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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Hormel Foods Fourth Quarter 2021 Earnings Webcast. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please also note today's event is being recorded.

At this time, I'd like to turn the conference call over to Nathan Annis, Director of Investor Relations. Sir, please go ahead.

Nathan P. Annis

Director-Investor Relations, Hormel Foods Corp.

Good morning. Welcome to the Hormel Foods conference call for the fourth quarter of fiscal 2021. We released our results this morning before the market opened around 6:30 AM Eastern. If you did not receive a copy of the release, you can find it on our website at hormelfoods.com under the Investors section.

On our call today is Jim Snee, Chairman of the Board, President and Chief Executive Officer; Jim Sheehan, Executive Vice President and Chief Financial Officer; and Jacinth Smiley, Group Vice President of Corporate Strategy. Jacinth becomes Executive Vice President and Chief Financial Officer on January 1.

Jim Snee will provide a review of the company's current and future operating conditions and a perspective on fiscal 2022. Jim Sheehan will provide detailed financial results and commentary on the fourth quarter. And Jacinth Smiley will provide commentary on the company's fiscal 2022 outlook.

As a reminder, the fourth quarter of fiscal 2021 contained an extra week compared to fiscal 2020. The line will be open for questions following Jacinth's remarks. As a courtesy to the other analysts, please limit yourself to one question with one follow-up. If you have additional questions, you are welcome to get back in the queue.

An audio replay of this call will be available beginning at noon today, Central Time. The dial-in number is 877-344-7529 and the access code is 10161982. It will also be posted on our website and archived for one year.

Before we get started, I need to reference the Safe Harbor statement. Some of the comments made today will be forward-looking, and actual results may differ materially from those expressed in or implied by the statements we will be making. Please refer to pages 35 through 41 in the company's Form 10-Q for the fiscal quarter ended July 25, 2021. It can be accessed on our website.

Additionally, please note the company uses non-GAAP results to provide investors with a better understanding of the company's operating performance. These non-GAAP measures include organic volume, organic sales and adjusted diluted earnings per share. Discussion on non-GAAP information is detailed in our press release located on our corporate website.

I will now turn the call over to Jim Snee.

James P. Snee

Chairman, President & Chief Executive Officer, Hormel Foods Corp.

Thank you, Nathan. Good morning, everyone. I want to start this morning by congratulating Jim Sheehan on his upcoming retirement. Jim will be retiring as CFO at the end of the calendar year, so this will be his last earnings call. Jim has over four decades with our company and, under his tenure, has built a world-class finance, accounting and technology organization.

Jim was the guiding force behind Project Orion, an initiative that will benefit our company for decades to come. For over 43 years, with the last five years as CFO, Jim has been a trusted partner to me and many of my predecessors. Jim helped complete over $5 billion in strategic acquisitions, including Justin's, Fontanini, [ph] Ceratti (00:04:04), Columbus, Sadler's and our largest acquisition ever, Planters.

Equally impressive was Jim's contribution to reshaping our portfolio as he was also a guiding force behind many of the divestitures we made to transform our company. Jim's oversight to our evolution puts us on a solid foundation for the future growth of our company.

Additionally, Jim has overseen the distribution of over $2 billion in dividends to our shareholders. In addition to his business accolades, Jim was the key voice behind our game-changing Inspired Pathways program, which provides free college education for children of our team members. Jim will be missed and we wish him well in retirement, along with his wife, Jeanne.

Jacinth Smiley succeeds Jim and brings a wealth of experience from outside Hormel Foods. She has deep and broad domestic and international experience in areas such as corporate finance, public accounting and compliance. Most recently, she served as the Group Vice President of Corporate Strategy. Hormel Foods is fortunate to have Jacinth as CFO, and I'm looking forward to her leadership in her new role. My sincere congratulations to both Jim and Jacinth.

In an incredibly difficult and rapidly-changing operating environment, our team delivered outstanding top line results. We achieved record sales in fiscal 2021, exceeding both $10 billion and $11 billion in sales for the first time. For the full year, sales were $11.4 billion, representing 19% sales growth. On an organic basis, sales increased 14%.

Our top line growth was incredibly balanced as each of our go-to-market sales channels and business segments posted strong double-digit sales gains, underpinned by value-added volume growth, pricing and a better mix. Adjusted diluted earnings per share for the full year increased 4% to $1.73 in spite of inflationary pressure and supply chain challenges. Diluted earnings per share was $1.66.

We had an excellent fourth quarter and posted numerous records, including a fourth consecutive quarter of record sales, record diluted earnings per share and record cash flow from operations. I want to commend our entire team for delivering this impressive performance and the numerous fourth quarter records.

Sales increased 43% and organic sales increased 32%. Volume increased 14%, and organic volume increased 8%. We grew sales in every segment and every channel for the quarter. Compared to pre-pandemic levels in 2019, all channels grew by over 25%, driven by strong demand and pricing actions in almost every category.

This all-time record performance was led by further acceleration in our foodservice businesses. Our foodservice teams across the organization, posted 72% sales growth for the quarter, 33% higher than pre-pandemic levels. This followed second quarter growth of 28% and third quarter growth of 45%. Strength was broad-based with significant contributions from Refrigerated Foods, Jennie-O Turkey Store and MegaMex. We also saw a strong recovery in our non-commercial segments, including college and university and K-12 institutions.

Our foodservice portfolio remains perfectly positioned to meet the needs of today's foodservice operators with labor and time-saving products. I believe our growth in foodservice is a function of our differentiated value proposition in the industry, as well as our dedication during the pandemic.

We have grown with our distributor and operator partners during the recovery, strengthening many of our partnerships and decades-long relationships. The top line performances from our other channels were equally impressive. Retail, deli and international, each delivered a second consecutive year of growth. Retail and international sales both increased 34% and deli sales increased 24%.

On an organic basis, each channel posted strong double-digit growth. Growth came from numerous brands across all areas of our portfolio, including SPAM, Applegate, Columbus, Hormel Black Label, Wholly, Hormel Compleats, Gatherings and many more. We continue to see very positive trends for consumer takeaway at retail. According to IRI, key metrics for our brands such as buy rate and trips per buyer remain favorable, which indicates elevated consumer spending on our products has remained.

We also continue to grow share in many important categories, including Hormel Gatherings party trays, Hormel pepperoni, SPAM luncheon meat and Hormel chili. Our One Supply Chain team has done an excellent job operating in and navigating constant supply chain disruptions. We have also seen the positive impact of their strategic actions: namely, we're starting to see an increasing number of our open positions being filled; more automation being implemented in our facilities; and a more simplified product portfolio. In total, these actions are allowing us to maximize our throughput to meet the continued strong demand of our customers.

From a bottom line perspective, fourth quarter earnings were a record $0.51 per share, a 19% increase compared to 2020. An acceleration in our top line results and the addition of the Planters business led to the earnings growth.

As we said in the third quarter, we expected margins to improve as pricing actions took effect. Indeed, margins improved sequentially in all four segments. Pricing actions, improved promotional effectiveness and a more profitable mix, all contributed to the improvement.

We started to see relief in key raw materials in the fourth quarter compared to prior quarters. However, labor rates, freight, supplies and raw material costs remain above year-ago levels and in the case of freight, increased further.

Looking at the segments, Grocery Products, Refrigerated Foods and International segments, each posted double-digit segment profit growth. Jennie-O Turkey Store profits declined due to higher feed costs.

A few highlights from the quarter include the following. Refrigerated Foods delivered strong volume, sales and profit growth. The team was able to leverage the numerous capacity expansion projects since the start of the pandemic for categories such as pizza toppings, bacon and dry sausage.

Within Grocery Products, our simple meals and Mexican portfolios generated excellent growth in addition to contributions from the Planters snack nuts business. Notably, the SPAM brand delivered its seventh consecutive year of record growth. And we recently announced plans for additional capacity to support future growth.

Our International team achieved a seventh consecutive quarter of record earnings growth, with strong results from all of their businesses. The momentum this business has generated over the last two years supports our plans to aggressively expand internationally.

Lastly, Planters made a positive impact, especially in the fast-growing snacking and entertaining space and within the convenience store channel. This quarter's results were outstanding, and we intend to build on this momentum going into 2022.

Over the past decade, Hormel Foods has deliberately evolved from a meat-centric, commodity-driven company, with a heavy focus on retail, pork and turkey to a global branded food company, with leading brands across numerous channels. Our company today is more food forward than ever, with a sharp focus on the needs of our customers, consumers and operators.

As we begin fiscal 2022, we plan to continue our evolution. First, we will complete the full integration of the Planters business across all functions. The first of three production facilities was successfully integrated in the fourth quarter, and the remaining two facilities are scheduled to be fully integrated in our first quarter.

Since acquiring Planters six months ago, our sales, marketing, innovation and R&D teams have been hard at work, developing new and innovative products and flavors, many of which will be rolled out this coming year. They've also been working on refreshing the branding and packaging, which will also be launched in 2022.

Seeing the great work of our teams has me even more confident about where we are able to take this brand in the future and further strengthens our conviction of the potential for Planters. From a financial standpoint, the Planters business is performing at the top end of our expectations, and we expect that trend to continue in fiscal 2022.

Second, we are also taking a series of actions at Jennie-O Turkey Store. Over time, we expect these actions to result in a more demand-oriented and optimized turkey portfolio that is better aligned to the changing needs of our customers, consumers and operators that will result in long-term growth, improved profitability and lower earnings volatility.

The transformation starts with accelerating our efforts to shift from commodity to branded value-added products. This is similar to the successful strategy we have executed in Refrigerated Foods over the past 15 years. As a result, we will close the Benson Avenue plant located in Willmar, Minnesota, in the first half of fiscal 2022. This plant is an older, inefficient facility, which produces numerous commodity items.

Value-added products will be consolidated into multiple other facilities. Team members will transition to our newer and larger facility also located in Willmar, which will supplement staffing levels.

Finally, we will continue to integrate business functions into the Hormel Foods parent organization. Over the past two years, we have successfully integrated IT services, finance and accounting and HR into the Hormel organization through Project Orion, and we will continue these efforts for other functions. By doing so, we will bring the deep turkey expertise and competitive advantages of the Jennie-O team to the broader organization.

I want to be very clear that turkey will continue to play an important role in our company for many brands, including Columbus, Applegate, Hormel Natural Choice in addition to Jennie-O. Turkey is vital to our balanced business model, serves to diversify our portfolio and it's important to consumers who are looking for high-protein, lean and versatile offerings. We will provide a further update and details on the financial components and timings on our first quarter call.

Finally, we made additional progress on optimizing our pork supply chain by signing a new five-year raw material supply agreement with our supplier in Fremont, Nebraska. This new agreement more closely matches our pork supply with the needs of our value-added businesses while simultaneously reducing the amount of commodity pork we sell.

Similar to the rationale for selling the Fremont plant in 2018, this new agreement further diversifies us away from commodity sales, increases our flexibility within our supply chain and decreases our earnings volatility.

This agreement should result in a reduction of approximately $350 million of commodity fresh pork sales at very low margins. The impact is split between the Refrigerated Foods and International segments. The contract will be effective at the start of calendar year 2022.

The success we are having with Planters, the actions we are taking at Jennie-O Turkey Store and the continued progress we are making in our pork supply chain, all provide great insights into how we are continuing to evolve Hormel Foods for next year and beyond. And not only have we evolved our portfolio, but we will continue to evolve how we operate as a company with initiatives such as One Supply Chain, Project Orion, and our digital experience group.

Looking at fiscal 2022, we expect net sales to be between $11.7 billion and $12.5 billion and for diluted earnings per share to be between $1.87 and $2.03 per share. We expect growth in excess of our long-term goals due to organic growth across each of our segments and strength in our Planters business. I have confidence in our ability to achieve our guidance, with all four segments delivering growth. Jacinth Smiley will provide more color regarding key drivers to our fiscal 2022 outlook.

At this time, I will turn the call over to Jim Sheehan to discuss financial information relating to the quarter.

James N. Sheehan

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

Thank you, Jim. Good morning. The company achieved record fourth quarter and full year sales of $3.5 billion and $11.4 billion, respectively. Organic sales increased 32% for the quarter and 14% for the full year. Planters contributed $411 million in sales for the full year. Earnings before taxes increased 26% for the fourth quarter. Strong results in Refrigerated, International and the inclusion of Planters led to the strong finish to the year despite ongoing inflationary pressures.

Earnings before taxes increased 1% for the full year compared to fiscal 2020. Diluted earnings per share of $0.51 was a record. This was a 19% increase over last year. Adjusted diluted earnings per share for the full year was $1.73, a 4% increase from last year. Diluted earnings per share was $1.66.

SG&A, as a percentage of sales, was 7.5% compared to 7.9% last year. Strong sales growth and disciplined cost management contributed to the improvement. Advertising investments increased 12% compared to last year.

As anticipated, operating margins in the fourth quarter increased compared to the third quarter as a result of effective pricing action. Segment margins expanded from last quarter by 136 basis points to 10.7%, with increases in each segment.

In 2021, inflation, labor shortages and the Planters deal cost all negatively impacted margins. The fourth quarter results, including the continued strong demand of our products, are an indication of improved market conditions as we exit the year.

Net unallocated expenses in 2021 increased primarily as a result of one-time acquisition cost for Planters and higher interest expense. The effective tax rate for the year was 19.3% compared to 18.5% last year.

Operating cash flow for the fourth quarter was a record, resulting from strong earnings and disciplined working capital management. Our balanced business model and consistent cash flow provided protection against the complex and challenging business dynamics we navigated during the year, allowing us to invest in numerous capital projects, acquire Planters, and grow the dividend.

We paid our 373rd consecutive quarterly dividend effective November 15 at an annual rate of $0.98 per share. We also announced a 6% increase for 2022, marking the 56th consecutive year of dividend increases.

During 2021, the company repurchased 500,000 shares for $20 million. Capital expenditures were $232 million. The company ended 2021 with $3.3 billion in debt, or approximately 2.5 times EBITDA. Although, no mandatory debt repayments are required until 2024, based on our strong cash flow, we expect to make incremental payments as soon as the second half of 2022. We remain committed to maintaining our investment-grade rating and deleveraging to 1.5 to 2 times EBITDA by 2023.

Market conditions for pork input costs remained elevated during the fourth quarter. The USDA composite cutout averaged 33% higher compared to last year, supported by strong demand for pork and historically low cold storage levels. Hog prices averaged 62% higher than last year, but were down 27% compared to the third quarter. Belly, pork trim and beef trim markets were also significantly higher for the quarter compared to last year.

The latest estimates from the USDA indicate pork production for the year to decrease 2% compared to 2020 and remain relatively flat in 2022. Labor shortages may continue to be a significant factor affecting industry production.

Turkey industry fundamentals were strong. The whole turkey and thigh meat markets reached all-time highs during the fourth quarter, with fresh meat prices above a year ago. Supporting these prices were historically low cold storage levels, lower poult placements and decline in egg sets.

Higher feed costs and labor shortages continue to negatively impact Jennie-O. Feed cost increased over 60% from last year in the fourth quarter. In 2022, we anticipate pork, beef, turkey and feed prices to remain above historical levels.

We delivered strong results in the fourth quarter as the team overcame challenging operating conditions and volatile markets. The performance is a testament to the strength of our brands, pricing power, balanced model and the team's ability to execute in a dynamic market environment.

On a personal note, as I reach the end of my career at Hormel, I am thankful for the privilege of working for this great company for the past 43 years. I appreciate the support of Jim Snee, the board of directors and my team over my tenure as CFO. I take great pride in the evolution and accomplishments of the company during my career and leave with the greatest confidence in the future. I have enjoyed my interactions with the shareholders and analyst community, and I wish you well.

At this time, I'll turn the call over to Jacinth Smiley. I know the company is in excellent hands with Jacinth and you will have an opportunity to get to know her better in the coming months. Jacinth will provide an overview of the fiscal 2022 guidance and further context on our expectations for next year.

Jacinth C. Smiley

Group Vice President-Corporate Strategy, Hormel Foods Corp.

Thank you, Jim, for your kind words. Good morning, everyone. For analysts and the investment community on the call, I look forward to meeting you in the coming weeks and months. I'm excited to be stepping into the Chief Financial Officer role at Hormel Foods, a company known for its financial strength, its powerhouse brand and its commitment to employees and communities.

In the time I have been at the company, I have found that the Hormel Foods is innovative and has a results-driven focus for all stakeholders. As Jim mentioned, allow me to share a bit more commentary regarding key drivers to our fiscal 2022 outlook.

Building on the momentum we established during the second half of the year and the strategic investments we have made throughout the pandemic, we expect to generate sales and earnings growth in fiscal 2022 above the long-term goals we announced at our investor update in October.

We anticipate growth from all four segments, driven by continued elevated demand for our products, the impact from our pricing actions, improved production throughput, new capacity for key categories such as pizza toppings and dry sausage, and the full year contribution of the Planters business.

We also expect operating margins to show improvement throughout the year, similar to the dynamic we experienced in the fourth quarter. It is important to note that rapid changes in raw material input costs can shift profitability between quarters.

In addition to generating strong sales and earnings growth, we will continue to invest in our leading brands through increases in strategic marketing and advertising, capacity expansions for high-growth platforms and capabilities to drive industry-leading innovation.

The company's target for capital expenditures in 2022 is $310 million. We are scheduled to open a pepperoni expansion to our newest facility in Omaha during the second quarter, which will provide the needed capacity to meet growing demand in our retail and foodservice businesses.

We are also beginning work on another expansion for the SPAM family of products scheduled to be operational in 2023. In addition to these larger projects, we are continuing to invest in cost savings, technology and automation projects to drive long-term savings and efficiencies.

Pivoting to innovation, we achieved our 15% goal in 2021. We have strong innovation platforms for brands such as Planters, SKIPPY, Justin's, Herdez and Hormel Black Label at retail as well as the Jennie-O and Happy Little Plants brands in the foodservice channel. These platforms in addition to our continuous process and product improvement initiatives give us the confidence going forward to consistently achieve our stated innovation goal.

I want to speak for a moment about the complexities of our operating environment. The operating environment is expected to remain complex in fiscal 2022, and our guidance accounts for the near-term impacts from labor shortages, higher cost and supply chain disruption. Our entire team has done an excellent job executing our business strategies in this dynamic environment.

In many ways, we have enhanced our competency for solving the day-to-day challenges inherent to our industry. We have increased our efforts to hire and maintain team members and have developed many strategies to mitigate the effect of labor shortages to meet elevated demand. This includes maximizing our flexibility to produce the items that are most in demand and leveraging our manufacturing partnerships to increase throughput wherever possible.

Our One Supply Chain team allows us to continue to actively manage our raw material procurement, logistics network and supply partnerships to minimize the impact of further inflation and supply chain disruption. We will also benefit from our expanded logistics network, which has added capacity for both the Refrigerated and Grocery Products business.

As a result of these actions, we expect improved fill rates and load factors in fiscal 2022. The announcement of the Jennie-O Turkey Store transformation is another step in our evolution to become a stronger global branded food company.

Consistent with our long-term strategy, we are continuing our efforts to actively shift away from commodity businesses towards branded, value-added businesses. We expect our strategic and intentional actions to create a better, more profitable and sustainable business model.

Taking all of these factors into account, as Jim has mentioned, we're setting our full year sales guidance at $11.7 billion to $12.5 billion and our diluted earnings per share guidance at $1.87 to $2.03. Additionally, this guidance reflects the Benson Avenue facility closure, our new pork raw material supply agreement and an effective tax rate between 20.5% and 22.5%. Fiscal 2022 will be 52 weeks.

As we move forward to execute against our strategic imperatives in 2022 and beyond, I'm pleased to be with a company that continues to evolve as a global branded food company. Jim often says, we are uncommon. I have seen that first hand in my time with the company thus far. This starts with our unwavering commitment to employee safety and remaining an employer of choice in the communities we live and work.

We're taking purposeful actions to transform our company as we embark on our most ambitious corporate responsibility journey yet, our 20 By 30 Challenge, which is certainly important from an ESG standpoint.

Our experienced management team, the tireless work of our team members around the world and the progress made to implement the Project Orion and One Supply Chain initiatives gives us added confidence in our ability to deliver growth in fiscal 2022 and beyond. I am excited to be with Hormel Foods and be part of its continued success.

At this time, I'll turn the call over to the operator for the question-and-answer portion of the call.

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, at this time, we'll begin the question-and-answer session. [Operator Instructions] Thank you. Our first question today comes from Rupesh Parikh from Oppenheimer. Please go ahead with your question.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.
Q

Good morning. Thanks for taking my questions. And Jim Sheehan, congrats on your retirement as well.

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

Thank you, Rupesh.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.
Q

So, I guess to start off, maybe just on the pricing front, if you could just remind us where you guys are with the pricing front at this point. Have you guys seen anything, I guess, different versus expectations on the elasticity front? So, just curious just how your pricing actions have played out so far versus your expectations.

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

Yeah. Good morning, Rupesh. We've not seen the elasticity that we typically would have seen pre-pandemic. The demand has held up really well across the entire portfolio. And really where we are in our pricing journey, we've got another round of pricing in our Grocery Products portfolio that is in the midst of being implemented, executed right now.

On the Refrigerated side, that's a pricing model that ebbs and flows. And so, we've seen some relief in commodity markets. We're watching it closely. But at this point in time, don't have any additional pricing scheduled for that part of our business. But in Grocery Products, we do have another round that's getting implemented right now.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.
Q

Okay. Great. And then maybe just a follow-up question just on guidance. I was curious, I guess, the latest in terms of what you guys are incorporating for Planters accretion. Is that still in that $0.17 to $0.22 range for this year? And is there anything you can share on the cadence of operating or EPS growth maybe first half versus second half for this year?

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

Well, the first part of the question is, we are still in that range, and we're expecting to be on the high end of the range, just like we were in fiscal 2021. As you think about just the business throughout the course of 2022, you're going to see sales, earnings and margins as really improving throughout the year.

We – as Jacinth mentioned in her comments, we do expect to have continual improvement in the supply chain that will help with fill rates and load factors. Our organic growth will be driven in large part by that improvement. So, the thing that we have to be on the lookout for as we were in 2021 is just the volatility in markets or supply chain. It really can shift profits between quarters.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Great. Thank you.

Operator: Our next question comes from Tom Palmer from JPMorgan. Please go ahead with your question.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

Good morning. Thanks for the questions. And Jim, thank you for your help over the years, and congratulations on your retirement.

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

A

Thank you, Tom.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

From what we can see, pork costs have eased a bit in the past couple of months. At least on a spot basis, feed costs are lower than they were earlier this year. At what point do these costs begin to flow through the P&L?

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

A

I think you saw, Tom, some momentum, especially near the end of our fourth quarter that helped with these declining prices. I mean you've seen today, for instance, hogs are down to mid-$60 range. They averaged $86 and in the fourth quarter, you've seen trim ease off. And certainly, you've seen an easing in belly. So, you're starting to see the advantage already. And you did see – as I said in the fourth quarter, you saw that momentum start to pick up near the end of the fourth quarter. So, I think that we're in a good position as we go into the first quarter and into the new year.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

And just on the feed side also?

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

A

Well, we've locked in our feed cost. We're under market for – we've locked in about 80% of our core and it's under the current market. So, our feed cost will be stabilized for next year. We have a good handle on the feed cost. You, obviously, always have the basis risk that exists, but basis has been fairly neutral for the last few months.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you. And if I could follow up just on what that translates to. So, you've talked about earnings growth in all four segments in the coming year, should we expect to see that starting in the first quarter? So, essentially in the first quarter, should we look for growth in all segments?

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

A

Yeah. Tom, we would. And as Jim is describing in the markets, in his prepared remarks, we're seeing some lower markets right now in the first quarter. But on average, over the full year, we do expect them to be fairly flat to 2021. So, you are – obviously, you're going to have some moves up throughout the year. But we do expect all segments to show that growth starting in Q1.

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

A

Yeah, Tom, as you look at...

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

A

Yeah.

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

A

Tom, as you look at 2022, remember, you have Planters, we didn't pick up Planters until the third quarter of last year. So, you'll see the significant improvement in the first half of the year.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

Understood. Thank you again.

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

A

Yeah.

Operator: Our next question comes from Adam Samuelson from Goldman Sachs. Please go ahead with your question.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Yes. Thank you. Good morning, everyone.

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

A

[ph] Good morning, Adam (00:40:53).

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Let me echo everyone's congratulations, Jim, on the retirement. So, my first question is on Jennie-O. And I was hoping maybe to get a little bit more color on the decision to close the plant, and Jim Snee, if you could maybe just elaborate a little bit on how this changes the sales mix, margin structure potential of the Jennie-O business moving forward. And kind of corollary to that is just help us think about costs associated with these actions on a cash basis over the course of the next 12 months.

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

A

Sure. So, the first thing, Adam, is we're going to come back to you in Q1 and give you more detailed report on some of the things that you just described. So, we will be getting that information to you.

I think the big thing in all of this, these strategic actions that we're thinking about is turkey is not going away in our portfolio, right? It's going to continue to be an important part of our company across many different segments, many different brands.

We've seen the evolution of our company, whether it was Project Orion, our One Supply Chain effort, really this opportunity to move away from duplication of resources. That's the first thing.

The second thing is, when we're honest with ourselves, the business has underperformed in recent years. And that's not through a lack of effort on our team's part. That's dealing with a significant over supply situation that's created a lot of volatility for us.

And so, as you think about how we've managed other parts of the business, it kind of flew in the face of really what we've been trying to achieve. So, really, this announcement today is a bigger step in that evolution to make sure that we're moving from a commodity-driven or a supply-driven business to a more demand, consumer-driven business.

It also allows us to move towards a more fully integrated supply chain. So, I mean, there's still a lot of work to be done. We'll be coming back to this group with more information in Q1, but feel like it's the right and proper first step on the journey to make Jennie-O really a more long-term sustainable growth engine for the company.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

All right. That's some really helpful color. And then just a follow-up on some of the labor challenges that you called out both in the press release and in the script, and I was wondering if you could frame just the impact that labor has had on your production volume. Is it customers who are unable to accept orders because of labor? Any way to dimensionalize kind of the costs and any comments you've had on wage rates? Just trying to get flavor for where we are in terms of managing labor issues in the operations and the supply chain.

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

A

Sure. I mean we're not new to this story. I mean, we've taken wage rates across our entire hourly plant structure. And we've had to become and maintain our very competitive wage rates. So, that has added cost. I think the other thing to really understand is just the labor pool in general. And the idea of we're going to rely on the traditional labor pool that you've always had, it's not going to get you where you need to be.

So, our team's done a really nice job of sourcing non-traditional labor pools, being creative in how we're staffing our facilities to make sure that we are becoming more employee-friendly. And we've seen an improvement. I mean, I'm not going to spike the football here and say that we're over the hump, but we have seen some improvement in our labor rates.

And even more importantly, is we've seen some improvement in key plants for us. So, key plants, meaning two of our larger Refrigerated Foods plants have seen dramatic improvement in labor rates. Two of our Grocery Products plants have seen improvements in labor rates. So, that's been really helpful as we've progressed throughout the fourth quarter and then head into 2022. So, the staffing levels that we're talking about are really helpful. We still have work to do, but it is setting us up for a better 2022.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

All right. It's all really helpful color. I'll pass it on. Thank you.

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

A

Yeah.

Operator: Our next question comes from Eric Larson from Seaport Research Partners. Please go ahead with your question.

Eric Larson
Analyst, Seaport Global Securities LLC

Q

Yeah. Good morning, everyone. And my congratulations to Jim. Thank you for all of your help. And Janinth (sic) [Jacinth] (00:46:10), congratulations to you. It's a very coveted executive position in the food industry, and I'm sure that it's very well earned, so congrats.

My real – my first – my question really comes down to your input costs last year, bacon, trim, et cetera, I think Janinth (sic) [Jacinth] (00:46:33) talked about the uncommon, and I've been doing this industry for a long time, and I can't remember the volatility that we've seen in the last year. So, your pricing is going to reflect a lot of what the volatility is. But how much of a headwind or tail – even potentially tailwind could your input cost be for pork in 2022?

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

A

Well, Eric, I mean, it really is more of a timing issue. So, you think about where we are right now in Q1. And so, we have priced to those uncommon markets that you described. And I think we have – we will watch the markets and see what happens. And if the markets – the commodity markets become volatile again, we'll be prepared to react if we need to.

The other thing to remember in all of this that we've talked about many times, is our Grocery Products pricing is very sticky. And so, the pricing that we've taken and that we're in the midst of executing the additional price increase, that pricing will by and large sustain.

On the Refrigerated side, that underlying pricing commodity, we do track that more closely, both in retail and foodservice. So, we'll react accordingly there. But I think your comment is a fair one. That is where we sit today. It's a tailwind for the organization. We just obviously will be watching the volatility over the course of the year.

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

Yes, Eric, the term you used, volatility, is the key word. The volatility, as we've talked before, can move earnings between quarters depending on the timing. But if you take out the spikes and you just look at the trends of the increased costs that we've been facing with over the last year, we've done a remarkable job of pricing into that – into those rising markets and the demand for our products really haven't failed.

So, I think we've done a great job with our pricing. I think it's been very effective. We will have times that volatility will help you and hurt you at times, but you really have to look at this as a long-term trend. And over the long-term trend, it really shows that the value of Hormel products are accepted by the consumer and that we are able to price effectively into the marketplace. So, I think it's been a great success.

Eric Larson
Analyst, Seaport Global Securities LLC
Q

Okay. Thanks. So, Jim, just on that note, you've got a new contract with Fremont. It's – I think you disclosed that it was about $350 million worth of commodity pork sales annually. What might be the delta for that, either positive or negative, for 2022 if you want to just give us a rough range on that?

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

Well, I mean, Eric, you've been in this business long enough to know that it depends on what day it is.

Eric Larson
Analyst, Seaport Global Securities LLC
Q

Right.

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

Overall, it's very insignificant to the business. Some days, it would be positive, but there's a lot of days that it's very negative. And in fact, some of this product that we'll no longer take will no longer be – was never profitable. So, it gave us a little bit of lift in 2021, but it's really not that significant to the performance of the company. And we've talked for a long time about eliminating the volatility around commodity products.

So, whatever the difference is, it's so small. The lack of volatility is the success here. We've talked for a long time about selling less and less commodity products. The first step was turning over the Fremont facility, which was an old facility that needed a lot of capital. Our goal was always to get to a point where the amount of product we took matched our value-added products and our value-added needs. So, this is an evolution of the process.

Eric Larson
Analyst, Seaport Global Securities LLC
Q

Okay. Fine, thanks. And just one little quick follow-up. The industry – the packaged food industry, literally in the last several weeks, I think probably the new news is that we have not taken enough pricing and we're seeing rounds coming from everybody, General Mills, others have announced that.

So, when you look at your fiscal year now and the pricing is going to be effective, I'm assuming it's like around January 1. Full effect won't kind of probably take place until your second half. Is that the way to – is it a more second half stabilization of gross profit margins, the way to look at it? How should we kind of look at that at the industry's new round of pricing and any impact on margins?

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

A

Yeah. So, Eric, a couple of things there. I mean, we feel really good, as Jim said, about the pricing that we've taken so far. And we're always ready to take additional pricing actions as the market conditions warrant. Through all of this, we still have to be very aware of consumer retention, right? We want to make sure that we're not losing consumers through all of this.

But in terms of the pricing that I described earlier, really think about it as a second quarter on effect that it's being – again, timing varies, but it's – think about it from the second quarter on for the GP portfolio.

Operator: And our next question comes from Ben Bienvenu from Stephens. Please go ahead with your question.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Hey, thanks. Good morning. And Jim Sheehan, congrats, enjoy retirement, well-earned. Yeah, I want to ask, as you think about the labor dynamics in the business that exists and the opportunity to further automate, in terms of what you can automate, how much have you and how do you think about how the current and kind of more sustained tight labor environment has informed your thoughts around what you might think about automating and the returns that you could achieve by doing so?

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

A

Yeah, Ben, I mean, we've got a number of examples of the automation that we've been able to put in place. And we've got both ends of the spectrum. So, when you think about our newer facility in Omaha, I mean, we started out with a blueprint that had more automation built into it than we've had in our other facilities. So, that's been very, very helpful, whether it's been racking, loaders, the transfer vehicles. I mean it's an incredibly automated facility. But you're starting with a more recent blueprint.

In some of our existing facilities, we've always talked about the need for automation and have looked to find those opportunities. But I would say that the opportunity projects have accelerated over the last 12 to 18 months. And so, we've got a number of projects across multiple facilities, where we've talked about the package placement, we've talked about a lot of the boxing and other packaging opportunities.

And Mark Coffey did a really nice job in his One Supply Chain video during our investor update demonstrating that. But I think the other part, and you mentioned it, is how we think about automation going forward, and then how do you factor in that labor component, which maybe wasn't as important to factor in, in previous years. But I do think that's going to be part of that opportunity cost that has to be figured into the automation equation as we go forward.

I mean we – as we think about it from an engineering perspective, we're allocating resources in our engineering organization that we've never had before to make sure that not only are we identifying existing automation, but really helping to support and develop automation that isn't even out there yet that we believe we need in our operations. So, I mean there's still a long way to go, a lot of work to be done. But there is a very, very keen focus in our organization to get us there.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Yeah. Okay. Thank you for that. My second question is related to Jennie-O. And I know you'll come back with more details in the first quarter. But should we understand this to mean that by taking these actions, we kind of reset the base of volume off of which you grow and enhance margins going forward? Or is this just a consolidation of capacity on existing volume? And as a result, you kind of get rid of unused capacity in the facility that you have today?

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

A

Yeah. The answer, Ben, is both, right? I mean I think when we come back to you, we'll be talking about what the business is able to generate in terms of growth going forward. But then the second part of your question, it's really, really important, just as we think about how do we fully utilize all of our facilities in our network to make sure that we're optimizing those opportunities for capacity expansion.

And so, through this integration into our One Supply Chain network, you're going to see Hormel lines, perhaps a bacon line being what would traditionally have been a Jennie-O Turkey facility. So, it's really leveraging the resources, leveraging the parent company to make sure that we are truly optimizing the assets that we have employed in our business.

Operator: Our next question comes from Ben Theurer from Barclays. Please go ahead with your question.

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

Q

Good morning and thanks for taking my question as well. Jim, all the best in retirement. I hope you can enjoy. So, I wanted to follow up quickly on Planters. So, you said you've been seeing that, you're basically coming from an accretion point closer to the high end of the range. But if we look into the profitability in the quarter in Grocery Products, I mean, it was clearly was down on a year-over-year basis, and I guess there was still some of the integration costs. But can you give us a feeling of how you think Planters over time is going to be accretive into 2022 from a margin perspective in Grocery Products?

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

A

I think the best answer there, Ben, is the accretion model that we gave you at time of acquisition was at $0.17 to $0.20 range. And through our comments, we've indicated that we expect to perform at the high end of that range. And of course, that is a mix in Grocery Products and in our foodservice or convenience store channel, which is part of Refrigerated Foods. So, the business itself has been operating really, really well, meeting our expectations.

The integrations have gone smoothly. We talked about already integrating one facility. The other two are right behind it. So, I mean, the business is doing everything that we thought it would do so far. But then the opportunities going forward in terms of what we're going to be able to do from branding, flavors, innovation, I mean there's still a lot to come, and that's why we're so excited about what it has contributed and will contribute in the future.

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

Q

Okay. Perfect. And then my follow-up question is really more around the products. And I remember you've talked a lot about the big potential you're seeing within like creating new products, innovation, Planters as an opportunity to leverage some of the other categories within snacking. If you would have to take a look at like the first couple of months of operations, is that something you continue to be very positive on? Have you seen any incremental opportunities to grow that business and to kind of combine it with existing snacking opportunities? And where do you think this is going to turn out in a more of the medium-term timeframe?

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

A

Sure. So, there's two parts to that. I mean on the retail front, we are having different, more fruitful conversations with retailers in regards to snacking as a category and how we approach that as an organization. And that's exactly what we expected on the retail side.

On the foodservice or convenience store channel, the same thing is happening. We're having much different conversations with convenience store operators. In the past, everything we did was the back of the house when you went in to get food for sandwiches or pizza. Now, that retail section of the convenience stores has been opened up because now we have something to talk about with Planters, and we're able to follow on with other parts of our portfolio.

And so, I think that those are the new things for us. There were some basics blocking and tackling that we knew we'd be able to get done as well in terms of filling distribution gaps just like we did when we acquired the SKIPPY business. So, again, you start piecing this all together, and that's why we remain so optimistic about the acquisition and what it holds for us going forward.

Operator: And our next question comes from Robert Moskow from Credit Suisse. Please go ahead with your question.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Thanks for the question. Jim, best wishes in your retirement. I hope you never have to talk about trim or belly prices ever again.

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

A

It's my favorite thing to do, Rob. I get up in the morning hoping to talk about trim and belly prices.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Q

Why are you retiring then? Hang around. But I would like to know about the guidance – the earnings guidance. So, if I just assume $0.20 of accretion from Planters, then I don't get much growth from the core business, and you are forecasting growth across your core business. So, is the trick here to take the earnings base for 2021 and reduce it for the extra week? And if so, how much should I reduce it? And then I suppose I should also strip out the acquisition integration costs that you had, which I think are maybe $0.04 in 2021. Maybe you can help me with the math on that and then a quick follow-up.

Jacinth C. Smiley
Group Vice President-Corporate Strategy, Hormel Foods Corp.

A

So, as we explained before in my prepared comments and then Jim and Jim, we do expect to have both sales and earnings growth through all segments for next year. We definitely do have some puts and takes. So, the 53rd week is about $0.03. So, we would pull that piece out. And again, Planters is at the top end of our range that we gave with $0.17 to $0.20. So, that's a piece of it. And so, I think with that, it should really get us – get you to showing sales and earnings growth and margin growth throughout the year. Certainly, I mean it will vary as we talked about for the – from quarter-to-quarter, but we do expect to see organic growth, especially with new capacity coming on and really sits in the range of our long-term goals that we have established and talked about in Investor Day.

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

A

Hey, Rob, the only other thing I would add, just as a point of clarification is, you had mentioned $0.04 as deal costs. We've talked about that as $0.06. So, there's another $0.02 there that you want to put into your model.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Regarding the deal costs, did you have $30 million year-to-date pre-tax or how much in 2021 so far?

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

A

It's closer to $40 million when you take in all of the issues.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC

Q

Right. Okay. Okay. Okay. And I guess, with your sales up so dramatically in the last couple of quarters, I would think you'd also have your biggest sales gains in first quarter and second quarter just because of the commodity pricing. So, is it fair to say that first and second quarter, strongest sales growth will be there, but maybe margins will be kind of compromised because of just the mathematics of the profit flow-through?

Jacinth C. Smiley
Group Vice President-Corporate Strategy, Hormel Foods Corp.

A

I guess I would say, again, it depends, right? I mean it – there is volatility in being so commodity-driven, that can really flip at any point in time. And so, that's why we continue to stress just that shift from quarter-to-quarter is something that we need to watch out for. I mean, we – but we do feel good about the full year and the growth that we're expecting both from the organic piece of it and then what Planters is adding.

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

Yeah. And [indiscernible] (01:05:33) Rob, I mean, your assessment on the first two quarters is correct because you're going to have a – a big part of that will be Planters, which will be $600 million to $700 million for the full year, but basically against zero last year in the first two quarters.

Robert Moskow
Analyst, Credit Suisse Securities (USA) LLC
Q

Great. Okay. Best wishes.

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

Thank you.

Operator: Our next question comes from Ken Zaslow from Bank of Montreal. Please go ahead with your question.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.
Q

Hey, good morning everyone. Rob took my joke as well. So – but Jim, best of luck and good luck in your retirement, and it is well deserved.

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

Thank you, Ken.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.
Q

Let me just ask, how much have your margin structure been inhibited by labor and low utilization rates over the last year? And do you think you'll regain the majority of that in 2022?

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

Yes. I mean, Ken, there's been an impact that is probably easily quantifiable when we think about commodity costs, packaging costs, freight costs, all those things that you see. But there are other costs that have been built into this crazy volatile year. And the idea of all of a sudden, one week, you might have [ph] film or (01:06:55) ingredients or things that aren't showing up as planned and having to react as a supply chain to make sure that you're sourcing those, and when you're looking to source those, it's about supply, not cost. And so, there are a lot of those examples on a week-to-week basis in the environment we're in right now.

I think as the entire supply chain, backwards and forward, starts to moderate throughout the year, we'll be able to capture more of those or have those go away. So, it will be less of an impact. And I think it'll just happen throughout 2022 and probably – I mean, we're hoping that there's just more normalcy as we head into 2023.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

Okay. Then with your turkey actions, how much do you think that will structurally enhance your turkey margins? Not talking about the industry, but your actions, is that worth about 100 basis points, 150? How do you kind of contextualize the margin enhancement based on your actions in turkey? And then, that will be my last question. I'll leave it to two questions.

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

A

Yeah. Thanks, Ken. I mean two things there. I mean, the first driver through all of this for the JOTS piece is really moving away from that commodity nature of the business, creating less volatility that we've seen over the last five years. And we'll be – like I said, we'll come back to you in Q1 and give you a lot more color in terms of what you can expect from that business going forward.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

Great. Thank you, guys. Be well.

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

A

Yeah.

Operator: Our next question comes from Peter Galbo from Bank of America. Please go ahead with your question.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Hey. Jim and Jim and Jacinth, good morning. Thanks for taking the question. I'll keep it to one, because I know we're a bit over time. I guess just on the new pork supply contract, I think historically, you disclosed that you buy about 10,000 hog carcasses a day from WholeStone kind of at the cut-out price.

And I just wanted to understand if in the new contract, because you're not buying all of the cuts now, just how we should think about if that's priced differently? Are you buying only at belly prices or trim prices? Is it still that same 10,000 equivalent a day? Just any more detail there to help us understand kind of some of the pork costs.

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

A

Sure, Peter. If you think about it, bellies, trim, obviously, are in high demand, but hams, for example, we sell hams out onto the market, and so we just pass through hams. So, that would be an item that we wouldn't take. There's multiple items that we take during certain parts of the season, for instance, ribs. So, it basically allows us to agree to take the products that we need for our value-added production.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

And is that 10,000 equivalent hogs or whatever the number was, like is that still a good baseline to use? Has the contract expanded?

James N. Sheehan

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

A

Sure. Yes, so that's a good baseline. So, for instance, off of their lines, we would take all of their hogs, we would take the trim. We would take various other cuts of meat that we need in our production. And that there are certain types of things that we would not – we may not take any of them, because we just – as I said, it's just a commodity product that's being passed through. And it's commodity margins, whether they're positive or negative. So, when you look at the critical inputs, think about 10,000 hogs.

Peter T. Galbo

Analyst, BofA Securities, Inc.

Q

Got it. Thanks very much, Jim.

Operator: Our next question comes from Michael Lavery from Piper Sandler. Please go ahead with your question.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Thank you. Good morning. And I'll echo all the congrats, Jim, and welcome to Jacinth. But I wanted to just touch on the capacity piece. And maybe two things. One, is for the pepperoni expansion in 2Q, any sense of when within 2Q that might come? Should we really just count on any bump up there in the second half? But I guess maybe a bigger question is, how does the guidance – how does the capacity expansion fit in guidance and maybe getting it? If there's any delays, would that potentially impact what the outlook might be?

James P. Snee

Chairman, President & Chief Executive Officer, Hormel Foods Corp.

A

Yeah. I mean, we're still thinking about it being operational in the second quarter. So, you're really going to see the ramp-up in Q3, back half of 2022. We've got it modeled and right now, Michael, I mean there's no indication that we're going to have any delays getting the plant up and running. So, I mean we're very, very confident in our ability to meet the numbers that we put into our plan for 2022.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Okay. Great. And just on the margin side, you've got some mix lift from the new Fremont contract. You've touched on pricing and productivity and certainly looks like some of the costs are turning more favorably. As you build out your plan, can you just point to maybe what's the most critical? Is it the cost moderation? Is it the pricing piece? Are they similar in weight? How do we just think about the mix – the build to the margin piece that you're seeing?

James P. Snee

Chairman, President & Chief Executive Officer, Hormel Foods Corp.

A

Yeah. I mean what you're describing, Michael, is exactly right. I mean we'll get the benefit of some of the raw material declines that we've seen. The pricing here is key. So, our ability to get the pricing through when we did was very, very important. I think we've demonstrated a track record of being able to expand margins on the other side of this – these market declines, which we expect to be able to do again. So, it's a combination of both of those things.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Okay. Great. Thanks so much.

Operator: And our next question comes from Carson Barnes from Consumer Edge Research. Please go ahead with your question.

Carson Barnes
Analyst, Consumer Edge Research LLC

Q

Good morning. Thanks for the question. In terms of costs, what do you see as the biggest risk in 2022? Sounds like feed costs are hedged for the most part. Do you see it as transportation or packaging or wages? Just curious how you think about – how are you thinking about that? And where you're the most exposed?

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

A

The biggest risk, Carson is our – is the volatility. We expect freight to continue to show increases. We know that packaging is going to have some increases in 2022. And we've built that into our plan already. Really where you get caught and it is more of that quarter-to-quarter thing is the volatility like we saw in 2021. So, from our perspective, as we sit here today on December 9, it's the volatility throughout the year that really poses the biggest risk again this year.

Carson Barnes
Analyst, Consumer Edge Research LLC

Q

Makes sense. Thanks for the question.

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

A

Yeah.

Operator: And ladies and gentlemen, with that, we'll conclude today's question-and-answer session. I'd like to turn the floor back over to the management team for any closing remarks.

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

Well, thank you for joining us this morning. It's clear that we have a lot of momentum in our business as we head into 2022. And this momentum didn't happen by accident. It's a result of a lot of hard work by our team members around the globe and I'm incredibly thankful for all this great work that has put our company in this enviable position. I wish all of you a very safe and happy holiday season. Have a great day.

Operator: Ladies and gentlemen, with that, we'll conclude today's conference call. We do thank you for joining. You may now disconnect your lines.