

Hormel Foods Reports Record First Quarter Sales And Reaffirms Full Year Sales and Earnings Guidance



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The company delivered sales and earnings growth, overcoming challenging operating conditions

Hormel Foods Corporation (NYSE: HRL), a leading global branded food company, today reported results for the first quarter of fiscal 2022. All comparisons are to the first quarter of fiscal 2021 unless otherwise noted.

EXECUTIVE SUMMARY – FIRST QUARTER

- Volume of 1.2 billion lbs., up 2%; organic volume¹ down 4%
- Record net sales of \$3.0 billion, up 24%; organic net sales¹ up 13%
- Operating income of \$320 million, up 19%
- Operating margin of 10.5%, compared to 10.9% last year
- Pretax earnings of \$309 million, up 11%
- Effective tax rate of 22.4%, compared to 19.7% last year
- Diluted earnings per share of \$0.44, up 7% compared to last year
- Cash flow from operations of \$384 million, up 87%

EXECUTIVE COMMENTARY

“We remain on track to deliver our sales and earnings guidance for the year as our team achieved its fifth consecutive quarter of record net sales and grew operating income by double digits during the first quarter,” said Jim Snee, chairman of the board,

president and chief executive officer. “Our ability to deliver these results demonstrates the strength of our balanced business model and our exceptional execution in navigating difficult operating conditions. This is a testament to our experienced management team, clear strategic priorities and dedicated team members around the world.”

“We continue to benefit from the strength of our brands and our strategy to meet consumers when and where they want to eat,” Snee said. “Our foodservice businesses had another outstanding quarter, indicating the value of our direct selling organization and differentiated product portfolio. We also delivered another quarter of growth at retail, led by strong performances from brands such as Columbus[®], WHOLLY[®], Applegate[®], Hormel Gatherings[®] and SPAM[®], and the contribution of the Planters[®] business. We continue to support our brands with increased advertising across each business segment during the quarter to support our leading positions in the marketplace.”

“From a bottom-line perspective, the intentional actions we have taken to offset inflationary pressures are working. These actions include pricing, improving promotional effectiveness and shifting to a more profitable mix,” Snee said. “We saw excellent results from the value-added businesses in Refrigerated Foods and the Jennie-O Turkey Store business, which benefited from favorable market conditions and our initial transformative efforts. The Planters[®] business was also a catalyst for earnings growth as we continued to leverage the expertise and scale it has provided our high-growth snacking platform.”

“Our One Supply Chain team faced some of the most difficult operating conditions since the start of the pandemic,” Snee said. “From late December through January, our operations were heavily impacted by significant labor shortages due to the omicron variant, severe upstream and downstream disruptions, and continued industrywide operational challenges. The team once again demonstrated resilience in the face of numerous pressures, never wavering on its commitment to the safety of all team members.”

OUTLOOK

“We are reaffirming our sales and earnings guidance,” Snee said. “We expect the demand environment to remain favorable, pricing actions to combat inflationary pressures and continued growth from products such as Columbus[®] charcuterie, Applegate[®] natural and organic meats, Planters[®] snack nuts, and foodservice prepared proteins and pizza toppings. Additionally, we anticipate the operating environment to remain volatile, but our supply chain will continue to show improvement as labor pressures ease and new capacity comes online to support key growth platforms, such as dry sausage, pizza toppings and bacon.”

	FISCAL 2022 OUTLOOK
Net Sales Guidance (in billions)	\$11.7 – \$12.5
Diluted Earnings per Share Guidance	\$1.87 – \$2.03

STRATEGIC EVOLUTION UPDATE

Planters® Snack Nuts Business Integration

“The Planters® snack nuts business continues to perform at the high end of our expectations,” Snee said. “We are on track to launch many new innovation items, including Planters® Sweet & Spicy Dry Roasted peanuts, and refresh the branding and packaging. Recently, we also made investments in advertising with the All or One campaign.”

During the first quarter, the company completed the supply chain integration of the Planters® and Corn Nuts® businesses. We anticipate continued synergies and improved customer service levels going forward.

Jennie-O Turkey Store Transformation

“We continue to take transformative actions at Jennie-O Turkey Store and are starting to see the benefits,” Snee said. “We have a plan for the integration of all business functions into the broader Hormel Foods organization, including our supply chain, selling organization and marketing team. Our actions will lead to a more demand-oriented and optimized turkey portfolio that is better aligned with the changing needs of our customers, consumers and operators. This is expected to result in improved long-term growth, higher profitability and lower earnings volatility.”

Beginning in the first quarter, the Jennie-O Turkey Store team implemented a program to optimize our commodity portfolio while simultaneously increasing investments into branded, value-added products. Additionally, the company integrated the Jennie-O Turkey Store and Hormel Foods research and development teams. The company plans to integrate other business functions, such as the selling organization and marketing teams, into the broader Hormel Foods organization by the start of fiscal 2023.

The closure of the Benson Avenue production facility remains on track for the second quarter of fiscal 2022. Further, the company will integrate the Jennie-O Turkey Store supply chain into the broader Hormel Foods One Supply Chain by the start of fiscal 2023.

The company expects the Jennie-O Turkey Store business to deliver higher growth and profitability along with other financial benefits, including increased asset efficiency, higher manufacturing throughput, better labor utilization and avoidance of capital expenditure. The company expects these changes will drive selling, general and administrative cost synergies of approximately \$20M – \$30M annually by fiscal 2023.

CHANNEL HIGHLIGHTS – FIRST QUARTER

Demand across all the company’s U.S. domestic channels remained elevated, as exhibited by strong growth compared to the prior year and compared to pre-pandemic levels. The company benefited from pricing actions to offset inflationary pressures

across many categories and contributions from the Planters® snack nuts business. Sales for the international channel declined, primarily due to demand softness in China caused by COVID-related restrictions and current export logistics challenges.

NET SALES PERCENT CHANGE (%)	QUARTER ENDED	
	JANUARY 30, 2022 COMPARED TO JANUARY 24, 2021	JANUARY 30, 2022 COMPARED TO JANUARY 26, 2020
U.S. Retail	17	32
U.S. Foodservice	51	25
International	(3)	6
Total	24	28

SEGMENT HIGHLIGHTS – FIRST QUARTER

Refrigerated Foods

- Volume down 4%; organic volume¹ down 5%
- Net sales up 19%; organic net sales¹ up 17%
- Segment profit up 15%

Value-added volume and sales increased due to strong results from the foodservice businesses and pricing actions across most categories. Consistent with the company's long-term strategy to better align resources to value-added growth, the overall decline in volume was due to lower commodity sales as a result of the company's new pork supply agreement. Foodservice volume and sales increased with growth in every branded category and from the inclusion of the Planters® snack nuts business. Retail and deli sales increased with growth led by products such as Applegate® natural and organic meats and Hormel Gatherings® party trays. Products such as Columbus® grab-and-go charcuterie also benefited from new production capacity in Nebraska. Higher foodservice sales and numerous pricing actions across the other value-added businesses overcame higher operational and logistics costs. Volume, sales and segment profit were negatively impacted by production constraints due to labor shortages.

Grocery Products

- Volume up 22%; organic volume¹ up 1%
- Net sales up 48%; organic net sales¹ up 7%
- Segment profit up 8%

Volume and sales increased, driven by growth from the simple meals and Mexican foods portfolios and from the inclusion of the Planters® snack nuts business. Brands leading the sales growth included WHOLLY®, SPAM®, Dinty Moore® and Mary Kitchen®. Segment profit increased due to the contribution from the Planters® snack

nuts business, which more than offset lower results from MegaMex and higher operational and logistics costs. Volume, sales and segment profit were negatively impacted by production constraints due to labor shortages.

Jennie-O Turkey Store

- Volume down 3%
- Net sales up 15%
- Segment profit up 62%

Sales increased due to improved foodservice performance, increased whole bird shipments and pricing actions across the portfolio. The decline in volume was largely due to lower commodity volumes as a result of labor shortages. Higher commodity prices and strong foodservice sales drove the significant improvement in segment profit. The business absorbed significantly higher feed and logistics costs.

International & Other

- Volume down 17%; organic volume¹ down 19%
- Net sales down 3%; organic net sales¹ down 6%
- Segment profit down 19%

Volume and sales declined due to demand softness in China caused by COVID-related restrictions, current export logistics challenges and lower fresh pork export volume resulting from the company's new pork supply agreement. Segment profit declined due to lower sales across the portfolio and a decline in equity in earnings.

SELECTED FINANCIAL DETAILS

- Advertising spend was \$47 million compared to \$34 million in the prior year.
- The effective tax rate was 22.4% compared to 19.7% last year. Last year's tax rate benefited from a state tax settlement. The effective tax rate for fiscal 2022 is expected to be between 20.5% and 22.5%.
- Capital expenditures in the first quarter were \$50 million compared to \$40 million last year. The company's target for capital expenditures in fiscal 2022 is \$310 million.
- Depreciation and amortization expense in the first quarter was \$64 million compared to \$51 million last year. The full-year expense is expected to be approximately \$250 million.

PRESENTATION

A conference call will be webcast at 9:00 a.m. CST on Mar. 1, 2022. Access is available at www.hormelfoods.com by clicking on "Investors." The call will also be available via telephone by dialing 888-317-6003 and providing the access code 0574068. An audio replay is available by going to www.hormelfoods.com. The webcast replay will be available at noon CST, Mar. 1, 2022, and will remain on the website for one year.

