some cases an economy bacon like our GRIDDLEMASTER.

With a 98% food versatility score as rated by Datassential, bacon is used in many different ways. For our foodservice sales team, one of our all other keys that we have is that we get a chance to work with a lot of great chefs around our industry. They help us discover new and exciting ways that we then share with other operators in order to see our bacon business continue to expand.

While Bacon is important for Refrigerated Foods in our company, I would argue that pizza topping is equally as important. Pizza is one food that never really goes out of style. Everyone loves pizza. It's affordable and accommodating to our busy lifestyles. We go to a local pizzeria to celebrate our children's basketball or soccer victories. We pick up a take-and-bake pizza on the way home on a Friday night after a busy week. We order pizza for delivery when friends stop by and the list goes on and on and on.

Pizza is an experience that span lifestyles and generations. On the retail side of our business, Hormel pepperoni has been a favorite amongst consumers for generations. Our original Six Salads Pillow Pack is the number one, the number one SKU on an $8 billion meat wall and commends a 56% share in the pepperoni category.
Over the past five years, Hormel pepperoni is growing at a 5% compound annual growth rate. Over the past few years, we've been working diligently to expand our product line into more snacking and different usage occasions. Most recently, the team has been working to extend the use of pepperoni beyond just pizza toppings.

We now have many pepperonis for use as an ingredient on salads and pasta dishes, pepperoni sticks for on the go snacks. Our current advertising campaign Pep It Up is currently on air. This demonstrates the opportunity to use Hormel Pepperoni in different applications beyond pizza.

Let's play the commercial please.

[Video Presentation] (00:56:43-00:57:12)

Within the foodservice industry, pizzerias are continuing to grow at two times industry growth rate. So it's not surprising if you were to be told that 83% of consumers eat pizza once a month and 43% of consumers eat pizzas once per week. Our entire foodservice team has done an excellent job of capturing the growth that is available in the pizzeria industry. Technomics recently has reported and found that Hormel pizza toppings are the most popular pizza topping while 64% of operators use Hormel branded toppings. Also topping the list is Fontanini, Swiss America (sic) [Swiss American] and Burke which are all part of the Hormel portfolio.

In August of 2017, we acquired Fontanini Italian Meats. This authentic Italian business allows us to accelerate our growth in foodservice while Fontanini has a big presence in pizza topping, their portfolio was much broader including meat balls, sausage and Italian beef. After integrating the Fontanini and Hormel foodservice direct sales forces this last year, we've seen excellent growth in all aspects of our business. I don't want you to leave here today thinking that the Refrigerated Foods success is limited by just selling bacon and pepperoni. The categories we compete in are broad and just as you heard include authentic products like our Italian products from Fontanini, Italian meats from our Columbus Craft Meats team, authentic prepared proteins like Austin Blues, deli meats from Hormel and Jennie-O and refrigerated snacking products.

Let me now shift gears and spend some time speaking with you how we are leveraging the power of the Refrigerated Foods team for growth in the future. My vision since taking over the Refrigerated Foods team in 2013 was to make sure that you as a consumer had access and will make the choice to choose Hormel products at any time or any place you choose to eat. It could be in your home, in a restaurant, at a college and university, at a deli, on the go at a convenience store, a sports stadium or ordering from a food truck and the list goes on and on of all the places that you could go to eat. We can best demonstrate this vision by showing how three brands, Natural Choice, Applegate and Columbus are leveraging the power of Refrigerated Foods to achieve this goal.

Let's begin with Natural Choice. Our Natural Choice line of products is also a very strong contributor to the Refrigerated Foods team. This line of product was launched in both retail and foodservice channels and is right in the sweet spot of being preservative-free and at the right price point to attract mainstream shoppers looking for more premium products.

We continue to see impressive growth in foodservice and core lunchmeat portfolio, but what's even more impressive is that we have used this brand as a springboard to help us expand into other categories such as bacon, pepperoni, both of which have been growing at a very nice clip. And in addition, we've used the Natural Choice brand to launch into several new innovative products, including a line of globally-inspired flavors for snacking, fully cooked uncured bacon, mini snack trays and single-serve meat packages.
Our initial feedback from customers on our single-serve packaging is extremely encouraging. This item has taken convenience and freshness to another level. All these products, plus our core Natural Choice offerings are helping us to reach more consumers and households. Since 2016, we've increased our household penetration by 420 points and over 11%, which is a testament to the power of this brand.

We recently launched an advertising campaign that seeks to inspire people to choose good, whether it's the food they eat or the actions they take. Let's show the video.

[Video Presentation] (01:02:26-01:02:58)

The next brand that I'd like to speak to you about is Applegate. When we made the decision to purchase the number one natural and organic brand in the lunchmeat section, we knew we were buying a portfolio of exciting products that were very popular in the natural and specialty channels. We admired Applegate's strong company mission, which is changing the meat we eat, and we are committed to protect it and support it.

By adding Applegate into the Hormel portfolio, the Applegate team now has access to our capabilities in addition to our scale in retail, deli and foodservice, and we've gained a better understanding of the natural and organic customers. Finally, the Applegate brand has changed our conversations and help us provide broader choice of products offering to our customers and foodservice operators.

Fast forward to today, we are driving Applegate's mission forward in many areas. First, we've accomplished our goal of expanding Applegate line of products into foodservice, primarily in colleges and universities, but also healthcare and pizza chains. This is an excellent example of clarity, focus, and alignment.

We announced our desire to take Applegate into the foodservice industry. And to be quite honest with you, we turned our team loose and got out of their way. They've captured great growth opportunities and those continue and have a very bright future.

My favorite example of success that we've had with Applegate is at the University of Wisconsin-Madison. Today, every single hamburger sold on campus is the Applegate Blend Burger, a unique blend burger which has three simple ingredients: organic beef or turkey, organic mushrooms and rosemary. While it's early, the Applegate Blend Burger has been successful with consumers as well who are looking for a way to enjoy the meat they crave, while at the same time bringing plant protein to their diets. We've extended our corporate R&D and innovation efforts to Applegate and they will be launching a charcuterie plates, handheld snacks with natural and organic meats and cheeses.

Finally, we have made tremendous headway in selling Applegate fresh pork in retail and foodservice. By selling fresh pork, we are utilizing more cuts which effectively lowers our total cost of buying natural and organic pork throughout the supply chain.

The newest addition to the Refrigerated Foods Group is Columbus Craft Meats. Columbus is an authentic line of Italian meats and charcuterie products and is at the foundation of our Hormel Di Lusso Deli Solutions division. Columbus has experienced excellent growth this past year growing at 8%.

Natural Choice and Applegate, in addition to Columbus, are now leveraging our innovative efforts and our direct sales forces to accelerate their growth. Starting this holiday season, you'll be able to buy Columbus charcuterie tasting board, a premium product featuring charcuterie meats, cheese, olives and chocolates. We are also
expanding our line to include products to anyone who would throw a party at their home and what they would need for their charcuterie tray. These items include candied bacon, mini salami sticks, spreads and jams.

Finally, we are excited about the potential for Columbus in foodservice. Imagine getting to your hotel room tonight and instead of mustering up the energy to go out for dinner, you purchase a single-serve Columbus charcuterie tray and enjoy that in your hotel room with a nice glass of wine. This is one of the many exciting areas that we are exploring within the foodservice channel.

Our success within the Refrigerated Foods mirrors that of our company. Our evolution has been a result of building brands, innovative, making strategic acquisitions and bringing balance to our portfolio. Our business is as strong as it’s ever been, and I have complete confidence in the Refrigerated Foods team and where we are headed.

As I conclude my remarks today, I would ask that you remember two things. Number one, we remain committed to shifting from commodity to value-added, and our past performance over the last six years demonstrates we can do that. And number two, we are well positioned to continue to be a sustainable growth driver for our company.

Finally, I’d be remiss if I didn’t take the opportunity to recognize and thank all of the dedicated results-driven members of our team from across the country. Each of these individuals get up each day to help us deliver the results that you see in front of you. I believe, for the Refrigerated Foods team, the best days are yet to come.

And with that, I’d like to introduce Luis Marconi, our Group Vice President of Grocery Products.

Luis G. Marconi  
Group Vice President-Grocery Products, Hormel Foods Corp.

Good morning. It is my pleasure to share with all of you today our story, a long-term growth story of the Grocery Products division. This story has been driven by our focus on two main initiatives. First, our focus on creating value in the center store with our legacy brands; and number two, our focus on accelerating growth with our strategy in the Mexican Foods business.

Over the last 10 years, Grocery Products has grown at a 7% on the top line and at a 6% on the bottom line. This has been driven by our organic growth in simple meals, led by SPAM, and by our investments in M&A and subsequent organic growth in our Mexican Foods business and in our nut butters.

We have effectively converted our portfolio from being canned meat-centric to what it is today, which is a portfolio of strong consumer brands. But what is interesting is that now our portfolio resonates across the different generations. And you think about what it is today, is 40% of the business is in simple meals, 30% and growing in Mexican foods, 15% in nut butters and 15% in functional nutrition. Note that our functional nutrition percentage is going to go down next year as we cycle the divestiture of CytoSport.

But going back to articulating this portfolio, this portfolio today is in alignment with the consumer. Think about our simple meals. They are strong value proposition for the baby boomer generation. Nut butters are very relevant across the entire consumer landscape and our Mexican foods are very relevant with the millennial, the Generation Z and of course the Hispanic consumer.

I’d like to give you more specifics about our strategy to create value in center store with our legacy brands. But first, I’ll give you some context. Contrary to what many people believe, center store food, according to IRI, has been growing over the last three years at a pace of 1.2%. This being said, as the retailers are focused on
enhancing their shopping experience in their stores, they're placing more emphasis on the perimeter and in their private label offerings. Under this context, it is absolutely imperative as – we as brand manufacturers make sure that our brands stay relevant with the consumer. This is how we do it at Hormel.

First, we play to our strengths. We have very strong market leadership positions in the categories in which we compete. And we take that leadership position very seriously. We understand that it is our role to bring households into the category, to bring the traffic into the stores. We do that by our focus on building strong brands. We have doubled our advertising investment in our brands over the last 10 years. We also focus on innovation, and I highlight a few examples here and the first one is the SPAM Pumpkin Spice. It was supposed to be a fun public relation strategy that happened to have a new product in it and it went viral. It created over 1.1 billion consumer impressions. It sold out in hours. Again, this is an example of a brand that stays relevant with today's consumers.

And then we use our market research to identify what we call demand pockets, and we utilize our lunch – line extensions to capture that great opportunity. And then, of course, our execution. Here's when we work in alignment with our direct selling organization to present our company as an expert in providing Total Food Growth ideas, the retailers. Then we also utilize, what we call RGM, or Revenue Growth Management, to make sure that our trade resources are used effectively. And then, finally our new resources in digital where we allow us to capitalize the great opportunity for in e-commerce sales for our brands.

Let's just talk about private label and good news here is our brands are well positioned against private label. It goes back to understanding that our role in the category selling which we compete is to bring the household, is to generate the traffic through brand building, through innovation and through execution in the point-of-sale.

Now, I'd like to share with you some specific examples using the lenses of the brands as to how we truly create value in the center store. And I'd like to start with the great SPAM brand and I'm going to – is a brand that is truly sizzling today and I'm going to use the word sizzle very specifically, because when we were running our market research, we discovered that when we were presenting the brands sizzling on a pan, something as simple as that to consumers that were aware of the brand, but they were not frequent users, but their reaction was fascinating. The behavior was very positive, so much so that we created a full advertising campaign around this idea and the results have been very positive. We're growing at 2.4% over the last five years and that's twice the pace of growth of center store.

As Jim mentioned earlier, we're on track to deliver the fifth consecutive year of all-time record sales for the SPAM brand that is 83-years old. What is most exciting here is that the growth is coming from new households, not from core users. That's what bringing value, creating value in center store means; is bringing new families, new households into the category, bringing the traffic into the store. And then, we also know that this brand is very relevant with a Hispanic-American consumer and with the Asian-American consumer. But we all know that these are two of the fastest demographics, fastest growing demographics in America. So, we believe that the runway for growth of a brand like SPAM is very healthy.

Now, let me share with you how we engage with consumers, how we communicate the brand.

[Video Presentation] (01:15:20-01:15:37)

[ph] Should (01:15:38) I get hungry every time I watch these commercials. The next example I wanted to share with all of you is the great all-American brand called Dinty Moore. This brand was losing relevancy. Few years ago, we were losing households. Now, we sit down with the team to understand the brand and understand the
connections that this brand had and we started to realize there was some connection with the outdoors, with the lumberjacks and we started to connect that with the fashion trend of people wanting to dress as lumberjacks. We connected those dots, created a full advertising campaign and the results have been fascinating. This brand is growing at a 4.5% CAGR now over five years. This is now a trend. And again, the example here is the growth is coming from new households, not from the core user, which is again a signal of a brand that is gaining relevancy.

Then the last example that I wanted to bring in center store is the great SKIPPY brand. It's a great strategic brand in the peanut butter space. It is the smooth brand that spreads simple fun. Since we acquired the brand in late 2013 until today, we've grown the market share by 140 basis points. This has been a function of our focus on building this great brand. First with the SKIPPY Yippee campaign and more recently with a SMOOTH campaign featuring Bruno Mars, then with our focus on innovation, the P.B. & Jelly Minis is our recent introduction into this space of the frozen peanut butter sandwiches. We're learning a lot of this category, very exciting to see it.

And then, also recently, we introduced our squeeze packs is a great solution, a peanut butter solution for consumers looking for an on-the-go opportunity here. And then, our execution in the point of sale. Well, here again is where we align our efforts with the sales organization and I want to highlight this point, because recently, we saw our main competitor in the category picking a price decline, bringing deflation into the category. We responded quickly and we responded very strategically. We focus on using our resources in Revenue Growth Management, to develop a very effective promotional and pricing strategy on a retailer-by-retailer basis. And by doing so, we've been able to hold our share and we're confident that going forward, we'll continue to grow our share based on our focus on brand building and on innovation.

I'd like to transition to our growth accelerator, it's called the Mexican foods category. I would like to start sharing with you a video that we present to customers. Please run the video.

[Video Presentation] (01:18:19-01:18:48)

The reality is Mexican foods are on trend. It's a fun cuisine, it's colorful, vibrant, spicy, it's fun. And the trends are showing that. First is the demographics. The projections show that by 2045, a quarter of America will be Hispanic, but that to me is not the point. The point is the culinary and cultural influence that this large segment of the population will have on the rest. When you're seeing those trends translated into many dimensions, think about this, presence of Mexican foods in menus across America have increased from 370 basis points from 19.9% to 23.6% in just a matter of 10 years. This is a large, large trend. When you translate that into Retail, we're seeing the same phenomena.

Mexican foods and sauces are growing way faster than center stored food. So, how we're recapitalizing this great growth opportunity is with our MegaMex joint venture. This is a great institution that is combining the best of Herdez del Fuerte, our partners in Mexico that have 100 years of history in their country with their recipes, their foods, their chefs; and then we're combining that with our Fortune 500 capabilities of Hormel Foods Corporation, 128 years of history. And then, you lay over the focus, the drive, the resources, and very importantly the passion of the MegaMex organization and you truly have a winning combination. When you see the results, this company is growing substantially, significantly faster than the already fast growing Mexican foods category.

So, as we look forward into how do we continue accelerating this growth, we're focusing two areas. Number one is disrupting the salsas and sauces space with the Herdez brand, and capitalizing the tremendous growth opportunity in the avocado space with the Wholly Guacamole brand.
Let me share with you how we're doing that. First, let's talk about this Herdez brand. This brand, some of you are aware, is the number one brand of salsa in Mexico, the country that invented salsa. And in the United States, it's growing at a 16% CAGR. This is 16 times faster than the salsa category, which is growing, with center store food at a 1%. And the growth has been driven primarily by our innovation. Two years ago, I presented to you the Herdez guacamole salsa. We were, just at that time, launching that item. Today, that item represents $25 million in IRI sales, combination of guacamole and salsa in a very successful fashion. And then, we all are aware of the taco truck trend. We translated that trend into Retail by launching the Herdez Taqueria Sauce and disrupted the dormant taco sauce category, gaining 7 points a share in a matter of 18 months. So, the true flavors of Mexico are truly being embraced by the general population in America and that's very exciting.

The second driver of our strategy is our bold advertising. Herdez, as a brand, embodies the true and authentic spirit of Mexico. It's a very energetic advertising. It's focused on the millennial and the Generation Z. I'd like to share this energetic advertising with all of you today.


The second strategy that we have to accelerate growth in our Mexican foods business is the Wholly Guacamole brand. This is a number one guacamole brand in America, growing at a 13% CAGR over the last three years. And when you think about the household penetration of avocado, fresh fruit is 71% in America, Wholly is growing, but it's only 10% at this moment. Think about the runway for growth. Because the reality is avocado – America is in love with the avocado. It's a true plant-based super food. Publicity around avocados is extremely positive. One of the elements of our strategy is our supply chain. As we think, we have a very large operation in Mexico. So, we're thinking about how to mitigate the volatility of the cost in the summer months. We have just now opened operations in South America. So, we're bringing products now from other countries as well.

But the true key driver of growth in this category is our innovation. We just recently introduced a new clear cup for consumers to see the freshness of their guacamole. It's a high pressure pasteurized packaging. We're very excited about that. The second one is the guacamole in a snack cup, which is a great on-the-go opportunity for consumers to enjoy this on the go.

Then, I'd like to talk about this Herdez traditional guacamole product that you're seeing on the screen. This product was actually the recipe that we utilized for this product was in the archives of the Herdez Foundation in Mexico City. It is set to be over a 100-years old. The true original guacamole recipe in Mexico City. We utilized the this recipe and we will have an opportunity to try this product later today. This is a fantastic flavor.

And then, the other product that I want you to see today is our Wholly Avocado Smashed. So, think about a smashed avocado with the shape of the fruit that is vacuum sealed and then high pressure pasteurized. So, when you have an opportunity to enjoy an avocado toast or a salad, you don't need to think about your avocado, your avocado is going to be too green or too hard, no, this product is going to be always ripe, always ready for you to utilize in your applications. And then, of course, our advertising. Let me share with you our Wholly Guacamole advertisement.

[Video Presentation] (01:25:05-01:25:37)

So, going forward, our formula for success in grocery products is very consistent with our enterprise-wide formula for success. Our focus is on building a strong brands and bringing meaningful, meaningful and compelling innovation into the marketplace, to identify and capitalize opportunities in M&A space, and also we're focused on
making sure that our portfolio is balanced, is growing, but in a balanced fashion, so we don't rely too much in a particular brand.

So, in summary, I hope you are as excited as I am, as I am with our long-term growth story, which is supported by our focus on creating value in the center store with our legacy brands and with our focus on accelerating growth in the exciting Mexican foods space.

Thank you so much for your time today. And now, it is my pleasure to introduce Deanna Brady, our Group Vice President, in-charge of the Direct Sales Organization. Thank you.

Deanna T. Brady
Group VP & President-Consumer Product Sales, Hormel Foods Corp.

Good morning. So far, you've heard about inspired people and inspired food. And it's my responsibility as Group Vice President of Consumer Product Sales to take you on an inspired customer journey. I feel fortunate to spend 100% of my career at Hormel inspiring customers and careers alongside Mark Ourada and Jeff Baker who'll be part of the Q&A.

While managing a direct sales force across Foodservice, Retail and Deli has its common elements, how each of us deploys our organization for growth differs. I look forward to sharing how our Consumer Product Sales group of Hormel is inspiring top-line results by walking you through Total Food Growth, E-Commerce sale and Revenue Growth Management.

I want to start by sharing how our sales force remains a differentiating capability and how we're deploying our direct sales force across Foodservice, Retail and Deli. We leverage over 800 tenured and talented professionals in the growth segments within Foodservice and across the growth channels in Retail. Our training, incentive and compensation programs continue to make Hormel Foods one of the top companies to sell for, for the past decade.

Direct selling matters and how we deploy our organization matters. It's imperative for our direct sales force to establish and maintain relationships across the food space, so that we can continue to exceed industry growth rates. In addition, it's critical to deploy a direct sales force to execute against the value-added portfolio that's rooted in innovation that you heard about this morning. And finally, a direct selling organization allows us to deliver the analytics and the insights our Foodservice, Retail and Deli customers need today and more importantly in the future.

An additional advantage of our direct selling organization is our ability to work across channels and portfolios to meet the needs of our operators, retailers and consumers. The Foodservice division has met the need of the waste without attributes by leveraging the Applegate portfolio and our Deli team has taking the play out of the Foodservice book to bring culinary inspiration to the evolving Deli.

Our Retail team has looked at Bacon 1 and figured out a way to bring that into Retail under Black Label reserve. And as you heard from Tom Day, the Foodservice group is currently thinking about Columbus and what that will look like in Foodservice in the future.

Today, I want to highlight the areas of growth for the Retail team: Total Food Growth, E-Commerce sales and Revenue Growth Management. These three areas are enabling our team to drive growth and profitability with our Retail partners despite an evolving marketplace. Said differently, investing in a direct sales force allows us to control our destiny and think about where and how we deploy our resources. The first area for growth is Total
Food Growth in this centers on our ability to drive growth and profitability across the store based on our family of brands and our category expertise.

Our evolving portfolio allows us to touch 86% of households and as a result, the Hormel shopper on a collective basis continues to become increasingly more valuable. However, as we've grown as a company, we've not evolved our selling proposition to reach our full growth potential for our customers. So, we're introducing a new sales playbook, and this starts by aligning our resources into nine plays. We then meet with our retailers and think about their strategies. And then, reach to the place that most closely aligned and will help us unlock growth and profitability for that client.

Now, this in contrast to the past, we would have been a bit more product focused, a little bit more innovation focused and maybe sprinkled in some insights, but it wouldn't have been in collection thinking about all the tools, resources and brands we have available today. Now, about a year ago, I had the opportunity to do a walking top-to-top with one of our retailers on the West Coast. And I walked with the president of the division and our teams – collective teams met us throughout the store. And as we approached each of their categories, they would walk us through the category, they'd walk us through some of the dynamics, we'd talk about our brands and how we could bring resources to bear on the business.

And if not three to four times [ph] Brad (01:31:34) said to me, I didn't know this was a Hormel brand. I didn't know I could leverage the growth from Applegate or Columbus, or potentially Justin's when I think about Hormel. And as we were working on this new playbook strategy, that really helped resonate to me that we were on the right track. I asked the key leaders of Total Food Growth and CPS to elaborate on what Total Food Growth is and how it's driving growth and profitability with Hy-Vee Foods in Des Moines, Iowa.

[Video Presentation] (01:32:05-01:35:02)

So, I want to share this with you. Hy-Vee Foods is just one example. And based on our Total Food Growth approach, our perishable team was awarded the Perishable Vendor of the Year just recently, which represented our Refrigerated team, our Deli team, our fresh pork team and really again demonstrates the power of all the brands and what we can bring to bear in a retailer's business.

Roughly two weeks ago, our team was with another retailer in the Midwest practicing this new approach and we brought 12 individuals from the Hormel family to a top-to-top meeting. And as a result, the retailer brought 11 people to the top-to-top meeting including the division president who had had knee surgery the day before, but he chose to hobble his way to the meeting because we had so many resources that could have a strategic conversation about their business.

And what was – probably the most interesting part of the meeting, in my mind, was they recognized our team for the insights and Mark Thompson mentioned insights from the video that the insights that we brought to the table were not only meaningful, but they were really the most relevant that they had heard and insights centered around the area of e-commerce and that our teams through our digital experience in e-commerce sales team brought to them strategies and ideas about how they could grow their business in this space.

And they said, other manufacturers had talked to them about the opportunity, but hadn't really been able to articulate in the same way our team did what the path forward was. And as a result, they invited our digital experience and e-commerce sales team back to sit at the strategy table to help them build their online grocery pickup strategies for 2020, which leads me to our next strategy, which is the e-commerce sales. Leveraging our direct sales force to capitalize on the growth in e-commerce and online grocery pickup is becoming a competitive
advantage for our company. We've redeployed head count to ensure that we have the right people and right resources against this growth channel. And our priorities remain clear. We need to support the growth of our grocery portfolio through dotcom and traditional online businesses. We need to continue to expand our assortment available through online grocery pickup, which is really moving at an accelerated pace of growth. We need to continue to launch our perishable products and we need to augment this team with advanced analytics.

We recently added two individuals to this team to help us mine the data and help build the KPIs and infrastructure to support the work the sales team is doing. And to prove how valuable they've been already, about two weeks ago, the two ladies were digging through the data and uncovered through one of our online grocery pickup customers that we were losing points of distribution to the tune of 3,600 in less than a week, which is pretty dramatic in a smaller space. And so, they dug and dug and dug until they came to the conclusion what was causing the problem.

So, with this insight in hand, they walked to the retailer and said we've got a problem and we need to figure out how to fix it. They quickly were connected with the right people at the online grocery pickup area of this retailer and the issue was, when you have a store doing online grocery pickup, there is actually one website for each store that needs to be maintained to match the assortment that's available in that store. So, if any of you've done online grocery pickup, that site that you're looking at may not look that way is actually particularly to the store that you're going to go pick up at. And if those two don't match, the points of distribution aren't going to be in line and that's what was happening. So, they got it resolved, but the best part of this was, when the retailer called our team back later that week and said, will you come back and explain to us how you figured that out, because not even the retailer understood that that was happening and that they needed to be maintained in those sites.

Our digital experience in e-commerce sales teams have established the infrastructure and the resources that we need to win in this space. Our team is focused on improving our assortment online and in online grocery pickup. And as a result, we're seeing our online and online grocery pickup share move every day and we continue to penetrate the fresh formats with our Refrigerated portfolio. But what's most rewarding is our results: the team is on track to exceed their sales goals already in 2019. And we have a logical pathway to doubling the business over the course of the next three years, which would put our e-commerce sales at roughly 7% to 8% of our retail sales at Hormel. The top three priorities are to invest in our online grocery pickup, further optimize packaging for the e-commerce channel and continue customer expansion.

Our final growth initiative is Revenue Growth Management. Revenue Growth Management is a practice that we established with the help of IRI in 2018. This practice is required us to invest in the people, processes and technology needed to inform this important work. At the center of revenue growth management lies pricing studies, post promotional event analysis and scenario planning. We started this work by focusing on four key brands as they drive a significant portion of our trade dollars, Hormel Chili, SKIPPY, Black Label bacon and pepperoni and we started with select customer teams the goal of revenue growth management is to drive profitable growth with our brands and our customers by aligning trade for the best possible returns.

By understanding brand price elasticities and promotional effectiveness, the revenue growth management team can run scenarios to determine the best possible use of trade. It may be to continue to leverage it to drive top line sales or maybe we redeploy trade towards innovation launches, shopper marketing, advertising. Two of the pilot brands we use to establish the practice were Hormel Bacon and pepperoni. A deep analysis of both pricing and promotion led us to the insight that some of our trade spend was ineffective and as a result, you'll see us shift trade dollars to advertising to drive households, improve loyalty and improve net sales.
In 2020 we'll continue to enhance our revenue growth management team so that we can extend this practice to additional brands, businesses and customer teams and this is really important because it's going to help us drive meaningful impact against our growth goals. Before we move to Q&A, I want to leave you where I started, I want to leave you thinking about how our direct sales force is focused on inspiring customers to drive growth and profitability to total food growth and e-commerce sales. I'm personally inspired by our teams and the work they're doing and the bold decisions they're making based on the insights from our revenue growth management and I'm inspired to lead the Consumer Product Sales team at Hormel, inspiring careers and customers to our brands every day.

Thank you, and I'd invite Jim Snee, Tom Day, Luis Marconi, Jeff Baker and Mark Ourada to the stage for Q&A.

**QUESTION AND ANSWER SECTION**

**Nathan P. Annis**  
_Director-Investor Relations, Hormel Foods Corp._

All right. We have David and [ph] Deanna (01:42:48) walking around with microphones. Before you ask your question, please make sure you wait for that microphone. We have our first question with Rupesh upfront.

**Rupesh D. Parikh**  
_Analyst, Oppenheimer & Co. Inc._

Rupesh Parikh, Oppenheimer. So two question on foodservice. So you guys have been very bullish on your commentary around foodservice. So just curious as you look forward, how do you feel that mix changing in foodservice as a percent of total company. And also for foodservice, how is that margin profile versus retail?

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

So I'll go ahead and kick it off. I mean we've been more forward in our conversations about foodservice, probably over the last three to four years because it is a distinct capability for us and we do think differently about it. It's not a commodity business, this truly is a value added business for us. We try to put the margin context in terms of Refrigerated Foods and that it is in line probably slightly above where the Refrigerated Foods margin profile is. And I mean we believe that it's going to continue to be a growth engine. I'll let Mark maybe get into some of the more specific areas and what he's seeing.

**Mark Ourada**  
_Group Vice President, Foodservice, Hormel Foods Corp._

Sure, thank you Jim. Yeah, so as far as our approach to the business I mean obviously the key drivers are innovation, which we have done successfully over the years bringing the value-added products that climb value ladder and then turning it over and letting our direct sales force execute against it. And it's really as we continue to work with the operators and our customers out there and bring them solutions to the challenges that we face all the time, that's really what we think is going to continue to drive that growth. So we feel very good about that.

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

...
And we know I mean labor is not going to be any easier to get over time, right. And so making sure that these innovative foodservice solutions help them address all of those important needs in their operation, I mean, that's critical in what's going to allow us to continue the growth trajectory.

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

[ph] Rob (01:44:47)?

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

It can hold it [indiscernible] (01:44:55)

I do want to hold it. Yeah, thanks.

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

[ph] Rob (01:44:58) is confident.

I think in order for investors to feel comfortable in the long-term targets, I think we're going to be hoping for some more color on 2020. And I noticed that's kind of absent today. Maybe you're just going to give it to us after you report fourth quarter. But can you give us a sense of like how did fourth quarter — maybe I'll start there, how did it play according to your expectations?

What I've noticed is that because of African Swine Fever, there's a lot of big ranges now in your guidance. There's more volatility than before. Should we expect that to continue again in 2020? Is that why you're kind of holding back on framing that for us right now? And then lastly if we go back like a few years when I think you gave a long term kind of margin target, the idea was to move towards the top of your peer group and it just didn't play out as expected. If you can give us kind of like what — why it didn't happen?

Jeffrey R. Baker  
Group Vice President-Deli, Hormel Foods Corp.

Yeah. So obviously a couple of questions embedded there. I mean our goal today really is to have this longer term conversation. And so we're not going to get into a lot of the specific details around fourth quarter or even 2020. We're going to stay on our marked traditional schedule. But I did mentioned when I talked about the updated guidance where we did narrow the range, obviously we're getting close to the end of the year is that the range really is largely in line in what we described on our third quarter call. So, the business is performing as expected and of course, we highlighted some of things that we saw, and we will get to 2020 on our fourth quarter call, and it really doesn't have anything to do with the market conditions. It's really just keeping with our traditional timeline.

[ph] Rob (01:46:51) you bring up a great point in terms of our margin target goals. And we did set that goal for ourselves to be in the top quartile and it doesn't appear that that we're going to get there. But from our
perspective, the important piece is the progress that we’re making. And so as you listen to the presenters who’ve already spoken the progress that we’ve made in Refrigerated Foods and really changing the margin profile of that business. The great work being done in Grocery Products and leveraging those strong brands, but identifying those growth pockets and all of it being brought together obviously with the focus on that direct selling organization not only to Retail level, but in foodservice and Deli. And so, do we make progress? Yeah. Was it at perfection? No, because we didn’t achieve the goal. But this is – it’s a journey for us, and it’s a journey that we know we can continue and we can continue to deliver that long-term sustainable growth.

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

Adam?

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Thank you. Adam Samuelson, Goldman Sachs. So, in the context of the group on this stage, there is a company level organic growth target of 2% to 3% that you’ve outlined in the presentation. How do we think about the Grocery and Refrigerated products businesses in that context and volume versus price mix specifically in Refrigerated and most notably organic volume growth has been something that really hasn't come through for a while. It seems like the company has been kind of wedded to the harvest levels in the slaughter facilities for a number of years. How do we think about the opportunity to actually move past that and grow the organic volumes of the business over the medium term?

Jeffrey R. Baker
Group Vice President-Deli, Hormel Foods Corp.

Yeah. So I’ll go ahead and start. I mean obviously you know in one of my slides I talked about all the activity that we’ve had in terms of divestitures and acquisitions. And so you know there's been timing tied to that, that's had an impact. Obviously from a total company perspective, we've seen some of the unprecedented activity that happened at Jennie-O Turkey Store and of course, we'll talk more about that. But then we have seen the decline in commodities across a number of businesses whether it is the Farmer John harvest or Holberg pricing at Jennie-O Turkey Store that have had an impact on the top line.

But I think as you start to neutralize and clear the deck if you will what you’re hearing from these presenters is this vision for sustainable growth absent some of that noise. And so as you think about what Refrigerated Foods has done with their portfolio in the categories and the brands is a significant accomplishment. And really the same thing in Grocery Products where there this proclamation that center of store is dead, right, and nothing could be further from the truth. So our ability to achieve that is very realistic and I will let Tom and Luis maybe add some color specifically about their units, but I do believe that it's very achievable as we get through some of this noise.

Thomas R. Day
Executive Vice President-Refrigerated Foods, Hormel Foods Corp.

Adam, here’s what I would say in regards to Refrigerated Foods. If you go back and look at where we have been and the shift we have made, I think that you’d have to say that that’s been substantial. The part going forward that I would be excited about if I were sitting in your shoes is the expansion we’ve made at Dold, the expansion we made at Fontanini, the expansion we’ve made for the Burke Enterprise that will be opening this next year, those are all built around the premise of growth. And so what that does is give our sales people and our customers an opportunity for us to expand where we may have had some constraints before. We are now open for business for sure and needless to say positioning ourselves in regards to growth for the future.
Luis G. Marconi  
Group Vice President-Grocery Products, Hormel Foods Corp.

And from our perspective in grocery products, we are focused on creating that value in center store as we demonstrated in the presentation. We’re focusing on bringing those households, renovation, and brand building and on top of that with the growth accelerator of this great opportunity in the Mexican cuisine.

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

Michael?

Michael S. Lavery  
Analyst, Piper Jaffray & Co.

You’ve also reiterated the M&A component of your longer term algorithm, but we haven’t seen deals recently obviously, your balance sheet still is supportive of that. How should we think about where your head is there in terms of what might be coming, is there anything in the pipeline we should expect soon, is there hurdles to think about in terms of why there may not be something, and what are some of the things you would prioritize in terms of what are the most attractive targets?

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

Yeah. It’s a great question. The lack of acquisitions is certainly not for a lack of effort or desire. You know I talked a lot about our pipeline and our pipeline has been and remains very, very robust, but the idea of getting all of those across the finish line really is the difficult part. And that happens for a number of different reasons, right. I mean it could be a due diligence issue, it could be a valuation disconnect. But as you think about how we are going to approach it because you’re correct. I mean and you’ll hear from Jim Snee later. I mean we all know what our balance sheet is capable of.

And there’s a willingness and a desire to want to use that. But we are going to be very disciplined and strategic. As you look across just what you’ve heard already this morning thinking about how we’re so committed to the foodservice space, how we’re so committed to the deli space, how we’re so committed to ethnic portfolios. So all of those areas are on track. I’ve talked a lot about our desire to become more, more global. So opportunities to leverage or scale our businesses in China or Brazil, I mean all of those opportunities are in play for us. And there is a very active process, we just haven’t been able to get them across the finish line here as of late. But we’ll keep that as a strategic imperative and know that that we’ll be getting things done.

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

Ben?

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

Ben Theurer, Barclays. So actually just following up on that and obviously you’ve mentioned you had a lot worked on the reduction of the commodity exposure from the 17% to the now 5%. Clearly, there was a lot related because of the divestitures but then there were market driven things, which is sales from that segment, Jennie-O, this is coming at a lower level. Now, the question is, is that the level you think is right to be in that low single digit
range and basically having 95-plus-percent in the [ph] num value (01:54:08) added or is there a drive through M&A to even further dilute the commodity business to ultimately end up at a 100% value-added?

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

So I'm going to start. I already know what Mr. Day's answer is going to be but I'll let him say that for himself. It's that combination right, and so it's not just a share of first conversion from commodity to value added, it's that ongoing incremental addition as well within the value-added category. And so, we want that number to continue to get higher. Obviously that's really where we win and where we execute better than anybody. Tom?

Thomas R. Day
Executive Vice President-Refrigerated Foods, Hormel Foods Corp.

In regards to Refrigerated Foods portfolio, we've stated publicly and I've told the people that work in this department and specifically our fresh pork area, your job is to work yourself out of the job, that someday they would walk in and we have no fresh pork to sell, okay. We've committed to them that we will have responsibilities for them somewhere in the corporation. But really that is their job and I will tell you over the last six years, they've embraced that wholeheartedly, work closer with the other value added proportions of our company to sit there and say well what about this particular product, could we use it in a different way. And I think that's the type of cooperation that's taking place behind the scenes that you don't see every day that we are committed to.

So it is a journey we understand and take, I'll say, a great amount of pride in the progress we've made over the last six years. But we know we've got more work to do but we're committed to do that and make sure that our value-added portfolio continues to grow.

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

That's the answer I knew he'd give you.

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

Ben in the back?

Ben Bienvenu
Analyst, Stephens, Inc.

Thanks, Ben Bienvenu with Stephens. I've got a follow-up on the value-added products that you are selling. How much opportunity is left to margin up the products that you're already selling within your value-added mix. And then a second question on Refrigerated Foods in particular. You guys preemptively raised prices ahead of anticipated inflation, product cost inflation from African Swine Fever. How much does that incline you to when you see inflation and future maybe wait a little bit longer to see what the market bears out before raising price?

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

Yeah. So I'm going to go ahead and let Tom handle that.

Thomas R. Day
Executive Vice President-Refrigerated Foods, Hormel Foods Corp.
Okay. Thank you. We did raise prices when we anticipated a run up that everybody saw. I'll say earlier this year. I will take full responsibility for that and will tell you that I think that's what leaders do, leaders lead. And as a person who has a branded portfolio, we believe that we needed to make sure we were protecting our company and obviously working closely with both retailers and foodservice customers.

When that didn't materialize in the marketplace, we went back and talked to those customers, had some good feedback, I'll use that term and needless to say adjusted ourselves accordingly. I think as we go forward, we learn some lessons as we all do in any type of unique position that we always find ourselves in. So looking back at it, I think we made the right decision, looking forward to be quite honest with you. Could we waited a little longer? We could have, there would have been some risks in doing that.

I will assure you we will continue to evaluate, but as a branded, value-added company, it is our responsibility to lead in those efforts and not put ourselves in a position that we're way behind the eight ball, we just can't do that to ourselves.

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

And then I think to the first part of your question in terms of the runway that's before us, I mean it's still there and its significant and it's the two things that I just answered. You know it's that, at first step from a commodity to value added, but then finding those incremental steps along the way. And I know many of you are probably tired of the example, but when you think about Tom's slide and what we've done in the bacon category and then how we've even leapfrogged a little further with Bacon 1, I mean that's a real example. That's a significant example and we can do that in other parts of our portfolio.

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

Over here.

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Jeffrey Alan Walkenhorst  
Analyst, Copeland Capital Management LLC

Thank you. Good morning. Jeff Walkenhorst from Copeland Capital. So we saw a lot of stats in great detail in the slide deck so far CAGRs, but I didn't see a lot of it in Applegate, more than if you can size that business for us. What has the CAGR been since acquisition, maybe margin profile and as well as how have you – you mentioned Tom protecting, preserving their mission and we all know there's been some notable failures in the history of CPG companies where you buy company, think about Kashi with Kellogg and you try to integrate it and destroy that company and the growth does not meet expectations. But so how have you done with regard to your kind of initial expectations and how have you tried to protect the mission that the core business, well at the same time leveraging the competitive advantages that Hormel may bring to the table? Thank you.

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

So I'll go ahead and start and I'll let Tom maybe talk about the actual mission and the protection of that. And we always like to go back to the time of acquisition and we knew going in there really were two macro issues was making sure that we had ample supply to meet the needs of the business. The supply chain wasn't as well-developed as we would have hoped, but we were able to leverage our supply chain capabilities and build out that supply chain, compound that with what happened to the biggest player in the natural organic channel.
At that time, there was a short term downturn in the business. And so, we've been able to work through that. You heard Tom talk about not only just to focus on the retail business, the core business, the innovation of that business, but any expansion of that business into foodservice. I mean that's really as you look at the history of our ownership there are countless points where we've been able to leverage our scale and ability to really help that business progress and then, I'll let Tom maybe talk about the actual progress and mission.

Thomas R. Day  
Executive Vice President-Refrigerated Foods, Hormel Foods Corp.

Yeah. We learned a lot and we learned a lot by watching other people to your point that some of them didn't go as well in the industry when I'll say a larger company went in and bought a smaller company. We tried to pay attention to that and be students of the industry. Second of all, when we went and we purchased this company, we had open honest direct communication with the people at Applegate to say we are not here to hurt, we are here to literally help and needless to say sometimes what you think is helping can hurt.

So we were very strategic in making sure and maybe the biggest compliment that I've received from the people at Applegate from the customers and from consumers of Applegate is to say, you did what you said you were going to do. You told us that we would continue to be able to support our mission of changing the meat we eat and the fact, the matter is you've supported us through R&D, through supply chain, through other things that we have brought to the company and then we've also learned. We went in there to again to be students and not that we knew everything but we needed to learn and I think there's a mutual respect between the two of us. I think as we sit here and look forward, the decision we made to enter into the foodservice arena with Applegate was not a path that the Applegate team was on.

And to be honest with you, I think that helped to demonstrate and provide the rocket fuel to Applegate that the team is looking at it and saying, what is really possible now going into other channels – and I mentioned at the University of Wisconsin-Madison, we've got countless other examples in the CNU in the healthcare field and so we think that that also offers a very bright future certainly work being done within the deli and the retail chain will continue to be a very strong emphasis for us. So we like what we're doing there, I'm not going to tell you right now it should be a Harvard Business case study but I will tell you that we did a lot of things right there and we did some things that maybe we'll improve on with the next company that we purchase, so.

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

This will be our last question session. In the back.

Kenneth B. Zaslow  
Analyst, BMO Capital Markets (United States)

Ken Zaslow from Bank of Montreal. I've four or five-part question, sorry. You pointed out that lower commodity portfolio is one of the reasons why you have a lower concentration of your 15% of your commodity. If the commodity market was not lower, how much of your portfolio would have been commodity exposure, so you pointed out 15% but you said one of the reasons was that you have just lower commodity profitability. So how much is actually corporate actions, and how much is because of the market going down against you?

Second part is when you think about the refrigerator overtime, the sales and profit growth algorithm how much is that above your expectations for the company relative to above on a sales and profit? And the last part is, you also said that lower pork sales exports was caused by low global pork crisis but that's reverse too now? So just those kind of questions if you could kind of tackle them?
James P. Snee  
Chairman, President & Chief Executive Officer, Hormel Foods Corp.

Yeah. Sorry, I'll tackle that last one first, Ken, and then maybe let Tom handle some of the Refrigerated Foods one. And I guess what we're just saying is with everything that's happened in China already through ASF, obviously, you had a build-up of inventory as some of the [indiscernible] (02:04:20) was liquidated, which then also you had some export issues that more than anything created that short term oversupply and probably a global reorganization of how the meat is moving around and that depress prices. And so it's not something that we see going forward as this continues to unfold. But it certainly is a reality of what's happened in the marketplace. And so that's what we were referencing in that comment.

Concerning the first part, Ken, if I have it correctly is, if you look at our harvest levels, 2018 versus 2019, approximately the same. What's changed is, is the amount of commodity product that we have available to sell is less. Why? Because more of those cuts are going into value-added products which in fact is exactly what we want to have happen.

So back to the idea of what price are at, clearly if prices were higher, there would be some commodity, that portion that's 15%, maybe 16%, maybe 17%, maybe 18%, I'm not in a position today to be able to model that out for you. What I'm telling you is, is that in the – when people come to work in the morning, if they have a less commodity pork to sell, because it's going into value added that's better for our value added side of the business. And to be quite honest with you, it's really better for our commodity side because we're able to get better prices for the commodity product that we do have left. That's the journey we're on. We continue to do a great job across the company. So I don't know if there's a whole lot of volatility in that 15% from the number we quoted here this morning.

Kenneth B. Zaslow  
Analyst, BMO Capital Markets (United States)

[indiscernible] (02:06:15)

Thomas R. Day  
Executive Vice President-Refrigerated Foods, Hormel Foods Corp.

One more time, I'm sorry, Ken.

Kenneth B. Zaslow  
Analyst, BMO Capital Markets (United States)

What about the profit growth outlook for refrigerated relative to your company as a whole? I'm assuming it has to be well above and how much above would you expect?

Yeah. I mean, the way we think about Refrigerated Foods is it will be in line with our total company growth. I mean, obviously as you think about the opportunity is in international, we believe those are very strong. We'll have the opportunity to hear more about the Jennie-O Turkey Store and that return to growth. But in Refrigerated Foods is obviously going to be in line with our total company growth expectations.
Nathan P. Annis  
*Director-Investor Relations, Hormel Foods Corp.*

All right. We are going to take a 15-minute break and reconvene at 10:20. We do have some snacks out in the lobby. Thank you.

[Break] (02:07:05-02:24:13)

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

All right. It is my pleasure to welcome Steve Lykken, Senior Vice President and President of Jennie-O Turkey Store, onto the stage.

Steve Lykken  
*Senior Vice President & President-Jennie-O Turkey Store, Inc., Hormel Foods Corp.*

Good morning, everyone. Welcome back from break. Thank you, Nathan. Like many on our leadership team, I've been with Hormel Foods my entire career. I just surpassed the 27-year mark. I have been though at the helm of Jennie-O Turkey Store as President since January of 2018. I've actually spent nearly half of my career at Jennie-O, having led both the retail and supply chain segments of the operation. So, it's really great to be here today and a great honor to represent our team of 7,000 at Jennie-O and share a brief business overview.

Jennie-O is one of the leading turkey companies in the United States, $1.3 billion in revenue and a long track record of success in the industry. Our business is made up of three primary selling segments. The retail division consists of value-added turkey sales in the fresh, frozen and refrigerated categories, and our retail footprint is incredibly strong, especially in markets like California that are a little more health-focused. In fact, Los Angeles is by far our top market for retail sales.

Our foodservice division encompasses national account sales, non-commercial customers and K-12 school foodservice programs. Without giving away any customer names, I can tell you that Jennie-O is served at some of the top hotels, restaurants and colleges in the country. And our commodity segment lastly is comprised of our whole bird turkey sales, exports and institutional meat sales.

Now, we believe our vertical integration to be a core competency and a really important competitive advantage. Being vertically integrated allows us to strategically manage all segments of our supply chain, from the egg to the finished product, and that includes our farms, our hatcheries, our feed mill operations and our processing plants. Combined with our one supply chain model and distribution network based in Minnesota, we're able to efficiently serve customers on both coasts in a timely manner. Now, there've certainly been some significant disruptions and industry headwinds that have created unique challenges for our business this year. So, let me take a minute to address these.

At the start of fiscal year 2019, we had two voluntary recalls that occurred just weeks apart during the holiday season. This was part of a global supply chain challenge that was a specific type of salmonella that not only impacted Jennie-O, but virtually every turkey company in the US. Now, that experience taught us that consumers are resilient. They're not really likely to remember the recall. The real disruption happens at retail. Every store reacts differently. Some might simply look at the affected product. In other cases, key products might be absent from the shelf for weeks at a time. But what makes these events particularly notable and frustrating is we've had three recalls in the past 20 years and two of them occurred in that six-week timeframe.
Now, there's been a tremendous amount of progress within our company and the industry regarding the reduction of salmonella. But the poultry industry and government agencies will continue to be challenged to ensure consumers understand proper cooking and handling techniques for raw meat. An additional challenge has been a continuation of oversupply in the turkey sector, and 2020 is shaping up to be the fourth consecutive year of excess inventory, especially as it relates to cold storage holdings for breast meat.

Now, there's been some indication of supply contraction. The cold storage inventories were being well above five-year averages, and bird weights, especially in the tom complex, have been consistently heavier. On the hen side of the equation, poult's are trending lower at a more aggressive pace, but prices remain historically low. But as we look forward, it's likely that whole bird markets are going to improve based on these near-term trends. Now, these interruptions to our business were dynamic, but we remain confident in our ability to refocus on our strategic roadmap.

Over the past year, we've taken several decisive actions to better position our company for the future. We established new sales and marketing leadership within the retail group to drive bold thinking. Two senior executives from within the organization joined Jennie-O in mid-September to reignite these efforts. We activated new media strategies in select markets that are really exceeding our expectations, and we've made significant investments in infrastructure to support our business.

These decisive actions, combined with focus, clarity and alignment, have led to our path forward at Jennie-O, an approach we refer to internally as R4. For us, it means just getting back to our playbook, regaining lean ground turkey distribution, rebuilding customer confidence in our brand, reinvigorating our innovation pipeline, and realigning our cost structure to invest in growth. We remain the number one share leader in raw ground turkey in the most critical segment fresh tray pack, which is nearly 90% of the total.

With the 34% volume share, we've maintained a 9-point gap with our largest competitor in the category, private label. While the recalls have certainly contributed to the turbulence in our business, other factors include less dedicated space in the category, fewer items carried, less overall promotion. In fact, January is typically the highest seasonality for ground turkey. We lost nearly every ad opportunity as a result of the recalls. And you can see the impact of our loss in total points of distribution in the segment.

Now, raw ground turkey is showing a little bit of growth excluding Jennie-O, but overall category health depends on the presence of the Jennie-O brand. We introduced this segment to Americans and our loyalty runs very, very deep with consumers. In fact, the most compelling story we are learning is that retailers with no Jennie-O brand presence and even some that have simply reduced Jennie-O SKUs on the shelf are seeing significant category contraction of at least 4%, and that's compared to modest growth when the Jennie-O brand is present. Now, this has proven to be really valuable information for retailers as they review category assortment decisions.

And despite the recall events, consumer interest in the brand remains really strong. Not only did we see unaided awareness improve versus prior year, but our top two box future purchase interest improved with core category buyers. We've also activated a new media strategy that's driving strong sales growth in our largest markets. An early read on our July campaign was a 16.5% increase in a very crowded Los Angeles media market. You can imagine how hard it is to break through the clutter in the LA media environment. So, we are thrilled with this level of impact.

As a result, we've since expanded this campaign to Chicago and Dallas. So, let's take a quick look at the television created for this campaign.
[Video Presentation] (02:32:11-02:32:42)

Now, our foodservice team has done a great job achieving the 15% of net sales innovation goal, and our retail team is not far behind. Look for convenience, flavor and packaging as key tenets of our process going forward, and a great example is our new Habanero Apricot fresh dinner sausage, a product that's full of flavor, very unique to the segment. We're also in the process of consumer testing new packaging technology for our [ph] fillet chick (02:33:12) business, lean ground turkey, which will not only get us out of foam trays completely, but includes other customer-friendly aspects to the innovation like extended shelf life.

And our significant investments in infrastructure, most notably in our new Melrose plant, have lowered labor costs and improved productivity. Melrose is a great example of our continued pursuit of innovation in processing to eliminate labor and improve ergonomics for our team. The facility also has a world-class animal handling system and robotics. And during Glenn Leitch's presentation next, you'll see some video of the robotic palletizing and some of the box conveyor configurations in the plant.

Now, despite the disruption we've seen at retail, our team is not complacent. Regaining distribution in lean ground turkey is our number one priority, and we are well on our way. To reiterate, we're the share leader, and the data supports our significant contributions to the category. Secondly, we're well on our way to rebuilding consumer and customer confidence in our brand. Consumers love Jennie-O, and we're getting back to consistent investments in marketing and media. This is the company that prompted consumers to switch from beef to turkey in unprecedented fashion, and we're going to restore that energy to the space.

Thirdly, we have a tremendous opportunity to reinvigorate Jennie-O innovation both in retail and in foodservice. When you think about it, household penetration is in the low-20% range, and there's even more running room in the foodservice trade with lots of different sectors. So, we're thrilled about the opportunities that remain with turkey. And finally, we can realign and realign our cost structure to support these new branding initiatives. In both plant and live production operations, we have aggressive cost saving goals for the coming year.

So, in closing, we are confident in our leadership position in the sector, and yes, there have been tremendous industry headwinds. But the Jennie-O brand fundamentals are strong and turkey as a category still remains on trend. We have decisive and intentional actions underway as we focus on remaining the strongest player in the industry, and we have a plan to return this business to sustainable long-term growth.

Thank you so much for your time this morning. Now, I'd like to introduce my colleague, Mr. Glenn Leitch, Executive Vice President of Supply Chain.

Glenn R. Leitch  
%Executive Vice President-Supply Chain, Hormel Foods Corp.%

Thank you, Steve. Good morning. It's my pleasure to walk you through the significant change that Hormel Foods has made within its supply chain. Jim Snee announced in November 2017 the move to a single supply chain structure. Previously, we had supply chains roll up under the different value-added business groups, and we now have changed that structure to we have a single view of what the supply chain should look like that provides for better centralized management and also provides for not only savings from the bottom-up, but also from the top-down.

There are several things we have to get right as we do this. One of them is to make sure that we simplify. Think in terms of something as easy, you would think, as quality assurance processes and are they similar and consistent
throughout the company. We need to be able to modernize, and you will see many examples of that here this morning. We need to optimize. Yes, we need to make sure our assets are optimized, but we also need to make sure we have the best utility of the hog carcass, different ways to look at the business.

And we need to rationalize. Earlier this year, we decided to discontinue our Little Sizzler’s line of products. We had spent some capital on it, and it didn’t meet the hurdle rate that we expect. And throughout all of that, Project Orion is really important to our future. From the supply chain, having a single view, everything from logistics to demand planning, being able to see our system completely will pay dividends for us going forward. So, in creating an efficient and agile supply chain, there are several things I’ll walk you through this morning.

But I want to take you quickly through some areas where we’ve made some difference, some significant progress to-date. I won’t give you a lot of detail, but I’ll give you enough that I hope you understand the scope of what we’re talking about. One thing that we’ve done is we’ve moved to higher speed lines. In this case, we’re talking about slicing, rather than take a line that’s full and put another line right beside it. You need more geographic space, if you will, you need more labor, and while that’s not always available, we have the ability to think differently, create better automation. And when we do this well, we can save 10% to 20% on our overhead and labor cost structure.

We’re able to do extended runs. This is everything from our [ph] cups (02:38:05) line of products to dry sausage and things in between. There are five or six criteria we need to meet before we would think about doing this. But where this is available in our system and where we’ve done it, we’ve been able to save 15% to 20% on our overhead structure. We’ve utilized low-cost formulas from really the beginning of time, but we’re taking a different view of it. And this is actually one area where Project Orion will help us significantly going forward better understand true low-cost amongst a wider variety of inputs as an example.

And we recently expanded some in-house dry sausage capacity. So, we brought some capacity that was outside of our system back into our system, and there are savings there that we have accrued from doing that. And then, some of these things are really pretty simple, but unless you’ve got a single lens, you might miss them. We used process hogs in Rochelle, Illinois. We did that for many, many years. But we discontinued quite a long time ago, yet we continued to bone hams there. So, we were putting hams in a truck, shipping them down the highway, boning them. We would lose yield in the return trip. You actually put age on the product. And now, we bone them 20 minutes down the road from where we started, and so it’s a lot better cost structure and frankly also a sustainability win.

We have production capacity sharing that’s taking place. You would expect that in one supply chain. We have a team that meets every 30 to 45 days, and we go through both short-term asset opportunities, as well as longer term asset opportunities, what do we see going forward, how do we best position ourselves. That list has 40 items on it today. We’re not down to the back half of that list yet. There’s still a lot more opportunity as we explore this. And we are increasing our use of frozen and tempered raw material. Now, there are a couple of really good reasons that you do it.

One is simple seasonality, right. There are opportunities based on what markets provides you. But the other is for cost assurance and to make sure we can have a well-planned outlay for what our cost of goods looks like. This is an area that we will expand as we go forward. We have a lot of co-manufacturers. Frankly, we probably have too many. We like them. We work really well with them, but we have over 100. And as we assessed the extent of all of them, we’ve realized there are a lot of small transactions taking place, smaller shipments. We’re not very logistically efficient here. And so, we like to have fewer, but larger co-manufacturers, and we’re on that path.
We do have some changes in our raw material sourcing. We have expanded the breadth of our supply range, brought more people into the fold. That's a good thing. It's easy sometimes just to pick who you're comfortable with, but we are challenging ourselves in that regard. And we also are doing a better job of rating the performance of those that are supplying. We've done it on the packaging side for many, many years. We're doing a better job now on the raw material side. Think in terms of running that production through your plant and where you get the better yield, not all vendors are alike.

We are expanding our central buying capabilities. We've had a central purchasing organization for a very long time as well, but we are extending it in different ways. We just recently took a purchasing professional from our corporate office and we embedded them in the engineering group. When you think about engineering and you think about the number of air handlers that are bought in the year and the number of forklifts that are bought in the year, the list goes on and on. There is opportunity here to think boldly and think differently.

We also expanded our capacity on our spicing operation. So, we blend our own spices. We put 2 million or 3 million pounds internally here. That's about $0.40 to $1 a pound every time we can do that. We've got another 5 million to 7 million pounds of capacity coming. And so, that's opportunity for us going forward as well. There are some wins beyond the bottom line. We have new training that's in place. We have software for our hourly group, and that's an opportunity for us to be able to expand with our hourly labor force, so that they comprehend what's taking place. We have collaboration and sharing of best practices, driving improvement across our production facilities.

And we are keeping a scorecard. So, this scorecard – you can't see it for a reason, but this scorecard provides a single view of how our plants are performing, and they get to rate themselves against each other. And now, I'd like to talk a little bit about managing our pork supply chain. We are more than just a pork company. We have net sales by key inputs you can see here. Pork is still about half of what we do. But most of the growth frankly for us is on the non-meat side. Think about when we acquire companies. Beef is a growing area for us and chicken also is a growing area. It doesn't look very large here, but this is done by sales. If you look at it by volume, chicken is certainly moving up on the volume side.

It's important to us to manage our pork input cost. We've got three main ways that we do that. One of them is with our Austin hog harvest business. We do purchase hogs on multiple different contracts. So, there are many different ways we will procure them. We will never pay the highest price out there, we will never pay the lowest price out there, and for us, we're managing volatility, it makes perfect sense for the type of business we want to run.

Our WholeStone Farms business is very important to us. We've got a contract now that runs through 2021, and we're today talking to them in fact about extending that contract and what that would look like. We do have the first right of refusal on any second-shift harvest that may take place. And the third piece, which is the growing piece of our business, is really what we're procuring on the outside and how we think about that. And we extend that to our co-manufacturing network, where sometimes they're actually procuring the product and providing a different source of input.

And then, as it relates to African swine fever, Tom took you through pieces of this, but I would just have you focus on the chart on the left for a minute. That is the September 1 quarterly hog inventory. And as most of you know, that supply has been going up for the last several years. In part, it's because of expected export growth. And so, there is an ample supply of hogs. We're killing record numbers today in the industry.
And on the right-hand side, I just wanted you to note that the North American industry has prepared differently than perhaps some of these other markets. And specific to the United States, there is increased surveillance that's taking place today. There is strict on-farm biosecurity. Much of that was really brought on from PEDv around 2014 and 2015, where farms better prepared and have better biosecurity than ever before.

There is a coordinated response plan that's out there. There was just a tabletop exercise here two weeks ago that had 14 states involved, the Federal Government. We were at the table. It was almost a week-long activity running through scenarios of how we would manage through this. That's proactive. That's getting ready for whatever might come. And there's also an indemnification process, where the farmer is encouraged to raise their hand and say, hey, I might have a problem here, come check. That doesn't exist in many other countries around the world, and that's really important to being prepared to manage through this.

I'd like to focus for just a minute on controlling costs. Jim mentioned at the outset the 1% goal. For our plants to have capital and new growth, new lines coming in, training new employees, it's really hard to hit that number. But we went to the plant managers and said, hey, are you okay with this goal. You got a chance here to speak up. They all like it, because while on a consistent operating basis year-over-year without a lot of new capital improvements and things taking place – and we've got some significant ones that Tom mentioned and I'll mention in a minute – that goal is achievable. And I'm pleased to say that today through the fiscal year almost ended, the Grocery division is meeting that target and it's actually ahead of it at the moment.

There are other strategic areas here that I'm going to walk through quickly. One of them is on automation. What you see in the top right-hand corner is our Hayward group. So, this is a separate operation of engineers. Their job is to solve problems no one else in the industry can solve. They recently created a bacon elevator, and it's not the elevator you may be got into today at some point. But what it is, is a system where you can take a 15-pound slab belly that needs to get sliced, and rather than have somebody raise it up over their shoulders and put it in, because gravity is the way that you like to slice [ph] as you (02:47:06) work through that process, it automates that system, that process. And it is an ergonomic win for the employee and it also provides labor savings. We've got seven of them in our operations today. It's just one example of what that group does.

I've got some other visuals around automation here. I'll quickly roll through, so we can run that video now. We have visioning system. This happens to be label verification. We've also got other visioning that looks at how you cut meat. Next, you're going to see our robotics – significant robotics in palletizing coming up here in just a second. And as you look at that, look at that pallet on the right-hand side. That is particularly stacked, so that it goes into a blast freezer and maximizes the utility of that energy, and so you can get it blasted within 24 hours. And this happens to be a robotics that's in a put-away in our dry sausage business. It's been a really good win for us. It allows us to basically run our dry sausage operations 24/7. And to this point, fortunately, none of them have accidently bumped into a wall. So, it's been very positive for us.

As we think about synergy capture, our Columbus acquisition was very helpful to us. We had a preset idea list of what we thought that synergy would be. When we've got together with the Columbus folks and really looked at it in the integration process, there were about 20 different list items. We're two-thirds of the way through that list today. Some require contracts to expire, et cetera, et cetera, but some really nice wins on the synergy capture and a very disciplined approach.

We are improving asset utilization. Another example happens to be our Dan's Prize operation in Minnesota was bursting at the seams and was going to need some new capital. Rather than do that, we had a plant in Alma, Kansas that frankly was underutilized, and so we've been able to move some production over through there. This
is being repeated in several areas in several different ways. But it allows us in this case to delay a larger capital spend.

We spent a lot of time around logistics network. This is the Grocery piece I'm showing you here. We're moving from three DCs to five. The fourth DC is actually in play right now. The fifth DC should be up and running in the first calendar quarter of next year. When all are operating and fully functioning, we should save over 3 million miles a year. There's a great sustainability story there. There is a little higher inventory that you're going to carry with more DCs in your network, but we're closer to our customers. And our metrics are already good, but they'll be even better with this change. The biggest win, we believe, is on refrigerated and frozen side. We need Project Orion this next year to be able to give us that single system view. We already know what the miles look like, but the execution of that will likely be in 2021.

We do have a balanced approach to cost savings. We have our target goal of $75 million. We are on that target at the moment. Different buckets you can see there. And as I've explained to you, some of the things that we save money on, you can see where they might fit into those buckets.

And then I want to finish with investing in growth. We are saving money where we can, but it's also really important to make sure we're investing, as Tom mentioned, for the value-added business units. With our Fontanini acquisition shortly after we acquired it, that combined sales force sold an awful lot of meatballs. And so, we were right at the walls, and so literally we found a place to put in a single line and then through some bold idea and thinking, we created as a double line, and that now is in line, in place and ready for business this fall and winter.

We completed here in the past year our gold expansion, so think about major, major bacon expansion. It's a growth industry, right? It's big business for us. From a value-added standpoint, we're really pleased from the supply chain to support it with this type of growth and this type of plant.

And then, finally, we're right in the middle of a Burke expansion. So it'll be close to $150 million of spend on core pizza toppings. Burke has also done some work on plant-based. And as we have found out plant-based runs a little bit slower through the operation, you need to make sure you have capacity and so we'll be able to manage as that business grows as well.

And we are planning to spend $1 billion over the next three years with more and more these types of projects. And I've got four different blocks there, but if I just focus on one, within our Grocery division, we just put a SPAM line in our Austin plant. It's a brand new line. It kicks in next week. It is going to be able to pull about 20 million pounds of volume. In order to make room for that within a same four-wall structure if you will, we had to move out about 2 million pounds to other facilities. So we're making those changes in different areas where we can to get the best utility out of our assets and be ready for the future.

So with that, some significant progress, some good projects certainly, prepared to manage through African swine fever and we are focused on cost savings, but we're really focused on making sure we can invest back into the business.

So thank you for your time. And with that, I'd like to introduce Jim Splinter, Group Vice President, Corporate Strategy.

James M. Splinter  
Group Vice President, Corporate Strategy, Hormel Foods Corp.
Good morning, everyone. Proven that we're in a very connected world these days, I just heard that Cramer is out posting and tweeting about Pumpkin Spice SPAM. He's putting it inside of his coffee and he says it tastes great. So I'm not sure how that fits into your valuation models, but just so you know.

So, again, Jim Splinter. I am in charge of corporate strategy for the company with responsibilities for the disciplines of insights and innovation, M&A, digital content management and also strategic planning, of course. And we are constantly evaluating as a team, the changing operator needs and the changing consumer needs that are disrupting the food industry.

And today, we're witnessing this very complex and fast convergence of environmental health, human health and the health of our food system. And these disruptors are changing the way we think about food, is pushing food expectations and experiences where today's experience around food becomes tomorrow's expectation. It's also having profound impact on our food choices as a society.

We believe that the ultimate narrative emerging from this era of disruption, as we're calling it, will be one of food companies and businesses and brands that were agile enough to navigate all of these changes.

Today I'd like to tell you our story. We call it our food forward story. It's a story of 128-year-old company that adopted an agile mindset to think differently. We practice employee trust and empowerment to conceptualize, design and build a new plant-based food offering in less than 12 weeks. We created an incubator to essentially disrupt ourselves and accelerate our food forward growth. We have enormous capacity to innovate based on insights that we possess. And combined with our differentiating capabilities create a catalyst for long-term sustainable growth.

We were busy developing a roadmap, which we call food forward and food forward is a see the future capability. Now, I know what you're thinking. Nobody can predict the future with 100% certainty and that is true of course. But we believe that you need to possess a point of view about the future of food if you expect to get to the future just a little bit quicker.

So we brought together a team of futurists and culinary experts to explore the frontiers of technology, business and science, to study those forces that are driving the rapid change that are impacting the entire food industry. And this goes beyond just food technology as some would have you to believe from the Silicon Valley.

There are other exponential forces at play here, including human health and the role of food. It also is about shifting consumer belief systems that are impacting food choices. It is at the intersection of these forces that change is most readily to occur, and that is the phenomenon behind the rise of plant-based foods.

Our insight is very simple. Consumers and patrons are becoming increasingly curious about and motivated by great tasty, sustainable plant-based solutions, not just meat replacement. I'd like to introduce you to the plant curious consumer. So we researched the attitudes and the motivations of the plant curious consumer and we came to learn that one-third of consumers plan to buy more plant-based foods. Their motivations are wide ranging from managing their wellness to better and cleaner protein delivery or uptake.

The primary purchase driver though like most food systems is what, it have to taste great And it must fit their daily meal routine and something the whole family will enjoy. Our differentiating insight from this plant curious consumers is that they're willing to try plant-based proteins, but they don't expect it to taste exactly like meat, but they do desire the ease of cooking prep and recipe flexibility.
While 12% of the US households consume some type of plant-based meat proteins, we know that from IRI that plant-based meat analogues only comprise 1% of the $86 billion net weight meat category. So we foresee a $10 billion to $15 billion addressable market in the next five to seven years. And to put that into context, our information would suggest that today between foodservice and retail, the current addressable market for plant-based meat alternatives is about $1.4 billion. So we see plenty of upside potential in this space.

So you might be asking yourself, it's a very crowded space, how will Hormel differentiate itself? Well, our consumer insights team identified a clear opportunity to fill a void in the plant-based alternative protein marketplace. We use a consumer attitudinal framework with four brand positioning dimensions and then we plot at the competitors' brands. On the lower side of the chart, you'd see a focus on mission or on top brands that are focused on taste, on the left brands that are plant positive, and on the right brands with a mission that is about reducing or eliminating meat.

The white space, great tasting food made from the goodness of plants, is an honorable space for the Hormel Company. So armed with these insights, we leveraged our differentiating capabilities around innovation and culinary expertise. We adapted agile, we worked cross-functionally and we did practice trust and empowerment of our employees. And that led us to the idea of using agile and the principles around agile mindsets, sprints and rapid iterations, and within 12 weeks we were able to consumer validate our product and our brand identity systems. Our plant forward designs are design not to replicate meat, but to bring the power of plants to the alternative protein seeking consumer.

Introducing Happy Little Plants, which meets the needs of this plant curious consumer that we've been talking about. Our brand position is unpretentious and delivers upon a very simple promise, great tasting food made from the goodness of plants. And great taste does not mean you need to compromise on functional benefits. Each four ounce serving of Happy Little Plants delivers 20 grams of soy protein, only 180 calories and only 7 grams of fat, of course, no preservatives, no cholesterol, and delivers all nine essential amino acids, are the same as a beef product.

Of course, all of our products are gluten free and are made from non-GMO soy as well. But the big differentiation is this idea of focus on taste and versatility that these plant curious consumers are demanding. They wanted a product that fit into their everyday meal plan, their everyday meal repertoire, if you will. And that's why we formulated our product on a one-to-one basis so that consumers could easily adopt our product into their traditional meal plan, such as making spaghetti or tacos from a plant-based product.

The same one-to-one concept works extremely well for our foodservice operators as well. Now they can feed their patrons the favorite recipes that they like to make in the back of the house that requires beef, now they can use plant on a one-for-one exchange basis. So we're here to celebrate the power of plants. We're using plant positivity to show how foods made with plants fit perfectly into a consumer's lifestyle and meal plans.

Happy Little Plants will be supported by experiential marketing. We'll be traveling to US and where the product is in distribution. We'll be creating events for people to interact with the brand, to get the feel of the brand, to try the product, to ask questions. We also will be using digital communication such as Facebook and Instagram to drive awareness and trial for this very important product, Happy Little Plants. We intend to show how Happy Little Plants delivers smart, easy meal solutions. And on the video that we're about to play, we're going to be able to show how we fit easily into consumers lives with two different edits.

Please go ahead and play the video.
So we’re intent upon bringing the power of our retail and foodservice businesses through the plant-based protein category. We have a very robust plant-forward foods platform already. You see since 2014, our foodservice group has been busily building distribution around their Blend Burger or Fuse Burger, which is a combination of fruits, grains and turkey.

We already learned about Applegate with their blend burgers featuring just three simple ingredients, organic beef or organic turkey combined with organic mushrooms and rosemary for a very simple, pleasing protein alternative. And our Burke Pizza topping company has already introduced into the marketplace a 100% plant-based pizza crumble made from pea protein.

For Happy Little Plants, we are utilizing our competitive advantages to win. We will continue to lever our new agile capabilities and lever our new internal incubator, which we created called Cultivated Foods from which to launch Happy Little Plants. We will utilize the nimble supply chain that Glenn was talking about, which excels at refrigerated fresh operations and refrigerated cold chain distribution systems, especially with short shelf-life products like Jennie-O Turkey Store tray pack for example. And we’ll continue to lever that direct sales team, which are known in the industry for their solutions-based selling and customer-first approach.

In conclusion, plant-forwards foods is a case study that demonstrates a nimble, fast-moving organization that is food forward, that has enormous capacity to generate insights to fuel our innovation quest leading to sustained long-term growth. Both retail and foodservice are well positioned in the plant-based foods category and we would do so by leveraging our differentiating capabilities.

Thank you. And now, I'd like to introduce to the stage Glenn, Steve and Larry Vorpahl, the Group Vice President of our International business.
QUESTION AND ANSWER SECTION

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

Ben?

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

Ben Theurer again from Barclays. Thanks. Actually a question for Glenn. So thank you very much for the early process in terms of savings, what you've been showing on the different areas. And I think you had in the presentation something like $75 million target for this year. Where do you think you can get to this in two, three, four years’ time out? Where is more potential on savings, particularly with all the initiatives you're doing, which is obviously still very early stage?

Glenn R. Leitch  
Executive Vice President-Supply Chain, Hormel Foods Corp.  

One of the objectives from today was to give you the scope of the different boxes that we're looking at. And you can see, as you build up the value of those boxes, there is considerable opportunity. We've got a large supply chain, lots of impacting factors. So I think we are really scratching the surface. We haven't outlaid a number for 2020, but I'm sure you'll see one of those sooner versus later.

I did mention the distribution network and what Orion might bring to us here with that network sooner versus later, I think is really – it's exciting for us in the supply chain area to be able to see what those opportunities look like and we're still evaluating some of those opportunities based on the conversion that's taking place right now in Orion.

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

Michael?

Michael S. Lavery  
Analyst, Piper Jaffray & Co.  

Michael Lavery from Piper Jaffray. Can you give us a sense of how to think about the global supply chain and for hogs especially or pork and what are some of the political hurdles or issues? How much – I mean, does Houston Rockets come into play and how do we think about stuff moving around and whether or not there is ways to go sort of via different countries? Can you just give us a sense of how you expect all that to unfold?

Glenn R. Leitch  
Executive Vice President-Supply Chain, Hormel Foods Corp.  

Oh, yeah. Well, the NBA earlier today, right. And the reality is, and if you look at hog futures, they are reacting to political wins. So to think that it's not impactful or separate wouldn't be right. It is intertwined together. But I can tell you that the scope of our business is such that, one, we're focused on managing the supply chain for value-added growth and that's key for us. How we manage through that, the leverage we pull with our hog contracts and then how we balance that out is important to us. How we pull from a diverse base? So we've intentionally as we think
about new vendors supplying us with pork, we’re focused also on ones that are less interested in exporting and more reliant on domestic and that’s important to us. So we won’t be able to solve for whether or not there’s a trade deal, what that trade deal looks like, but we’re all about managing risk and making sure we can evaluate those different pieces and that we’re well prepared for it.

**Q**

**A**

**Q**

**A**

**Q**

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**Q**

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**Q**

**A**
Thanks, Adam. I'll start. Good question. So I'd characterize that certainly in the environment we're in right now is not where we want to be and 2016 was a real anomaly. As you can imagine, I've spent a lot of time looking backwards. A lot of those results were frankly a lot of commodity uplift, if you will, following high-path avian influenza. And really between 2016 and 2018, that's still an anomaly that we're working through, getting back distribution, getting back on menus, foodservice, et cetera.

And so, this business that we're looking forward toward, as we get back into our tray pack distribution markers that historically we've held well, you get back to investment, I'd point backward again to where we were on a wonderful trajectory, high-single, low-double-digit growth as far as getting back into households, et cetera. So, I mean that's – we've done it before, we'll get back there again.

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

Glenn, do you have anything to add?

Glenn R. Leitch  
Executive Vice President-Supply Chain, Hormel Foods Corp.

Yeah. I think if we were to tack on to that, one thing that – the truth is the recalls didn't allow us to invest in the marketplace. And so, you've really seen some Jennie-O numbers here in the last 12 months that haven't had that investments and you're going to get some of that back. And as we look going forward really from a cycle standpoint, the whole bird piece of the business is starting to come back. You're seeing that in the market for this year. That will certainly be an advantage or a help as we think about next year.

So it has taken longer. I recall, frankly, I was here two years and four months ago and I said it's typically 12 to 18 months in a cycle. We've seen these cycles before. This one has certainly been longer. It's had some confounding factors, but there is a path here. And Steve had mentioned a couple of changes that have been made. I think those changes are really going to help us put our brand front and center, because those are brand numbers. He only showed a couple of them, but those brand numbers are excellent. It is still really a well-loved brand and has lots of room in the marketplace.

Adam Samuelson  
Analyst, Goldman Sachs & Co. LLC

So in the comments you made before Larry, why is the 12% [indiscernible] (03:12:45)?

Glenn R. Leitch  
Executive Vice President-Supply Chain, Hormel Foods Corp.

Yeah. Well, if you look across the product portfolio, generally speaking we’re there in a lot of different pockets where we've seen the growth. So we're seeing the most impact from these recalls is in the most significant portion of our retail business, which is well in that range. And so recovery there will certainly support that number over the long haul. We feel confident about that over the long-term, not looking backward to the 2014s and 2015s that you referenced and 2016. Makes sense?

Adam Samuelson  
Analyst, Goldman Sachs & Co. LLC

Sure.
Larry L. Vorpahl  
*Group Vice President, Hormel Foods International Corporation, Hormel Foods Corp.*

So to your second question, Adam, regarding China and the pork supply and the pricing, we're very pleased with the progress that we have experienced in China. This past year, as I think Mr. Snee mentioned, there is an oversupply due to the calling. We experienced very, very good cost of raw materials during the earlier part of the year. Yes, the ASF is causing now some cost of good increases, supply is still fairly plentiful, both domestic and we do import. We have a very strong management team in China run by Chinese nationals that really understand the marketplace.

And so as they're looking at where they're sourcing their raw material from, the cost of those raw materials and then what our target margins are, we've been able to price up this last August, September. And so, we are continuing to monitor the situation in terms of supply and accessing the supply domestic and international as well as then taking our pricing and implementing it in the marketplace. And we have a good, strong business between foodservice and retail, and so we're able to get pricing up in both areas as well as our innovation pipeline. We're working on more chicken and beef type of items. So that is sourcing the cost there and the mix has been shifting. So we're looking forward to managing the business according to the environment.

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

[ph] Rob (03:14:54)?

Hi. Thanks. A question for Glenn. You showed that slide indicating that US hog production is growing at a pretty rapid pace, like 3% a year and no sign of slowing down. But pork consumption domestically doesn't really grow. So is there a scenario out there where this shortage in China is satisfied by exports out of the US that we wouldn't be able to consume domestically here and then exports out of Europe? Is there a scenario that you're looking at where maybe all these thoughts about protein inflation just may not materialize?

Glenn R. Leitch  
*Executive Vice President-Supply Chain, Hormel Foods Corp.*

I did mention in my comments that that growth is really built for exports. If you think about the plants that have been added to the system, if you think about where the industry is moving, it is to be able to export, because yes, pork domestic consumption has been relatively flat. And so, I think that's a very fair comment and a very fair way to look at it.

I think ASF can bounce that and move that around a little bit, that's natural. But the trend here for pork is that the US is a low-cost producer of pork. The world is net importer and China may now be a net importer. And so there's opportunity for exporting. And so, there is that balance that is out there. And so, yeah, I understand your point. Yeah?

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

Rupesh?
Q
So question for Jim on the plant-based side. So focus today was more on the plant-based burger category, but curious how you guys are thinking about other parts for the pork, sausage et cetera?

A
Yeah. Our pipeline is very robust. We are looking at different forms and varieties to augment what we have with the lean ground product that we put out there. And so, we will be looking to introduce that in a very short period of time.

A
We have time for another one or two questions.

A
All right. With that, thank you for the Q&A. And now, I would like to invite Jim Sheehan, Executive Vice President and Chief Financial Officer.

A
Thank you, Nathan, and good morning. I'll spend some time talking today about our 2017 initiatives that we talked about at our last Investor Day. Then I'll spend some time on financial strategies. We had a question about how we allocate capital. We'll talk about that, and we'll talk about Project Orion.

So we've made excellent progress in the initiatives we discussed in 2017 of strategic cost management and improving our cash cycle. Strategic cost management has been deployed throughout the company and it's providing a great benefit. It allows us to focus our resources on strategic and long-term goals while minimizing expenses in less mission critical areas.

I'll give you an example. Deanna Brady just talked about the amount of effort and resources we're putting in total food growth revenue, growth management and the DEG. All of those functions take a great deal of resources and yet since 2016 we have reduced our SG&A as a percentage of sales and this excludes advertising by 70 basis points. We've been able to do that because strategic cost management works.

Our cash cycle in 2016 was 49 days. We got that down to 40 days in 2018. We did it by focusing on our receivables. We managed our vendor terms and we set targeted inventory levels. Now in 2019, we've made the decision to invest capital in the inventory. We did that because of the risk of ASF. For instance, we built significant inventories in China when the beef was the available [indiscernible] (03:19:25).

The approach of investing capital to mitigate risk is consistent with our capital allocation process. So we've done this while increasing our cash balance. In fact, we've made $1.4 billion worth of acquisitions in the last three years and we have no bad debt on the books. We also maintained our investment grade rating and dividend Aristocrat membership.
Hormel's strong cash flow is a significant asset. On average for the last three years, our operating cash flow has exceeded $1.1 billion. Our free cash flow exceeds $800 million on an annual basis. The strong cash flow was significant capacity of debt, places Hormel in an excellent position for strategic growth and continued outstanding shareholder return.

Next, let's take a look at how we allocate our capital. We use a waterfall approach with three areas: required, strategic and opportunistic uses of cash. For the required we will increase our dividend. We will put our maintenance capital as required use of our cash, mandatory debt repayments and pension obligations. After we fulfilled our required uses, we go to strategic.

Our growth CapEx, we had a question about that. Growth CapEx is a high priority on our strategic use of cash. We will use cash any way possible to provide growth and efficiency in our operations. Then we go to incremental dividend increases, acquisitions and investments in working capital such as what we did by building inventory.

As you could see, dividends are both required in strategic use of cash. Then our required use meets our pledge that we will increase our dividend and the strategic is to provide excellent shareholder return. Once we go through the required and strategic, we then go to our opportunistic use of cash, share repurchases and incremental debt repayment.

Here is how we've used our $3.3 billion of cash from operations in the last three years. $2.3 billion have been reinvested in the business through acquisitions and CapEx. $1.5 billion has been returned to shareholders through dividends and share repurchase. The acquisitions we've made have allowed us to invest in our strong foodservice business, from the deli group and expand our international presence. All of the acquisitions were strategic.

Here is our use of CapEx. As you can see, 75% of our annual CapEx are for growth CapEx. Only 25% of our CapEx on average is for maintenance. So let us discuss our investment on our facilities. The added capacity we used at Dold, the automation at Melrose. But we've also improved our processes through the one supply chain and Project Orion.

Our strong commitment to growing dividends is demonstrated by a recognition as a Dividend Aristocrat. We've had 53 consecutive years of dividend increases and I can't guarantee you much, but I can't guarantee you I'm not the CFO that's going to stop that. We've had 11 consecutive years of double-digit dividend growth. Our 10-year continuous annual growth rate is 16% for dividends.

One of the things that I'd also point out is that we have significantly changed our dividend payout. In the last three years, we have increased our dividend payout by 1,000 basis points. That has been intentional. In 2019, we will pay over $400 million in dividends.

We continue to actively repurchase stock. In fiscal year 2019, we will use $170 million to repurchase stock. We have 5 billion shares remaining in our authorization. The foundation's ownership has been fairly consistent at that 48% and we repurchased stock based on our internal valuation.

Hormel has one of the strongest balance sheets in the industry. It is positioned to be leveraged for growth. As a point of reference and for demonstration purposes only, if Hormel were to make a $3.5 billion acquisition at a 15 EBITDA multiple, utilizing our existing cash in debt, we would have a resulting debt to EBITDA ratio of approximately 2%. At a leverage ratio of 2%, we are still one of the least leveraged companies in the industry. This demonstrates why we are so confident. We can attain our long-term growth plan.
We continued on focusing on making long-term investments. You've heard our investments in the brands, but you also heard about revenue growth management, how we're going to utilize our trade in a more efficient manner, how we can utilize pricing and advertising to drive these brads. We will continue to invest in the facilities, but it's also the important initiatives of the one supply chain and Project Orion. We have a continued focus on return on invested capital. We've attained for the last five years an 18% return on invested capital, the top quartile in our industry.

Since 2016 Hormel has delivered returns to the shareholders, which are consistent with the S&P 500, but significantly outperform our peers. So you've heard several comments today about Project Orion. We're making excellent progress on this important initiative. It is a single instance Oracle cloud-based platform that will be implemented throughout the organization including our operations in Brazil and China. Orion will impact every aspect of the business from how we operate in our plants to how we interact with our customers. It will provide robotic process automation and let me give you an example.

Anyone who's been in the finance area knows what a tax period close are, thousands of transactions, lots of people that are working long hours on period close. We're on track on to deliver a touch-less close process, where every allocation, every inner company issue, every tax transaction will be handled through a robotic process, including reporting. This will create a significant amount of efficiency in our finance area.

We can have people looking to see what our performance is, what trends are and not making transactional interest. That type of robotic process automation is scheduled throughout the organization. It'll also enhance our analytics. If you think about it, we will have real-time data delivered at in a unified basis for every aspect of the business, for every entity in the business. We will utilize more analytics in our everyday operation, including predictive analytics.

We will have better insight to what's happening in the company and we will have it faster. And this phased approach will begin in the first quarter of 2020. In fact, the vast majority of the HR in the finance applications will be implemented and running by the second quarter of 2020.

We will also have the first portion of supply chain running by the third quarter of 2020. So in less than year, we've designed, developed and will be implementing the system. So you've heard us talk about it. I want you to hear from our executives in the finance, HR and supply chain area as to why they feel this is such an important initiative.

[Video Presentation] (03:30:36-03:33:14)

As an Oracle executive said to me, this is a bold move. We're more confident now than we've ever been that this is going to work. One of the questions we get a lot about this is, is it going to work when we start up? And so I'll give you an idea as to the time that we're spending. We have about 100 employees and outside consultants assigned to this project right now. 60% of their time is testing. Every aspect of this approach is being thoroughly tested and will go through four phases of testing before its deployed. We are highly confident that this will take us well into the future.

So let me close by reviewing our four key messages. We've made great progress since our 2017 Investor Day on strategic cost management and focusing on our cash cycle. We take a disciplined approach to capital allocation. Our strong and flexible balance sheet positions us for growth through acquisitions and we remain focused of long-term investments that drive exceptional shareholder return.
With that, I'll ask Jim Snee to join us on stage.

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

All right. We have about 20 minutes for Q&A for Jim and Jim. [ph] Rob (03:34:48)?

**QUESTION AND ANSWER SECTION**

Jim, I think Jim Snee, you started your presentation talking about shifting from a protein-centric company to a global branded company. Can you tell us a little bit more about how that's changed your M&A lens and how broad it is now?

**A**

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

Yeah.

**Q**

Thanks.

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

You know what, I would say if you went back probably even five years ago, the idea of thinking about a global acquisition or international acquisition really wasn't high on our radar. And so, as we have progressed over the last several years, obviously, spearheaded by the transaction we made in Brazil, it's given us a better view of what we're capable of. It's given us the learnings that we desired. And that would be probably in new opportunistic multinational markets.

But I think the other part that's happened is the continued development we've seen in China. So whether it's the direct selling organization, the new plant that we built in Jiaxing, we've developed a platform there that we are very confident in and it's a platform that we'd love to add onto. And so, finding the right opportunity, the right size, at the right valuation, that's very strategic is really, really appealing to us. And so, I do think it's been this change of mindset and opening of the aperture that has made it more, more interesting to us over time.

**A**

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

Michael?

**Q**

Michael S. Lavery  
Analyst, Piper Jaffray & Co.
Michael Lavery from Piper Jaffray. Just back to ASF and its potential impact on the business, you obviously saw earlier this year some pricing that competitors didn't follow, and it's not obviously [ph] clear off (03:36:48) what was in their thinking then. But if you were to come into a situation again where you saw the need for pricing and went ahead and took it and for whatever reason they didn't seem to follow along as well, do you have contingency plans for that? How do you expect to – what are you doing to be prepared just to handle all the scenarios that could unfold?

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

Yeah. I mean, I think it's just that, it's a scenario planning. And I do think the next time we do see a run up, we'll be better positioned to evaluate whether it's another false positive, right. I mean, that's obviously what happened in the end of April, May timeframe. But we were at that time receiving information that, hey, this is it, batten down the hatches. So we'll have better visibility. And we will, as Tom Day says, we'll do what leaders do and we'll take pricing when it's appropriate.

I mean, you could formulate that scenario where others don't follow. But I think if the markets sustain at a high level, it's probably a fair assumption that others will move as well. But in that extreme case where if they didn't follow, I think some of the tools that Deanna Brady talked about in her presentation and really understanding the levers that we can pull with revenue growth management and how do you allocate trade and how do you allocate trade most efficiently.

And then, if we got to the point where we did have to realign pricing because of some demand impact, I think hopefully what you're hearing today is the fact that we're agile enough and insightful enough to understand what's happening in the marketplace. And so I think the team that you heard from today is on top of and all over this business that regardless of the scenario will have a plan to address it.

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

Tom?

Thomas Palmer  
Analyst, JPMorgan Securities LLC

I wanted to ask about your appetite for larger M&A. In the past, I mean, you've really never gone past like half a turn and your demonstrative example suggested two times. I mean, what is the threshold today in terms of how large you would be willing to go on the M&A side? And if you did that, would it be a single large acquisition or would we expect more a series of acquisitions to get you to that type of level?

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

Well, the example that we gave, I believe, shows the strength of the balance sheet that $3.5 billion only provides a fairly conservative leverage level. It has to be the right deal and it has to make long-term sense. And as we've said for a long time, we're not going to make a bad deal just so that we don't have to talk about it anymore. Okay, we've leveraged the balance sheet. It's a bad deal, but we got it done. So we've taken a disciplined approach and very honestly we've looked at a lot of deals and the deals that we've passed on was the best decision for the shareholders.
James P. Snee  
Chairman, President & Chief Executive Officer, Hormel Foods Corp.

And I think if you think about what those opportunities really are of that size and scale that Jim described, I mean, there just aren't a lot of them out there. And as I was reflecting, I mean, boy, there's only a couple that really we were interested in and probably were aggressive in. And so again, it's that disciplined approach that's just because it's big doesn't mean it's right. So we have the appetite and I think the beauty of it is we've demonstrated – your question is, is it a series of smaller deals or one big deal.

The answer is, yes, it could be either one of those. Because we've demonstrated our ability to do in pretty rapid fashion, smaller deals and get them successfully integrated into our organization but it still ladders up to a pretty significant amount of money. We did that with Fontanini and Ceratti and then coming right back with Columbus Craft Meats. And so you know we do – if we hit another pocket like that we know that we're ready for it and quite frankly, over time, we'll probably be even more ready for it as you think about what Jim described for Project Orion.

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

And I think the one thing to remember is it's not just a strong balance sheet, it's a strong balance sheet with a strong cash flow. So if we were to take a reach, we have the cash flow that could address if we were to need to pay down debt at a fairly short period of time. So, you have to look at bulk to see how strong this capability is.

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

Adam?

Adam Samuelson  
Analyst, Goldman Sachs & Co. LLC

Thanks. I was hoping to get just some high level thoughts about 2020, if we could, and you have these long-term targets, the 2% to 3% organic sales growth, 5% to 7% organic profit growth and, on top of that, some additional growth from M&A that gets you the 10% EPS. I'm just – I know you're not giving guidance today, but can you reflect a little bit on the headwinds and tailwinds that you see in the business into 2020 at a high level?

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

Yeah. I mean, I think, as Tom talked about in his presentation, the biggest unknown is what happens with ASF, right? When does it happen? How big is it? What's the total impact? There's a level of uncertainty there. But clearly, we'll be ready to address it. But just as you think of Refrigerated Foods at a high level and what you heard today, I mean, across all of that business, it's really well positioned for growth. And so, ASF potential headwind, but everything else in that business is really sound and ready to deliver continued value-added growth.

I think the same thing holds true for our Grocery Products business. What Luis talked about protecting the core, leveraging center of the store, seeing the moderate growth there but then accelerating it or complementing it with our Mexican food portfolio, I mean, that's something that we do every day and expect to continue to do that. What Steve is talking about getting Jennie-O back on track, we're going to have some investments back in that business. Glenn said it really well in that we weren't talking to consumers earlier this year.
And so we know as leaders in that category that we need to be that voice and we need to remind them that they didn't pick up their tray of lean ground turkey and get it back. So there'll be some short-term investments. And going out to 2021, 2022, 2023, I think that's when you're going to see probably some of that growth kick in.

And then International, I mean, it's the smallest part of our business, but we do have growth expectations. I think Larry did a nice job of explaining how our China team can take pricing. They have and they will continue to take pricing, as input cost ramp up, we expect to see that continued in China.

So, I mean, as you lay it all out, I mean, I think the growth targets that we put out there clearly are realistic and achievable because you've got a good fundamentally sound, sound business model. But I do think, as you think about the higher level orders, it's really ASF in 2020 and trying to predict that is really going to have a high level of uncertainty.

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Ben Bienvenu  
Analyst, Stephens, Inc.

Thanks. Ben Bienvenu with Stephens. Jim Sheehan, a question for you on the dividend. Obviously, the history is fantastic. You know that the payout ratio has gone up over the last three years or so. I'm curious, if you hit your intermediate growth goals for earnings and we see that kind of re-acceleration off of this base, would you expect that payout ratio to remain elevated and the growth of your dividend to accelerate? Or would you expect that payout ratio to moderate a bit?

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

Obviously, it's going to depend on how we grow the business. If we were to do an acquisition, it may change that growth rate of the dividend, but the dividend will be growing. We're quite comfortable with where we're at right now. And I believe that there is still some room to move it up as far as the payout ratio. So, you're in the 45%. 50% doesn't concern me all that much. So, I believe that that's still the target. I mean, when you look at our structure, dividends are big and we still see the ability to move the dividend.

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

And I would point out that Jim stole my line. In 2017, I was the one who said I was going to be — I was not going to be the CEO to stop the trend. So now, he is not the CFO to stop the trend.

Kenneth B. Zaslow  
Analyst, BMO Capital Markets (United States)

How much of the cost savings will improve Hormel's margin structure over the next two to three years? And which divisions will get the greatest impact?
James N. Sheehan  
Executive Vice President & Chief Financial Officer, Hormel Foods Corp.

Well, I think that you'll see an improvement perhaps in the Jennie-O area. I believe that there is significant improvement that we can make in International. And I think that you'll see an overall lift. So you'll see an overall lift in all of the organizations. The logistics slide that Glenn showed, showed you how efficient we can make this structure, and that's going to improve everyone, and it's the ability to see the trends. So the ability to look at a Jennie-O plant or even a plant in Brazil and see it in the same manner that we see our other operations, we're able to identify efficiencies that we can make, improvements in the procurement area and even trends with customers.

So when you see a customer and you can see the details of every transaction that every business unit made, you can see, you can adjust, and you can utilize the tools that Deanna talked about to improve that margin structure. So I think it's overall, probably Jennie-O and international might have the biggest ability to improve.

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

Yeah, [ph] Jeff (03:47:39)?

Nathan, thank you. [indiscernible] (03:47:41). So, I didn't -- Larry was on stage earlier with regard to China talking about we're going to introduce new products. I heard beef and I heard chicken. I did not hear [ph] JOT (03:47:53). And I'm wondering if there's a way to bring [ph] JOT (03:47:56) into other markets and also even within the US as you did in LA with this demand creation approach. I'm still kind of shocked that cold storage is so high but demand is I guess maybe even declining.

So how can you improve that? And then I got a follow-up will be, can you bring it to market via more of your -- maybe these plant-based products, the Blend Burger, which you mentioned is, some are turkey-based. Why not bring that, make that more mainstream, and is there a way for Hormel to sort of gain either mindshare or market share on the same stage that you now see with beyond meat and others getting so excited? Why can't Hormel or can Hormel play on that same stage? Thank you.

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

Yeah. So, I think the last part is correct. So we can play on that, that same stage. I think where it is, it's in such -- its infancy that we want to make sure that it's incubated properly. And so to Jim Splinter's conversation around making sure that the startup and the first part of that business is handled flawlessly so that it doesn't lose the attention or that we get distracted away from it.

So, the plan is to get it off the ground and then you will see it in a business unit. And so, the opportunity for us to quickly leverage our scale against that business, the item we have today, but then also the items that are coming in the pipeline, we'll be doing that very successfully. And as we think about plant-based and other parts of the organization, we touched on what we're doing with pizza toppings in Burke, we're talking about the Blend Burger at Applegate. So, that is happening.
The part about China, a lot of it is just the protein consumption that the consumers are familiar with. And so, pork obviously is king, chicken is very big, and so is beef. Turkey falls a little lower on the – what they understand and what they consume. So, in terms of the best use of our resources for the quickest best return, those are the items that would give us the best innovation opportunities. And so that's why we talked about it in that sequence.

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

Are there other questions?

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

All right. With that, I'll turn it over to Jim for the closing remarks.

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

So I know we've had a very busy morning, great presentations, very insightful and really giving you a better feel for how we continue on this path of becoming a more global branded food company. And so just to recap the key takeaways from today. We started off with Tom Day who told the story, the continued evolution of Refrigerated Foods, not only how we got to where we are today, but what we're going to do to continue this success in the future. And when you think about the three pillars that we have retail, deli, foodservice all significant, all growing, representing long-term sustainable growth for our Refrigerated Foods.

Luis Marconi talking about how we're protecting, how we're creating value in the center of the store, how we're growing that business when others are saying there's no growth in the center of the store; through brand building, through innovation and then complementing that with this acceleration with the growth in our on trend Mexican foods, our on trend Mexican business. And then, Deanna Brady bringing those two together and talking about the execution in the market place and how this direct selling organization that we possess is an incredible weapon, an incredible competitive advantage an incredible competitive advantage, how we leverage that. And then more specifically, some of the tactics that we're putting in place that we're developing as assets to our organization.

Total food growth connecting with customers in a way that we never have before truly leveraging our entire organization. Revenue growth management, making sure that the dollars we're investing are utilized for the best most appropriate return and then capitalizing on this ongoing trend in e-commerce. And if you go back in our – just three short years ago, we were not talking about e-commerce. We didn't have an e-commerce platform. But in that short period of time we were able to fund and stand up and develop an e-commerce platform under the leadership of Jim Splinter in the Strategy Group. And so now we are talking about it because it represents a great opportunity for our organization and more importantly it demonstrates how responsive and agile this company can be.

And you heard from Jim Splinter, right? How we used insights to develop our plant-based alternative proteins and leveraging our differentiating capabilities again relying on the agility of the organization to launch the Happy Little Plants brand. And I was watching and I saw all of you smile when we said Happy Little Plants. It's a brand that makes everybody smile. And Steve Lykken, giving you some insights into how we're going to return Jennie-O Turkey Store to growth? We have a proven playbook. We've had some external forces that play but we know that we have a clear plan to return this business to growth.
And Glenn Leitch about the significant and excellent progress that we’ve made on our one supply chain initiative. This is a big deal for our company, right? It was just two short years when we were operating our supply chain in silos. And so to be able to do what the supply chain team has been able to get done in such a short period of time once again demonstrates our agility. And the ongoing focus of controlling costs while reinvesting in the business for future growth, critically important to our success. And then Jim Sheehan, expanding on our disciplined and intentional capital allocation process, reminding everyone of the strong balance sheet and how that offers us flexibility and as a lever for us for growth. Really great content, very insightful and very demonstrative about how this company is so well positioned.

And it all feeds into this ongoing formula for success, right? We are all about our brands, all about building brands. Nobody does it like Hormel Foods. 40 brands, number one or number two in the categories in which we compete. You’re tired of hearing me say that, but that’s important to us. The relentless quest for innovation, our founder George Hormel, Originate, Don’t Imitate can be found all over the walls in Austin, Minnesota, that’s how important innovation is to us. Strategic, thoughtful acquisitions, not just an acquisition because we can, acquisitions that make sense for our business today and into the future. If we can’t bring more than a check to the party, we’re not going to the party, all with an eye to balance.

Balance across the organization or perhaps balance within a business unit, always thinking about balance. And we will continue to execute just like we did on our 2017 Path Forward, our 2020 Path Forward. These are the six strategic priorities that set this company up for success. You’ve heard about them in countless presentations today. These are the things that we have to get done to be able to deliver these realistic and achievable key results. The goal is to break apart some of the conversations we’ve had over the last couple of years about five and 10, to say, let’s a good closer look about where growth is coming from.

We’ve got our organic growth goals complemented by strategically aligned leading brands, disciplined valuation acquisitions. That’s what ladders up into the long term key result. So hopefully that gives you some clarity around how we’re thinking about it and how we talk externally about it and finishing where we started. This is an uncommon company, a unique and bold culture that has improved the quality of earnings through thoughtful intentional actions. That has laid out a clear growth strategy leading to significant opportunity ahead. We believe that we will get it done and we appreciate your support and we appreciate your time here today. So this concludes our 2019 Investor Day.