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Hormel Foods Corp. (HRL)

Q1 2015 Earnings Call

CORPORATE PARTICIPANTS

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Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

Jody H. Feragen
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OTHER PARTICIPANTS

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Goldman Sachs & Co.

Farha Aslam
Stephens, Inc.

Kenneth B. Zaslow
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Eric J. Larson
Janney Montgomery Scott LLC

Diane R. Geissler
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Mario Contreras
Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Hormel Foods' Corporation First Quarter Conference Call on 2/19/2015.

At this time, all participants are in a listen-only mode. Today's conference is being recorded. At this time, I would like to turn the conference over to Jana Haynes. Please go ahead.

Jana L. Haynes
Director-Investor Relations

Good morning. Welcome to the Hormel Foods earnings conference call for the first quarter of fiscal 2015. We released our results this morning before the market opened around 6:30 AM Eastern Time. If you did not receive a copy of the release, you can find it on our website at www.hormelfoods.com under the Investors section.

On our call today is Jeff Ettinger, Chairman of the Board, President and Chief Executive Officer; and Jody Feragen, Executive Vice President and Chief Financial Officer. Jeff will provide a review of the operating results for the quarter; then Jody will provide detailed financial results for the quarter; the line will be opened for questions following Jody's remarks.

As a courtesy to the other analysts, please limit yourself to one question with one follow-up. If you have additional queries, you are welcome to get back into the queue. An audio replay of this call will be available beginning at 11.00 AM Central Time today, February 19, 2015. The dial-in number is 888-203-1112 and the access code is 7062923. It will be posted to our website and archived for one year.

Before we get started with the results of the quarter, I need to reference the Safe Harbor statement. Some of the comments made today will be forward-looking and are made under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed in or implied by the statements we will be making. Among the factors that may affect the operating results of the company are fluctuations in the cost and availability of raw materials and market conditions for finished products. Please refer to pages 26 through 30 in the company's Annual Report for the fiscal year ended October 26, 2014 for more details. It can be accessed on our website.

Additionally, please note the company uses non-GAAP results to provide investors additional information to facilitate the comparison of past and present operations. Discussion on non-GAAP information is detailed in our press release located on our corporate website.

Now, I'll turn the call over to Jeff.

Jeffrey M. Ettinger

Chairman, President & Chief Executive Officer

Thank you, and good morning, everyone. We're off to an excellent start to our fiscal year with adjusted net earnings up 22% from a year ago, on record first-quarter sales of $2.4 billion, a 7% increase over last year.

In terms of segment performance, Refrigerated Foods delivered a 19% increase in operating profit on a 1% sales increase. Our food service group achieved strong sales of branded items such as HORMEL BACON 1 fully cooked bacon, HORMEL pizza toppings and MENUMASTER hams. Meat products grew retail sales of HORMEL GATHERINGS Party Trays, HORMEL pepperoni and Hormel Natural Choice lunch meat.

In addition to this value-added product growth, lower than anticipated hog prices were a nice tailwind for the segment during this quarter. The combination of lower feed cost, a more mild winter and a fairly quick rebound from the PED virus that plagued the industry over the past year is resulting in an increasing domestic hog supply. Pork remained an excellent relative value to consumers, and we continue to see solid demand from our customers.

While we drove growth in our value-added Refrigerated Foods businesses, our overall sales increase was only 1% and volume was down 3%. We reduced harvest levels by 2% compared to last year, as certain market conditions did not support volume increases for much of the quarter. Also, as we announced on our last call, we dissolved our Precept Foods joint venture, which resulted in lower sales and volumes this quarter.

Jennie-O Turkey Store delivered impressive growth this quarter, exceeding our expectations with segment profit up 56% and sales up 10% compared to last year. Results were driven by value-added sales and excellent execution throughout the segment, along with favorable commodity turkey prices and lower feed cost. Jennie-O lean ground turkey, rotisserie turkey and premium seasoned deli turkey led sales growth this quarter. We continue to support and build the Jennie-O brand though our Make the Switch media campaign which began running in new U.S. markets in January.

Grocery Products adjusted segment profit decreased 8% this quarter, with sales up 2%. High meat input costs and varied pricing actions in key categories hampered the growth of some of our brands. Products including SKIPPY peanut butter and Hormel chili were down this quarter. On the positive side, our SPAM family of products, Wholly Guacamole dips and Herdez salsas and sauces grew nicely during the quarter. Grocery Products is dedicated to strengthening our brand through advertising and merchandising support with campaigns running in the first half of the year for SKIPPY peanut butter, Hormel chili, and Hormel Compleats microwave meals.

Out Specialty Foods segment reported an operated profit decrease of 13% and a sales increase of 34%. Excluding sales of CytoSport products, sales were up 3%. The lower operating profit was primarily driven by reduced contract manufacturing business during the quarter, which offset the incremental CytoSport results. Specialty Foods achieved solid distribution gains from Muscle Milk protein nutrition products in the food, drug and mass channel over the past quarter.

International & Other adjusted segment profit increased 6%, with solid increases from both our retail and food service businesses in China, offset in part by lower results from SPAM exports due to high input costs and transportation challenges. First quarter sales for International were up 17%, benefiting from strong growth in China, increased SKIPPY peanut butter sales, and the addition of the SKIPPY China business.

Looking ahead to the rest of fiscal, we believe hog and grain costs will remain favorable. We expect the high turkey commodity prices, which have been beneficial over the last several months, to trend down as the year progresses. We anticipate sales of our value-added products in Refrigerated Foods and Jennie-O Turkey Store will remain strong throughout the year.

Lower meat prices will provide input cost relief for some of our Grocery Products categories after we work through higher-cost inventories. Specialty Foods will maintain its focus on maximizing CytoSport synergies, gaining distribution, igniting innovation and building the Muscle Milk brand to drive segment growth. We continue to expect the CytoSport business to deliver the $0.05 per share earnings accretion we have previously guided.

We look for Grocery Products and Specialty Foods segments to contribute to our growth goals in the back half of the fiscal year. We expect International to build on its growth trajectory in China with some challenges to its export business over the next few months, offsetting a portion of that growth.

Due to our strong performance in the first quarter, we are raising our fiscal 2015 adjusted earnings guidance range, excluding the non-recurring charges, from $2.45 to $2.55 per share up to $2.50 to $2.60 per-share.

At this time, I will turn the call over to Jody Feragen to discuss the financial information relating to the first quarter.

Jody H. Feragen
Chief Financial Officer, Director & Executive VP

Thank you, Jeff. Good morning, everyone. On a GAAP basis net earnings for the first quarter of fiscal 2015 totaled $171.7 million, up 12% over last year. Diluted earnings per share were $0.64, a 12% increase. Excluding non-recurring charges, non-GAAP adjusted net earnings for the first quarter of fiscal 2015 totaled $187.3 million, up 22% from net earnings of $153.3 million last year. Non-GAAP adjusted diluted earnings per share for the quarter were $0.69, up 21% compared to $0.57 per share a year ago.

The first quarter included pre-tax non-recurring charges of $10.5 million related to the Stockton, California, plant closure and $9.5 million for the exit of international joint venture businesses. Sales for the first quarter totaled $2.4 billion compared to $2.2 billion for the same period last year, a 7% increase. Volume for the first quarter was 1.3 billion pounds, up 3% from fiscal 2014.

Selling, general and administrative expenses in the first quarter were 7.5% of sales compared to 7.4% for the same period last year. We expect selling, general and administrative expenses to be between 7.5% and 7.8% of sales for fiscal 2015. Advertising expenses for the first quarter were $42.2 million compared to $36.1 million last year. The increase over the prior year was primarily associated with advertising for CytoSport products in the Specialty Foods segment.

Equity in earnings of affiliates was $1.7 million in the first quarter versus $4.7 million last year. Charges associated with the exit of international joint venture businesses totaling $9.5 million offset improved performance from our MegaMex Foods joint venture.

Interest and investment income was $1.1 million for the first quarter compared to $1.2 million last year. Interest expense for the quarter was $3.1 million, unchanged from last year. Our effective tax rate in the first quarter was 34.7% versus 34.4% in fiscal 2014. We expect the effective tax rate to be between 34% and 35% for fiscal year 2015.

The basic weighted average number of shares outstanding for the first quarter was 263.7 million shares. The diluted weighted average number of shares outstanding for the first quarter was 270.1 million shares. We did not repurchase shares during the first quarter. We have 8.2 million shares remaining to be purchased from the current authorization in place. Total debt at the end of the quarter was unchanged at $250 million.

Capital expenditures for the quarter totaled $27.7 million compared to $37 million last year. For fiscal 2015 we expect capital expenditures to be approximately $175 million to $190 million. Depreciation and amortization for the quarter was $32.8 million compared to $31.8 million last year. We expect depreciation and amortization to be approximately $125 million in fiscal 2015.

At this time, I will turn the call over to the operator for the question-and-answer portion of the call. Steve?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Adam Samuelson from Goldman Sachs. Your line is open.

Jason M. Fraprie
Goldman Sachs & Co.

Q

Hi. This is Jason filling in for Adam. First off, congratulations on the great quarter.

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

Thank you, Jason.

Jason M. Fraprie
Goldman Sachs & Co.

Q

And I was hoping you could talk a bit about whether 1Q is in line with your internal expectations. I guess I'm curious on whether the guidance increase was more a function of the 1Q beat or kind of a stronger-than-expected remainder of the year. And if the latter, can you talk a bit about what's changed from your original outlook given lower pork prices and higher commodity chicken? Thanks. Or on turkey?

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

Sure. Yes, really the guidance range increase is pretty much recognizing the beat for the first quarter. As we look at the remainder of the year, we had a robust growth plan already submitted for the year. We're still confident that we should be able to deliver against that plan. There are things that are trending more strongly and there are things that are more challenging, but all in we're comfortable that this new range reflects our best estimate of where we think the year should turn out.

Jason M. Fraprie
Goldman Sachs & Co.

Q

All right. Thank you very much.

Operator: Our next question is from Farha Aslam from Stephens, Inc. Your line is open.

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

Hi, Farha.

Farha Aslam
Stephens, Inc.

Q

Good morning. Could you update us on your two acquisitions, the Hormel acquisition of SKIPPY as well as CytoSport? Are they performing in line with your expectations? Or do you think CytoSport's going to deliver that $0.05 accretion that you anticipated given that you're spending pretty heavily in the first quarter against that?

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

Sure. SKIPPY has been a wonderful acquisition for the company. Even this current quarter where we experienced some down sales in the grocery part of it, the domestic U.S. part, we really feel that's a short-term reaction to kind of the pricing activity going on within the category and we're still very, very bullish on the item long-term. We've done a good job of gaining new distribution. We have our new ad campaign that we have confidence in going forward. We are looking to create innovative products, the first of which are the SKIPPY Singles items out in the marketplace. And even this quarter SKIPPY on a international basis enjoyed very good results and we're pleased with where that's heading.

CytoSport is also off to a good start. A lot of activity has gone on in these first few months of ownership. We've already seen some really significant sales achievements within the food, drug and mass channel that we frankly kind of knew that Hormel would be an advantage for us bringing that skill set to that brand. And we continue to bolster efforts in some of the other channels as well, the club and specialty channels. The team is hard at work at creating the right cost structure for that overall business. We're now running that business on a collaborative or combined basis with our previous Century Foods organization. That was a custom manufacturer within the sports nutrition world. And so we're definitely confident in the $0.05 accretion that we've called out for that business going forward.

Farha Aslam
Stephens, Inc.

Q

Thanks. And then, as a follow-up, there's two businesses up for sale in the protein area. Can you just comment generally what you think about valuations and transactions in the food and protein space right now and Hormel's interest in M&A?

Jody H. Feragen
Chief Financial Officer, Director & Executive VP

A

Well, Farha, I'm not sure what two transactions you're talking about and we wouldn't comment on any specific businesses that are available. But still go back to the things that we're looking for in acquisitions and really to meet the platforms of global, certainly things that have an international component are very attractive. We've done some nice work in the snacking and on-the-go business. So meeting things that meet that criteria, better-for-you as well as things that can add accretion to our existing margin structure. We like number one and number two brands. And certainly anything that adds a component where we can bring some innovation is obviously attractive to us. So we continue to evaluate opportunities.

Farha Aslam
Stephens, Inc.

Q

Okay. Thank you very much.

Operator: Our next question is from Ken Zaslow from Bank of Montreal. Your line is open.

Kenneth B. Zaslow
BMO Capital Markets (United States)

Q

Hey, good morning, everyone.

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

Hi, Ken.

Kenneth B. Zaslow
BMO Capital Markets (United States)

Q

I just have two questions. One is on grocery, what are the prospects for the top line growth in that business? I know it struggled a little bit, but on the flipside is what are the key inputs that have broken your way in terms of – and what's the timing to which you're going to be able to realize some of those breaks in the input prices?

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

Okay. On the top line side, we enjoyed really an excellent quarter on the MegaMex franchise, particularly the Herdez and Wholly brands and so those definitely should be superior delivery vehicles for Grocery Products going forward. Our expectation is that SKIPPY is going to be a solid growth contributor for our company and it has been every quarter that we've owned it, except for this one. And so we need to get through this price decrease activity that occurred during the quarter and move on and restore our growth there. We continue to enjoy growth with our SPAM product line, have good consumer marketing against that line and continue to add flavors.

So overall, we're encouraged that Grocery Products should be able to deliver growth within its segment. On the input or more cost oriented side, I mean we were talking about probably the second half of the year is where we really expect Grocery Products to start showing significant year-over-year growth. That will come in part we think from the top line benefit of the ad campaigns that we referenced in our earlier comments. We're in a better raw material cost picture. When you look at [ph] churn (18:54) costs, for example, they're much more favorable right now than they were a year ago. And we're still working through some old inventory before we can fully reflect those, but that definitely will be a help. We should be in a better position in terms of our production resources following the closure of the Stockton plant and moving a couple of those lines as well as some new lines of production at Dubuque that we previously announced. So those are all reasons why we're bullish on the second half for Grocery Products on the input side.

Kenneth B. Zaslow
BMO Capital Markets (United States)

Q

You expect to have volumes up in the back half of the year. Is that fair?

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

Yes.

Kenneth B. Zaslow
BMO Capital Markets (United States)

Q

And then just, I guess, follow-up is, can you just talk about what is the impact of the West Coast port issues? Have you had any major impact? Did you foresee it? Do you think it's going to get resolved? Is it one-time in nature? Any sort of color on that. I know it's a loaded question, but just curious on that. Thanks.

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

Well, I mean compared to a lot of companies, we're probably not as exposed, but we still do care about our International business and it's certainly a pain to have some of our important branded products being held up and not being able to deliver them to our customers in the marketplace. We're as hopeful as anyone that the thing will get resolved, but I don't know that I have any better perspective than anyone reading the paper can provide as to how likely that is to happen, but we're a little hand to mouth with some of our inventories right now in terms of shipping overseas, but in terms of total impact to the business, it has not been meaningful.

Kenneth B. Zaslow
BMO Capital Markets (United States)

Q

Great. Thank you.

Operator: Our next question is from Eric Larson from Janney Capital. Your line is open.

Eric J. Larson
Janney Montgomery Scott LLC

Q

Yes. Good morning, everyone. Nice quarter.

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

Thank you.

Eric J. Larson
Janney Montgomery Scott LLC
Q

Two questions. Margins in the turkey segment were obviously off the charts this quarter. Can you give us a little bit of help? I know that a year ago in the extremely cold weather that we had we just had crazy fuel costs, mainly in propane and even shortages. They were even hard to get it. Could you give – possibly quantify the potential year-over-year benefit you received Q1 from that?

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer
A

I can't put a price tag on that, Eric, but in terms of the trend, you're absolutely right. I mean not only was propane short, it was very expensive. So the market for the product is much better this year. On top of that we basically operate in Minnesota and Wisconsin. That's where all our turkey barns are. It has been relatively speaking a more mild winter here, so in terms of propane usage it's not been as significant. So those are both definitely benefits that have been part of what you described as sort of the off-the-chart performance by Jennie-O, coupled with commodity meat markets that have remained higher than we had thought they would, although they certainly are starting to trend back to a more normal level.

Eric J. Larson
Janney Montgomery Scott LLC
Q

Yes, obviously your commodity meat markets are going to have a much bigger impact. The next question is probably for Jody. Jody, in the quarter your year-over-year corporate expense line was down sharply. Was there a one-time issue in last year's number or was there a one-time positive issue this year or how should we look at corporate expense?

Jody H. Feragen
Chief Financial Officer, Director & Executive VP
A

So I would say there were one-time positive issues this quarter. We had some miscellaneous sale of assets as well as some sales [ph] on (22:38) use tax refunds and that would get parked in that corporate line. So I would guess that last year is more representative of a going forward rate.

Eric J. Larson
Janney Montgomery Scott LLC
Q

Okay. Thank you.

Operator: Our next question is from Diane Geissler from CLSA. Your line is open.

Diane R. Geissler
CLSA Americas LLC
Q

Good morning.

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer
A

Hi, Diane.

Jody H. Feragen
Chief Financial Officer, Director & Executive VP

A

Good morning.

Diane R. Geissler
CLSA Americas LLC

Q

Hey, I wanted to ask about your comments about the food service strength in the Refrigerated Foods group. Could you talk a little bit more about that? I think we've seen some improvement in comp trends recently in the restaurant space. So maybe your forecast and what you're hearing from your customer base that would be helpful?

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

Okay. Yes, we definitely have heard more positive commentary in terms of the general outlook for the marketplace. The lower gas prices seems to kind of play itself out fairly quickly within that segment in terms of traffic builds. We obviously hope and I think we've delivered over time performance over the trend line for the overall business. And I guess I would attribute that to some of the innovative new products that the team's come out with, including the BACON 1 that we're having good success with right away this year. And then also their focused approach on certain of the business segments, some of the non-commercial areas such as colleges and universities and healthcare that they've really been able to create new items for and really create some excellent relationships and service that again hopefully allow them to perform above that market trend.

Diane R. Geissler
CLSA Americas LLC

Q

Okay. Thank you. And then I wanted to ask a follow-up on Eric's question actually on the JOTS margins. So obviously very strong this quarter, but you did indicate that you felt that commodity prices would begin to soften as we move through the year. Can you just tell me what your expectations are for the margin structure in JOTS in the back half of the year, comparing your expectations on the commodity side versus what I think will still be beneficial raising cost year-on-year, not only the roll-through of the inventory in terms of the propane and terrible weather last year, et cetera, but also lower grain prices? I guess what I'm asking is when you look at the second half of the year, do you expect your JOTS margins to be above your normalized range or do you think the pricing dynamic will bring JOTS margins back into a normalized range?

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

We did provide heading into the year a new sense of what we thought was a normalized range of 13% to 17% and certainly acknowledge this quarter exceeded that. Now all the ranges we provided were annualized ranges. Jennie-O has historically had stronger profit delivery in the first quarter and the fourth quarter, and then as you get into the summer months the cost picture is a little more challenging typically and some of the demand changes. So it's hard to give you a quarter-by-quarter sense of that. I mean for the full year, we certainly expect Jennie-O will come in nearer to the top of the range than in the middle and they definitely still should enjoy the benefits on the grain side, but we expect less benefit in terms of the commodity meat performance.

Diane R. Geissler
CLSA Americas LLC

Q

Okay. Perfect. Thank you so much.

Operator: Our next question is from Robert Moskow from Credit Suisse. Your line is open.

Robert B. Moskow
Credit Suisse Securities (USA) LLC (Broker)
Q

Hi. Thanks. Greetings from sunny Florida.

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer
A

Yes. It's only two degrees up here, so...

Robert B. Moskow
Credit Suisse Securities (USA) LLC (Broker)
Q

Oh, don't make me jealous. Don't make me jealous.

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer
A

That's my line.

Robert B. Moskow
Credit Suisse Securities (USA) LLC (Broker)
Q

Yes. But I think it's very rare that we get to see 9% volume growth in a meat business and you're seeing it in Jennie-O, and is it really a function of greater demand for value-added products that you're selling? Is it new customers that you brought along or is there a commodity element in that 9% as well?

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer
A

Well, there is some commodity element, but we did enjoy solid high-single-digit growth really throughout the value-added pieces of Jennie-O. The most heralded part of the brand would be the retail products that we're enjoying excellent success on ground turkey, sold both in tray pack and chub forms that are being supported by the ad campaign, but also a nice quarter from the deli group, rotisserie and some other premium seasoned items. Food service also had a good quarter.

So I think we do look at it as we've been able to spur greater demand for the value-added products. The consumers that have found the Jennie-O Turkey Store brand are trying more items and enjoying it more often. And while we've enjoyed really great growth, not just this year but over a number of years, when you look at overall household penetration, it's still very low. And so we think we've got all sorts of room to go. The trend toward health and wellness is certainly a tailwind that Jennie-O takes advantage of. And so I think we're well positioned to continue to grow this item.

Robert B. Moskow
Credit Suisse Securities (USA) LLC (Broker)
Q

Okay. So, when you say that the commodity benefits in turkey aren't going to stick around forever, are you also referring to that top-line number or are you just referring to the pricing in turkey has to fall due to – I don't know – increased supplies or something?

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

Well, our focus at Jennie-O is clearly trying to have a supply chain that delivers against the value-added portfolio. Although we've done a great job of creating items that utilizes dark meat portion of the turkey, the reality is, as with most companies, there is an element of that product line that ultimately ends up being exported or utilized in the non-value added form and it will probably, I don't want to say it will always be that way, but it's certainly been that way for the last 10, 15 years and it certainly is trending that way. So that aspect of it we think the dollar sales will definitely be lower because those prices are coming down on a market basis. But in terms of then the $1 billion plus worth that go out in a value-added form for Jennie-O, those we see holding their own even in this diminished marketplace for commodity.

Robert B. Moskow
Credit Suisse Securities (USA) LLC (Broker)

Q

I'm going to cheat with one follow-up. You raised your guidance $20 million or so pre-tax. How much of that do you think is just a commodity benefit and how much of it do you think is like really earned kind of value-added business? Is it possible to break that out?

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

No, I don't think it is. I mean when you look at the total portfolio, I mean there's elements that Jennie-O probably had some commodity benefit, but there are other parts of the business that are still experiencing general input pressures frankly that diminish their usual returns. So I mean all in, we're all about our balanced model and we're comfortable that for the course of the year with that $0.05 we certainly attained for the first quarter and we expect to be able to hold our plan then for the rest of the year.

Robert B. Moskow
Credit Suisse Securities (USA) LLC (Broker)

Q

Okay. Thank you.

Operator: [Operator Instructions] Our next question is from Mario Contreras from Deutsche Bank. Your line is open.

Mario Contreras
Deutsche Bank Securities, Inc.

Q

Hi, good morning.

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

Good morning.

Jody H. Feragen
Chief Financial Officer, Director & Executive VP

A

Good morning.

Mario Contreras
Deutsche Bank Securities, Inc.

Q

So, I wanted ask in the Refrigerated Foods business, I guess looking at pork, their cutout values, the spread between the cutout values and live hog costs are bit wider than what they've been on a historical range. Is there anything in particular that you see driving this? And how do you see it playing out over the remainder of the year? Is it your expected normalization or is it still going to kind of remain a bit wider than where it's been historically?

Jody H. Feragen
Chief Financial Officer, Director & Executive VP

A

Yes, this is Jody. We certainly have seen that spread remain high, although the year-over-year impact to Hormel was not significant. So that was not a big driver for our Refrigerated Foods business this quarter. And we'd expect them to be in more normalized ranges for the rest of the year. The hog prices have come down, but the value of the inputs have also come down and they've maintained that respective spread.

Mario Contreras
Deutsche Bank Securities, Inc.

Q

Okay. And then just as a follow-up, in the International business, it looks like you confirm the exit of the Vietnam joint venture. I guess I wanted to ask is given that Asia has been kind of a focus in terms of you've talked in the past about wanting to expand there both organically and by M&A. Your experience in Vietnam, does that change your outlook in terms of what you want to do in that region from a growth perspective?

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

A good question, Mario. No, it really doesn't. I mean maybe it's a refinement that we're going to just redouble our attention on the markets where we have enjoyed better success; China, Japan, the Philippines, Korea. And Vietnam, it's a combination of how that business was structured. We just were not able to find a way to profitability given its verticality. It was feed mills, pig farms, a meat processing business and then ultimately the sale into the marketplace. And after trying for several years in collaboration with our partner there we just decided, look, this doesn't seem to be working for us. And so we've sold our interest to the partner. But no, that should not be seen as a reflection of any sort of abandonment of Asia overall. We're still very high on that. We've been happy with our new plant in China that came onboard with SKIPPY and our ability to grow in Asia with that franchise as well as many of our meat franchises.

Mario Contreras
Deutsche Bank Securities, Inc.

Q

Okay. Thanks. Very helpful.

Operator: Our next question comes from Eric Larson from Janney Capital. Your line is open.

Eric J. Larson
Janney Montgomery Scott LLC

Q

Thanks, everyone. Thanks for the follow up. I was going to ask this and I didn't. Could you just give us – and you've talked about this in the past, Jeff, [ph] about (32:42) the opportunities with CytoSport for distribution gains. Can you give us a rough idea of what your ACV penetration is today across all the various channels? And then the one thing that CytoSport did bring to you where you didn't a lot of presence was access to the convenience channel, the C-store channel and I believe that was really with the liquid beverage product form for Muscle Milk. Can you give us an idea what we can look for more distribution gains or where we sit on that front?

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

A

Well, on the specifics of ACVs that's probably something maybe Jana could go over with you. I don't have those numbers with me right now, and it kind of does depend by channel. But I certainly can get to the second part of your question. We were fortunate within the convenient store channel to be partner with the Pepsi organization. They do a terrific job within that area. They've enjoyed being partners with the Muscle Milk team for a long time and have been really appreciative of the redoubled effort that we're now able to do to our new product innovation in that area. And so they see it as a growth vehicle for their distributors to utilize and we clearly see it as a growth area for us as well. It does enhance our overall knowledge of the C-store area and we kind of handle the food aspects of the C-store still with our own team with products such as our Don Miguel products and REV and those other types of items, but as we become larger within that segment that can only help in terms of our ability to develop the types of items that the C-store world is looking for.

Eric J. Larson
Janney Montgomery Scott LLC

Q

Okay. Thanks so much.

Operator: And we have no further questions at this time.

Jeffrey M. Ettinger
Chairman, President & Chief Executive Officer

Well, thanks, everyone. I'm really pleased with the opportunity to be able to talk about another record performance for the company this quarter. We recognize that there are still a number of challenges that face us this year, but I'm confident that our teams have the plans in place to drive continued growth for our shareholders. Thank you all for joining us today.

Operator: This does conclude today's program. You may now disconnect and have a wonderful day.