

FINAL TRANSCRIPT

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HRL - Q3 2007 Hormel Foods Corporation Earnings Conference Call

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PRESENTATION

Operator

Welcome to the Hormel Foods Third Quarter Earnings Conference Call. During today's presentation all parties will be in a listen-only mode. Following the presentation the conference will be open for questions. (OPERATOR INSTRUCTIONS) . This conference is being recorded today, Thursday, August 23rd, 2007. I would now like to turn the conference over to Mr. Fred Halvin, Director of Investor Relations. Please go ahead,

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Fred Halvin - Hormel Foods Corporation - Director of Investor Relations

Good morning. Welcome to the Hormel Foods conference call for the third quarter fiscal 2007. We released our results this morning before the market opened around 6:30 a.m., along with our announcement of our acquisition of Burke Corporation. If you did not receive a copy of these releases you can find them on our website at www.Hormel.com under the Investor section.

On the call today is Jeff Ettinger, Chairman of the Board, President and Chief Executive Officer, and Jody Feragen, Senior Vice President and Chief Financial Officer. Jeff will provide a review of the operating results and an outlook for the remainder of the fiscal year. Then Jody will provide detailed financial results for the quarter. The line will be open for question-and-answer following Jody's remarks. An audio replay of this call will be available beginning 11:30 a.m. Central time today, August 23, 2007. The dial-in number is (800)-405-2236 and the access code 11094727. It will also be posted on our website and archived for one year.

Before we get started with the results of the quarter I first 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 effect the operating results of the Company are fluctuations in the cost of and availability of raw materials and the market conditions for finished product. Please refer to Pages 26 through 31 in the Company's Form 10-Q for the quarter ending April 29, 2007, for more details. It can be accessed on our website. Now I will turn the call over to Jeff.

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

Good morning, everyone. As previously announced, higher than expected input costs within our Grocery Product segment caused the Company to fall short of our original expectations for the quarter. While we were disappointed with the overall results we were encouraged by the 6% growth in consolidated segment operating profit led by strong year-over-year performance in refrigerated foods, specialty foods, and the international division. We were also satisfied with Jennie-O Turkey stores progress in offsetting steep grain cost increases through higher pricing. Sales in the quarter for the total company reached \$1.5 billion up 8% from the prior year and up 7% excluding acquisitions.

Our earnings per share for the quarter were \$0.41 compared to \$0.43 last year, a decrease of 5%. Higher corporate expenses and an increased tax rate contributed to the year-over-year decrease in earnings. It should be noted that last year's expenses and tax rate were lower than normal and this year's expenses are more typical. This morning we are pleased to announce the purchase of Burke Corporation, a manufacturer of pizza toppings and other fully cooked meat products. Hormel Foods is already a leader in the pepperoni category and this acquisition strengthens our position in the pizza topping category. It allows us to expand our Food Service product offerings and provides us with added manufacturing capabilities. We are excited to welcome the employees of Burke Corporation into the Hormel Foods Organization and believe our similar cultures will facilitate an easy transition. Bill Burke junior, one of the previous owners will continue to run the business. Annual sales are \$125 million and we expect the business to be accretive to our fiscal 2008 results.

I will now take you through each of our existing segments. The grocery product segment had a mixed quarter. On the plus side, we continue to see significant distribution gains and sales growth from our Hormel Compleats microwave trays. Our television advertise has just begun for this line and I'm extremely excited about the continued growth prospect for this line of convenience products. The SPAM family of product also reported double-digit volume growth behind promotional programs associated with the 70th year anniversary of this iconic brand.

On the negative side for GP, much of the growth generated by completes and SPAM was offset by lower sales in our Valley Fresh Chunk Chicken, chili, and Chi-Chi Sauce business. Higher input costs also negatively affected parts of our business including SPAM, Chunk Chicken and Hormel Bacon Bits. We expect grocery product will continue to experience higher input costs in the fourth quarter. While we were disappointed with the third quarter performance of grocery products we are encouraged by the year-to-date results for the division. Through three-quarters sales are up nearly 5% and operating profit is up 9%. The refrigerated

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food segment had another great quarter reporting a 9% increase in sales and a 23% increase in profits. Value added product growth in our meat product and food services business drove the top line and bottom line results.

On the retail side of businesses, a focus on feature and display activity yield exceptional results for items such as Hormel party trays, Hormel refrigerated entrees, Always Tender flavored meats, and Dilusso Deli Company products. We also saw the benefit of a price increase that was implemented during the quarter for select categories in the meat products division. Our Hormel Natural Choice deli sandwich meats continue to do very well. They have already achieved the number three position in the premium lunch meat category after only 15 months since our market launch. This reflects the consumer appeal of all of our all natural no preservative product positioning. We continue to aggressively support this item in the form of national advertising and consumer promotions. And sales were up 74% in the quarter versus the prior year.

The food service division continues to deliver outstanding performance with top line sales up 12%, double-digit growth was report by Bread Ready sliced meats, Austin Blues barbecue, pizza toppings and premium bacon. As previously mentioned the acquisition of Burke Corporation will further strengthen our position in the high growth category of pizza toppings. Jennie-O Turkey Store sales were up 4%, operating profit was down 19% for the quarter. While we have not fully offset all of the higher grain costs we have certainly narrowed the gap. Based on the progress we made in the third quarter we expect next quarter to achieve similar results to last year.

The incremental burden of higher year-over-year feed costs in the third quarter for Jennie-O Turkey Store was \$26 million. We were able to offset all but 5 million of this through price increases, mix improvement, with value-added sales up 8%, and efficient gains. Because of the continued strong demand for turkey, and the industry's disciplined approach to production we continued to see strong commodity meat markets. The latest freezer report published yesterday shows frozen turkey inventories down 2% compared to last year and down 18% compared to five-year average. We believe the grain markets will continue to be volatile and it's our expectation that the corn market will range from \$3.25 to \$3.50 per bushel for the balance of our fiscal year.

The specialty food segment continued its run of strong year-over-year performance reporting a 28% increase in operating profits. All three businesses reporting within the segment, Diamond Crystal brands, our Specialty Products Division, and Century Foods, again contributed to the gains. A combination of improved product mix and volume gains were the drivers behind the strong results. As we have previously mentioned, we do not expect this rate of growth to continue for Specialty Foods. Our long-term growth expectations for this segments are in step with our company-wide goals of 5% top line and 10% operating profit growth. In the all other segment, our international business unit posted another excellent quarter with sales up 27% and operating profits up 67% compared to last year. We continue to enjoy success at building worldwide demand for the SPAM family of products and Stagg chili. Strong results were also reported by our Pure Foods Hormel joint venture located in the Philippines. Favorable raw material costs and higher selling prices were the drivers behind these improved results from Pure Foods Hormel.

Our China operation is performing significantly below last year's results because of the live hog shortage caused by disease issues in China. It is unclear exactly how long the shortage of live hogs will continue. In the meantime, we will push for higher pricing to pass through the increased pork input costs. I would say overall it was a mixed quarter. We have momentum in several of our core protein and grocery brands but have seen margin contraction in the face of commodity inflation. We remain focused on long term objectives of the Company to grow the business through innovation and to build upon our market share position in our key categories.

As stated in the press release we are providing a fourth quarter guidance range of \$0.62 to \$0.68 and a full range of \$2.06 to \$2.12 per share. This includes our expectation that higher input costs will continue to pressure grocery products margins and we expect to see a slow down in the year-over-year performance of our specialty product segment. At this time I will turn the call over to our Chief Financial Officer, Jody Feragen, to discuss the financial information.

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Jody Feragen - Hormel Foods Corporation - CFO

Thank you, Jeff. Good morning everyone. Earnings for the fiscal 2007 third quarter totaled \$57.4 million, or \$0.41 per share, compared to \$59.6 million, or \$0.43 a share a year ago. Earnings for the nine months of fiscal 2007 totaled \$200.7 million or \$1.44 per share compared to \$196.1 million or \$1.41 per share a year ago. Dollar sales for the third quarter totaled \$1.5 billion compared to \$1.4 billion last year, an 8% increase. Acquisitions added about \$17 million to the top line in the third quarter. For the first three-quarters of 2007, dollar sales also increased 8% to \$4.5 billion compared to \$4.2 billion last year. Acquisitions added about \$60 million to the top line in the first nine months. Volume for the third quarter was 1.1 billion pounds, up 0.5% from fiscal 2006 acquisitions added 9.6 million pounds to the quarter. Volume for the first three-quarters of the year was 3.3 billion pounds, up 4% from fiscal 2006.

Acquisitions added about 34 million pounds to the first three-quarters of the year. Selling and delivery expenses in the third quarter were 10.4% of sales this year compared with 11.2% last year, and year-to-date the expenses were 10.7% of sales compared with 11.3% last year. Freight costs continued to be lower year-over-year driven by cost saving initiatives that we have implemented. Our marketing investment in the third quarter was 29.1 million or 1.9% of sales compared with 29.2 million or 2.1% of sales last year. For the first three-quarters of fiscal 2007, marketing expenses was 2.1% of sales compared to 2.3% last year. We expect marketing expenses in the fourth quarter to be higher than last year, which will bring our full-year results expense above 2006.

Administrative and general expense was 2.7% of sales for the quarter, compared to 2.8% last year. For the first nine months of fiscal 2007, these expenses were 2.7% compared to 3.3% last year. Year-to-date expenses in 2006 included a 9.2 million of stock option expense related to the adoption of FAS 123R, and 6.3 million of non-qualified pension plan settlement charges. We expect administrative and general expenses to remain at their current levels for the remainder of the year. Interest expense for the quarter was \$6.6 million and flat to last year. Year-to-date interest expense is \$20 million compared to \$19.1 million last year. We expect full-year interest expense to be about \$27 million. Total long-term debt at the end of the quarter was 350 million compared with 361 million last year. We expect no change in long-term debt. We used short-term borrowings from our credit facility to finance the Burke acquisition that we announced today.

Depreciation and amortization for the quarter was 31 million compared to 30 million last year. For the first three-quarters of fiscal 2007 depreciation and amortization was 94 million compared to 90 million last year. We expect the full-year to be about 125 million. Our effective tax rate in the third quarter was 36.5%, versus 32% in fiscal 2006. Our year-to-date effective tax rate is 36.2%, compared to 32.2% last year. The higher effective tax rate for the quarter and year-to-date is due to unfavorable discrete events this year compared to favorable discrete tax benefits that were recognized in fiscal 2006. We expect the effective tax rate to be in the range of 35.4 to 35.7 in the fourth quarter which will equate to a full-year effective tax rate in the range of 35.8 to 36.2%. Capital expenditures for the quarter totaled 27 million compared to 44 million last year. For the first nine months of the year capital expenditures totaled 97 million, compared with 108 million last year.

For 2007, we expect capital expenditures to total about 135 million. The basic weighted average number of shares outstanding for the third quarter was 137 million and for the first nine months of the year was 138 million. The diluted weighted average number of shares outstanding for the third quarter was 139 million, and for the year, 140 million. We repurchased 980,000 shares of common stock during the third quarter at an average price of 37.01. We have 5.3 million shares remaining to be purchased from our 10 million share authorization that's currently in place. We processed 2.3 million hogs in the quarter, about even with last year. For the first nine months of the year we processed 7 million hogs compared to 6.8 million last year. The actual live hog cost in the third quarter was \$55 per live hundred weight, in line with the forecasted market we provided on our second quarter conference call. This compared with an average live price of \$53 for the same period last year. We are anticipating an average market of about \$49 per live hundred weight for the fourth quarter. About the same as last year. We continue to expect a slight increase in hog supplies for 2007. At this time, I will turn the call over to the operator for questions-and-answers.

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QUESTIONS AND ANSWERS

Operator

Thank you, ma'am. We will now begin the question-and-answer session. (OPERATOR INSTRUCTIONS). Our first question comes from the line of Farha Aslam with Stephens, Inc. Please go ahead.

Farha Aslam - *Stephens, Inc. - Analyst*

Hi, good morning. Could you share with us the weakness in your chili and chicken lines? Was it related to a early buy-in due to your price increases or something like that?

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

In the case of chili, we really have had somewhat of a roller coaster year in grocery products if you look at it quarter-to-quarter even as a whole division, (Inaudible) products had an excellent second quarter and the two chili franchises were key contributors there. Q3, the volumes definitely are down and looking at it retrospectively, there was certainly some of that volume in Q2 that then detracted from Q3 volume. In the case of the chicken franchise, a mixed story. The Hormel-branded items are still holding their own. We had a weaker quarter on Valley Fresh, and we've kind of reassessed our pricing and promotion strategy against that line and look to that to improve going forward.

Farha Aslam - *Stephens, Inc. - Analyst*

And when you look at pricing overall in grocery products, you took about, I believe a 5% price increase in April, and historically you only take pricing in that business once every few years, but given the higher commodity environment, would you anticipate taking another price increase in grocery products?

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

If the concurrent commodity conditions continue we're certainly going to have to have that in our consideration set. The other thing we can look at, Farha, if you recall, we didn't take it across the board in grocery product so we were selective about which item we went up with at that time. We took the chili up, we took Compleats, hash, tamale, some of the microwave cups, but some of the other items we deferred taking pricing. That will have to be in our consideration set going forward here. So whether those item we need to react as well.

Farha Aslam - *Stephens, Inc. - Analyst*

And can you moderate promotional support that you give these businesses as well to try and mitigate some of the impact from higher commodity costs?

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

Well, you can, but it's a balancing act. I mean, you don't -- these are high contributing gross margin items in general on a contribution dollar level, and so if we pull back from promotions aggressively, and see major volume declines, that's going to hurt the division's overall results as well. So we're trying to balance the right level of promotion. We're also over time trying to migrate some of those promotional dollars into consumer advertising. You'll see that happening somewhat in the fourth quarter as due to the Compleats television campaign. We will have a year-over-year increase in media and marketing during the fourth quarter, but it's something we definitely look at but you have to kind of balance it against the other factors.

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Farha Aslam - *Stephens, Inc. - Analyst*

That's helpful. Just on your Burke's acquisition, what level of accretion could you expect or what sort of margins does that business have?

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

On the accretion level, given that we're so late in '07 and that we're not in a position to give our total company '08 guidance, we're not going to go out and give a specific number for what type of accretion we're expecting on Burke. We'll give some sense of that when we do go out with our '08 number at the normal time frame. It's solid margining business. Our Food Service business has always been an excellent performance within refrigerated foods. It's a great growth area. Both the pizza topping business that we already had within our refrigerated group, more focused on pepperoni and the Burke business, have both been growing in the high single-digits over the last several years, and we expect that to continue. It's -- pizzas are a huge category, and pizza toppings obviously are a key component of that category. It's very fragmented category from the sales standpoint, and so us scaling up in this area should give us some excellent opportunities.

Farha Aslam - *Stephens, Inc. - Analyst*

Great, thank you very much. I'll pass it on.

Operator

Thank you. Our next question comes from the line of Bill Chappell with SunTrust. Please go ahead.

Unidentified Participant - *SunTrust - Analyst*

Hi this is actually [Shashod] in for Bill Chappell. Good morning.

Jody Feragen - *Hormel Foods Corporation - CFO*

Good morning.

Unidentified Participant - *SunTrust - Analyst*

First question is related to China, really surrounding around the whole hog situation over there and maybe how that affects pricing and maybe what's your take on all of that is, if you could comment on that please.

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

We agree, based on what we see from our people on the ground in China that the live issue is the significant problem. It's almost certainly been under reported on a government basis in the country. We talked about that in terms of our results of our international division that they see nearly a doubling in their cost in terms of hog procurement to supply our Beijing and Shanghai facilities. That being said, I think it's important to note that in terms of the aggregate Hormel Foods, it's a little less significant to us than maybe it is to some other players. We're not a big player in raising hogs. Overall we raise enough hogs to meet our value-added demand and don't look to sell commodity or surplus meat on the outside. And we really don't have a large portion of international sales that are export based on the fresh side. The market I think has been buffeted over the last

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few weeks by speculation about what China is going to do about this and whether they would potentially import significant amounts of product out of the U.S. Time will tell whether that will happen. I guess personally I never underestimate the impact of politics, and there are a lot of political reasons why China may well not seek to secure a lot of supply out of the United States. But even if they do and the market, therefore, goes up in this country, we feel we're in position to react. We've been through up marks and down mark before in the hog cycle, and so we're ready for that if that turns out to be how this plays out.

Unidentified Participant - SunTrust - Analyst

Okay, thank you. Appreciate that. One last question here on the Burke acquisition. Would you say that it's operating margins are similar to where refrigerated foods segment currently performs, around mid single digits? Can you comment on that?

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

It will be accretive to that.

Unidentified Participant - SunTrust - Analyst

Okay. Thank you.

Operator

Our next question comes from the line of Tim Ramey with D.A. Davidson.

Tim Ramey - D.A.Davidson - Analyst

Good morning, you mentioned \$55 live costs. Smithfield earlier said \$53.50. Oftentimes I guess that's an Eastern Corn Belt/Western Corn Belt difference in terms of cost. Is there anything else going on there that you would be aware of?

Jody Feragen - Hormel Foods Corporation - CFO

Tim, hi, this is Jody. That's what we actually what we paid for the quarter. So I'm not sure where their number came from, but I can report that that's the numbers that we used.

Tim Ramey - D.A.Davidson - Analyst

Okay.

Jody Feragen - Hormel Foods Corporation - CFO

I think we estimated a 54 in the second quarter call, so we were pretty close to what our estimate was.

Tim Ramey - D.A.Davidson - Analyst

Sounds good. As we think about the China situation, I hate to juxtapose you again to Smithfield, but it was just an hour ago -- they said they thought that there was potential for a 4% increase in demand as a result of exports to China. That would be negative for refrigerated. How would it play out as you kind of think through your business segments?

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Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

In refrigerated, would it probably be more a matter of timing, whether at the precipitous rise verse the gradual rise. We certainly have had situations before where it rises very quickly. There's a little bit of lag on the fresh meat pricing side. The bigger impact would probably be on the grocery side. Again, it's on select items, the raw materials we'd use for SPAM or bacon bits.

Tim Ramey - *D.A.Davidson - Analyst*

Jeff, you talked a little bit about the Burke margins what. They be pretty consistent with grocery product margins overall, or at the high or low end of the range there?

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

I guess could I tell you high single- digits would be what you should be thinking. So good margins within meat protein segment but not to grocery levels.

Tim Ramey - *D.A.Davidson - Analyst*

Thank you.

Operator

Thank you. Our next question comes from the line of Christina Mcglone with Deutsche Bank.

Christine McGlone - *Deutsche Bank - Analyst*

Good morning, your outlook for corn for the balance of the year was higher than I thought. Is it based on where you're locked in or are you expecting corn prices to rise as the fiscal year progresses?

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

Well, I guess we need to make sure we're talking about the same number. We're trying to give you a near-term futures number. We gave a range of \$3.25 to \$3.50. Yesterday they were \$3.47. So if anything they're pushing the upper end of our range at the moment. We do also have a certain amount of crop locked in. We really haven't had a practice of disclosing the price or percentage that that entailed but the range we're giving you is for the open market purchases.

Christine McGlone - *Deutsche Bank - Analyst*

Okay. And then last quarter you talked about kind of a lot of rationality in the chili market and that allowed you to get a better return on your promotional spending. Did that kind of fall off this quarter?

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

No.

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Christine McGlone - Deutsche Bank - Analyst

In terms of --

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

What did fall off was our volume performance. But the margin performance was still quite strong.

Christine McGlone - Deutsche Bank - Analyst

But, I mean, in terms of the competitive climate.

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

Yeah, I think it's -- the picture is similar to what we talked about last quarter, that what were new entrants to the category that were very significant plays three years ago have now become normalized. Campbells and Bush have certain niches where they're holding their own and others where frankly they're doing all that well and are probably struggling to hold distribution. Then there's always been other regional competitors within the chili category that also are holding their own. But overall we've seen a significant swing back to more normalized returns within the chili franchise.

Christine McGlone - Deutsche Bank - Analyst

Okay. And I guess, last question, are you still promoting -- the SPAM promotion, does that continue, or was that very third quarter weighted?

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

No, the promotion does continue into the fourth quarter, and it's on a -- frankly, it's on both domestic and international basis and we've seen very good international results against it as well.

Christine McGlone - Deutsche Bank - Analyst

Okay, thank you.

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

You're welcome.

Operator

Thank you. Our next question comes from the line of Jonathan Casteleyn with Wachovia. Please go ahead.

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Jonathan Casteleyn - Wachovia - Analyst

Jeff, when you look at the Burke acquisition you just made, is this the kind of size and type of acquisition you're looking for and we should expect out of you in the future, or is -- was it just something that fell into your lap some what was kind of the process on this?

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

Well, it's absolutely within our sweet spot, or the platform that we like to see some growth in, but acquisitions have come quickly, some take a long time. We've talked with Bill Burke junior and his dad for six or seven years prior to final a decision by their family that this was the right time to make this move and to be able to grow with Hormel but clearly in terms of the product category we like, in terms of the growth profile, in terms of the cultural fit, the price we paid, we're in the seven to eight times EBITDA range that has been fairly typical for our deals. We're very comfortable at that level. This is an excellent deal for us. If we -- if you've got any more of these in your pocket, give me a call, and we're always looking for other things, but this one is definitely very much within our profile of would we're looking for.

Jonathan Casteleyn - Wachovia - Analyst

I guess what I'm getting at is you've seen a -- sort of dry up in the availability of liquidity for some of your financial sponsor competitors for deals. I know historically this seems a lot like a deal that you've always done, financial sponsors, (Inaudible) over the past two or three years. I wonder is there a greater opportunity, do you think to do larger deals you? You have got a lot of dry powder here to do larger deals now that the financing environment is a little tougher for some of your competitors?

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

Well, I think there are two elements to your question. And I think the answer to both of them is a guarded yes. We've had, I think, good luck over the last few years with our acquisitions, and I think we would be prepared and have the confidence potentially to make a bigger deal, and then in terms of the relative competition from financial purchasers, that may dwindle somewhat, and that may make us more leading player on certain properties going forward.

Jonathan Casteleyn - Wachovia - Analyst

But you really. Seen like tangible evidence?

Jody Feragen - Hormel Foods Corporation - CFO

I guess I would add that we keep the same discipline in place and that discipline may get easier to execute in the marketplace to complete transactions now that some of the fast money has gone away.

Jonathan Casteleyn - Wachovia - Analyst

Thanks. Just finally, I guess probably for Jody, is there anything -- I know you're anticipating increases in supply. Is that just based on the government data for hogs on that \$49 hog price? Because it looks like we're tracking about \$54 here quarter-to-date. I know the market has gotten killed recently, so it's -- no pun intended.

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Jody Feragen - Hormel Foods Corporation - CFO

It has really kind of settled down. We had those two weeks where it got turned on its head, and it's really settled down. I tell you, I've -- looking back in history to see these large process numbers that we're seeing day after day, I think the potential is there to have a lot more in the marketplace.

Jonathan Casteleyn - Wachovia - Analyst

Okay. Thanks so much.

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

Thanks.

Operator

Our next question comes from the line of Eric Larson with Piper Jaffray.

Eric Larson - Piper Jaffray - Analyst

I know it's a complicated name.

Jody Feragen - Hormel Foods Corporation - CFO

Too Scandinavian.

Eric Larson - Piper Jaffray - Analyst

Particularly in minnesota. Good morning, everyone. Just a couple of quick questions. Jody, I know you're not giving any guidance for '08 but is it -- is a reasonable way to look at your tax rate to take maybe '06 and '07 and average them, given your comments that there were sort of unusual in both years is that a reasonable first stab as to how we should look at an '08 tax rate?

Jody Feragen - Hormel Foods Corporation - CFO

Eric, we have a new dimension that will be coming at us for the first quarter of fiscal 2008. We'll be adopting FIN 48, which is another tax effect. I would expect that we'll be slightly higher than where we've been this year.

Eric Larson - Piper Jaffray - Analyst

Okay. That's fair.

Jody Feragen - Hormel Foods Corporation - CFO

That's truly the mechanics of the accounting that goes with FIN 48.

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Eric Larson - Piper Jaffray - Analyst

Okay, and that's fair. Your tax rate has been a little more volatile, so that's why I sort of asked that question.

Jody Feragen - Hormel Foods Corporation - CFO

We'll continue to see that volatility. The new accounting pronouncement does not change that volatility element, and we're not alone in this. Everybody is going to have it.

Eric Larson - Piper Jaffray - Analyst

That's what I'm hearing from other companies as well. And then, Jody, this is a very specific question, but in your cash flow statement, every quarter you're obviously taking cash away -- the earnings from your JV is obviously a negative because you're not getting that cash. Is there a way for you -- for Hormel to repatriate some cash out of your joint ventures? Several of them are doing quite well. I assume there is cash build upon those balance sheets. Do you get dividend pay back for that or anything? How do you repatriate cash in your JV?

Jody Feragen - Hormel Foods Corporation - CFO

For some of our JVs we get dividend repatriations, and that's been the case with our Mexican joint venture. Our pure foods joint ventures have been in an investment mode with expansion and operations over on the Philippines, and so we haven't seen any dividends there for, oh, the last couple of years. But certainly as their results improve we'll look at that. Many times we don't repatriate all the way back to the United States because we like to have available funds overseas to invest in other opportunities.

Eric Larson - Piper Jaffray - Analyst

Sure, I mean, that makes perfect sense.

Jody Feragen - Hormel Foods Corporation - CFO

Right.

Eric Larson - Piper Jaffray - Analyst

And then just maybe a final question for Jeff, and I'll turn it over, you've had extraordinary growth, obviously in your Specialty Foods and your all other categories. One cannot expect that to sort of continue. When you look over the next several years what might be sort of a normalized top line? I think that you said in specialty that you believe that that can grow at 5% top line and 10% EBIT, sort of in line with your corporate goals. That what we should expect for specialty as well going forward?

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

Yes, that was the comment. I do think over time our expectations for the specialty division will be more comparable to the Company averages. They've had a terrific couple of years here. They had a couple of franchises within the business that were -- as of two years ago quite a bit underperforming, so that certainly has added to their ability to register these kind of increases but over the long haul the Company average of 5% top line and 10% bottom line would be a better expectation for that and the other group.

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Eric Larson - Piper Jaffray - Analyst

Okay. I will ask one more question. The Burke acquisition, can you give us -- it's 125 million of sales. Can you give us a little flavor for where they might sell geographically, what you can do with that from maybe it's mainly Food Service, so an ACV really isn't relevant, because that's grocery related. But if you look at ACV related to the Food Service industry what are your selling opportunities for Burke, and are they significant?

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

Yes, it is very difficult to come up with that kind of data. It's not reported. There's no scanner information, obviously, but we know the pizza category in general is massive. We know that toppings are one of the major elements that go into pizza manufacturing. We know it's a very fragmented category. There's one larger player. Tyson owns the entity that's a large player. And this will make us certainly, if we're not number two, we're probably number three, have to be right in there. It's a growing category, and there's a great fit between the approaches of the Hormel Food Service group and Burke. We're obviously a very full-service, full line supplier at Hormel Food Service with a lot of national distribution partners and so forth. Burke has really focused on the specialty pizzeria area and has a sales force in the system aimed at really maximizing returns out of there. And so that will continue. There may be some overlap in customers and where there is our groups will work together to figure out the best approach to service that customer, but overall we see lots of opportunities for growth and we are going to turn both groups loose to go get that growth.

Eric Larson - Piper Jaffray - Analyst

Okay. Do they have any regional brand names in the grocery -- in grocery retail?

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

No, they're not in grocery at all.

Eric Larson - Piper Jaffray - Analyst

Okay. Good. Thank you, everybody.

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

Thanks, Eric.

Operator

Thank you. Our next question comes from the line of Oliver Wood with Stifel Nicolaus.

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

Hi, Oliver.

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Oliver Wood - *Stifel Nicolaus - Analyst*

Good morning. Just to follow-on to the previous acquisition question. Could you comment at all on your acquisition pipeline currently this.

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

We really can't comment -- don't comment on any specific deals on where we're at with them other than to say when we've identified in the past we understand we're a generator of significant positive cash flow that our shareholders don't expect us to just sit on that cash, and that if we can find avenues with good returns to grow our business, we'll certainly continue to look for those, and we are always looking, and over time if we're not able to do that we would be more aggressive about other areas of returning cash to the shareholders.

Oliver Wood - *Stifel Nicolaus - Analyst*

Fair enough. If would you also comment on the broader turkey industry on the fresh side, really around supply trends currently we've seen some pretty big exit numbers recently. Just wondering with what your expectations are there from a broader market standpoint.

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

Yes, we noticed that as well. We don't -- we're not generating it, I can tell you that. Our numbers are much more steady state in terms of what we need for our business. I guess our attitude of our managers is sort of wait and see as to whether this few weeks phenomenon so far with eggs staying higher instead of dropping off on a seasonal basis represent some kind of new level for the industry or whether people made a different decision for a matter of a few weeks. The industry has continued to been challenged by both livability and weight issues. To the extent those continue, and as we sit here today they are a part of the existing reality, those would also mitigate against higher egg numbers. Just because the eggs -- doesn't necessarily means that translates into breast meat into the market .

Oliver Wood - *Stifel Nicolaus - Analyst*

Any explanation on liveabilities and weights, or -- have you heard anything there?

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

There's a lot of theories. There's things we're working on, a couple of which seem promising but, no, there's no universal thing I could really point you to as to here's what's happening and here's the turnaround. It's obviously something of keen interest to us and to any others who are big players in this segment.

Oliver Wood - *Stifel Nicolaus - Analyst*

Thanks a lot.

Operator

Thank you. Our next question comes from the line of Todd Duvick with Bank of America.

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Todd Duvick - *Banc of America - Analyst*

Good morning. Just a couple housekeeping questions, then kind of larger picture question. With respect to Burke, that did close at the end of the quarter, or I guess at the -- after the close of the quarter, and, Jody, I think you indicated that you used your credit facility to finance that.

Jody Feragen - *Hormel Foods Corporation - CFO*

Yes, we did.

Todd Duvick - *Banc of America - Analyst*

You also had \$105 million of cash on the balance sheet. Was that a combination of cash and debt that you used or just your credit facility?

Jody Feragen - *Hormel Foods Corporation - CFO*

Right and we've had some large payments that went out since the close of the quarter. We had a dividend payment and some tax payments. So we financed part of the acquisition. I fully expect that our cash flows will allow us to repay that in short order within the next six months for sure.

Todd Duvick - *Banc of America - Analyst*

Okay. That was my next question. And I take in the will be reported in the -- in your refrigerated meat segment.

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

That's correct.

Todd Duvick - *Banc of America - Analyst*

Okay. And then just kind of a bigger picture question, in the consumer product space in general over the last actually several months, there have been a number of companies that have just kind of bit the bullet and said we're going to take a more aggressive financial policy, either do accelerated share repurchases or just set up large share repurchase programs over time and many of them have levered up some what and taken a hit to their credit rating. Given that you're not a big commercial paper issuer it seems to me that that's not necessarily a deterrent to taking a more aggressive financial policy. Can you just kind of update us on your financial policy and if you would consider doing like a large share repurchase?

Jody Feragen - *Hormel Foods Corporation - CFO*

Well, we continue to look at opportunities to optimize our capital structure. I think if you see us do anything it will be more incremental rather than transformational. So if that gives you an idea, we certainly did step up with share repurchase this past quarter. Unfortunately we seem to hit most of those purchases at that time beginning of the quarter so we're reassessing what we do for our plans in the fourth quarter. I certainly would like to take the opportunity to get to a more optimal capital structure, so we continue to take a look at that. And hopefully more acquisitions will come our way and help us do that naturally.

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Todd Duvick - *Banc of America - Analyst*

Okay. Have you discussed at all a large negotiated share repurchase with the Hormel foundation?

Jody Feragen - *Hormel Foods Corporation - CFO*

No.

Todd Duvick - *Banc of America - Analyst*

Okay. All right, thank you very much.

Operator

Thank you. Our next question comes from the line Edgar Roesch with Banc of America Securities. Please go ahead.

Edgar Roesch - *Banc of America Securities - Analyst*

Hi.

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

Hi, Ed.

Edgar Roesch - *Banc of America Securities - Analyst*

So just following up on these questions about China, I mean, we've seen the most immediate impact in the hog futures, but I mean there's no reason to think that pork pricing wouldn't also rise if you start to see large demand from China, right?

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

Over time there's certainly a strong relationship, and if a significant poll of supply out of the country that would be our expectation as well.

Edgar Roesch - *Banc of America Securities - Analyst*

Right. So timing aside, I mean, in the end, you only end up with the grocery products, and that was, I think what you indicated earlier.

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

Grocery is the one that really doesn't have the obvious offset. I mean, if there are tighter supplies in general within the refrigerated side we would expect our refrigerated group to price accordingly and to hold our margins. But when you're dealing with the consumer products and grocery where as Farha mentioned at the beginning of the call, where we tend to only price every couple of years than the squeeze happens much more quickly and it's harder to react to.

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Edgar Roesch - Banc of America Securities - Analyst

Thanks for that clarification. And then I've seen that a competitor has come out with some shelf-stable entrees. Just wonder if you've noticed any impact from that or is it a matter of that category having a nice tail wind and everyone can participate and not at each other's expense at this point.

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

Well, we've seen some competitive entry and some people trying some items within certain sub segments of the category. We obviously feel our proposition has -- is very strong and we're not looking to -- we're not going to just seed any territory in the category, but it doesn't surprise us that others are going after it. We're the ones that have created the growth in the category. We should have significant first mover advantage. We also have an excellent brand for this. Not only the new complete sub brand, but just right down the sweet spot of what Hormel stands for of convenient meals featuring feature protein. We bring some expertise on the production side so that our product line has both casserole-type product and whole muscle meat-type product, so I think all those advantages will continue to allow us to maintain the strong leader position in that category.

Edgar Roesch - Banc of America Securities - Analyst

Great and just one last small question, could you give us the latest indication of what the all-natural line could represent in sales?

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

Hormel Natural Choice line.

Edgar Roesch - Banc of America Securities - Analyst

Natural Choice, sorry.

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

Is in kind of 100 -- \$50 to \$100 million range today is what we would be looking at it on an annualized basis. What it could represent, time will tell. We are only a year and half into it. We just added some new pieces of that product line just within the last few months on bacon and deli category and chicken strips and so forth. So far those are doing well. So we think it's the right platform for the times and it was a good entry for us into those categories. We'll see how bright can get.

Edgar Roesch - Banc of America Securities - Analyst

Thanks for your help.

Operator

Thank you. Our next question comes from the line of Pini Cohen with Credit Suisse. Please go ahead.

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Pini Cohen - *Credit Suisse - Analyst*

Good morning.

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

Good morning.

Pini Cohen - *Credit Suisse - Analyst*

Just a quick question on turkey. I think you said feed costs were up 26 million year-over-year and 5 million of that was not offset by higher pricing. Are you still taking pricing increase in turkey and do you expect your fiscal fourth quarter here to kind of by year end I think you had thought you would be able to catch one the higher feed costs.

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

That is correct. We're -- there are still elements of our business particularly in the deli and Food Service side where you sometimes have contracts in place and the whole level of pricing activity is a little slower but those are gradually getting into place, and that is our anticipation for the unit would be to brick it back to even by the end of the year and give it hopefully a good platform for growth for next year.

Pini Cohen - *Credit Suisse - Analyst*

Okay, just as a quick follow-up, can you remind me, I think normalized margins in the turkey business are like 9%. Are you think you you can get there next year or is that really just something that you're sort of waiting to see what feed costs are doing going into next growing season?

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

I really can't give you a next year number yet. You will see a number like that for Q4, but Q4 is traditionally a stronger margin quarter than Q H, so that will be more the reason. But you'll to have stay tuned for the '08 outlook.

Pini Cohen - *Credit Suisse - Analyst*

Thank you.

Operator

Thank you. Ladies and gentlemen, if there are any additional questions, please press star 1 at this time. As a reminder, if you are using speaker equipment will you need to lift the handset before making your selection. Our next question comes from the line of Tom [Clograus] with Graham Partners.

Tom Clograus - *Graham Partners - Analyst*

I'm a relatively new shareholder. The pricing on grocery items, how often can you raise that? I know somebody discussed that. Then can you give us some relative sense of exposure to the three commodity meats there? I'm assuming is you have more

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beef and chicken exposure than pork, although with SPAM I'm not sure if that's the case. I was just curious if you could give me some kind of idea on the grocery product side, the exposure to each commodity?

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

Okay. I'll take your second question first. The commodity meat impact has certainly been more significant on beef and chicken for that division than it has pork. But it was -- there was some element of negativity in pork as well although the overall pork numbers were about what we expected for the quarter, when you look at sub raw materials in the ones we use for bacon bits or for SPAM luncheon meat those did experience increases that we hadn't anticipated, and so that factored in as well. On the pricing side, I mean, our typical pricing philosophy has indeed been on this side of the business that, okay, you take kind of general inflationary pressures. You're wage increase and packaging increases and so forth, and you try to price for those every three to four years and just make sure you're kind of staying at some kind of equal Librium. What we've experienced this year with input cost increases is not at a normal equilibrium situation. That may cause us to reevaluate, that this is different that there is a new level of costs we're going to have to recover for, and if that means being more aggressive on pricing and taking it sooner rather than waiting, that kind of time frame.

Tom Clograus - Gramham Partners - Analyst

One follow-on. With the consumer apparently weakening, according to retail, for should, are you seeing any signs of that in the Food Service side since you guys have a large portion of Food Service in both your pork and turkey?

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

No, we had -- all we can I guess tell you about in the Food Service side is what our businesses look like. Again, as I mentioned on one of the earlier callers, that scenario is much harder to aggregate data but we had excellent quarters for both Hormel Food Service and Jennie-O Turkey Food Service, both up double-digits in terms of their dollar sales. So, no, we're not seeing that, but certainly do be that we're bringing items to the marketplace that have better relevance to the operators than others are bringing, and we could be taking it out of share of other folks but it's very hard for us to determine that.

Tom Clograus - Gramham Partners - Analyst

Okay, thank you.

Operator

Thank you. Our next question comes from the line of Pablo Zuanic with JP Morgan.

Pablo Zuanic - JPMorgan - Analyst

Good morning everyone. Two questions, first one a follow up to the last question. Just trying to understand on the more normalized circumstances where is it easier to pass on higher pork prices? In refrigerated foods or in grocery products? I would have expected more in grocery but can you expand on that?

Jeff Ettinger - Hormel Foods Corporation - President - Chairman - CEO

Well, in general the answer would be in refrigerated foods. Even within refrigerated you kind of have to look at the franchise in a couple parts. There are items, big volume items frankly in both retail and fad refrigerated that have always moved with markets.

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Ham, bacon, some of those key big categories. And so in those cases, pricing does move fairly fluidly with what's going on on the cost side of the business. Now, meat products within refrigerated does have franchises that behave more like grocery product. Pepperoni or refrigerated entrees or some of the -- a party tray or those types of items. And in those cases it's a little slower and a little more difficult to just move pricing based on what's going on on the market. On the grocery side really all the items that would pull pork raw materials are in that mode of where it's -- it's a he slow process to work with the retailer on a price change, and they're looking these days for you to actually justify the reasoning for those changes so that's the area where we would feel the greater impact if it went up, especially if it goes up quickly.

Pablo Zuanic - *JPMorgan - Analyst*

Thanks you. That's very useful. On the refrigerated foods, do you have any fresh pork business, any cattle business or it's all being used in value added product? If there's any in terms of fresh cattle just tell us what's going on that in business.

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

We definitely have fresh pork business. Different levels of value adding from our perspective. We came up with our patented process to create always tender pork about 10 years ago and so a lot of our fresh pork sales go out under that area. That's a higher margin sale than just typical primal sales but it's not at the level of a further value add like a refrigerated entree. Our trends are really solid. Really more of a customer by customer relationship. You tend to have a pork program with somebody as opposed to one up or two up items, and we have very good relationships with the customers what have been kind of long term using our branded products as a key element of their grocery offering.

Pablo Zuanic - *JPMorgan - Analyst*

But actual cattle, just looking at cattle business, very negligible? The most commodity parts of the business.

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

If you're talking just sort of the -- we process hogs and therefore have primal available. That's a very insignificant part of our business.

Pablo Zuanic - *JPMorgan - Analyst*

That's good. Thank you.

Operator

Thank you. Mr. Ettinger, there are no further questions at this time. Please continue.

Jeff Ettinger - *Hormel Foods Corporation - President - Chairman - CEO*

I just want to thank everybody for joining us today and just would want to remind you we are planning an investor day here in Austin, Minnesota on October 9. If you haven't received an invitation or responded to an invitation, please call Fred Halvin at (507)-437-5007. Thanks, everyone, for participating today.

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Operator

Ladies and gentlemen, this does conclude the Hormel Foods third quarter earnings conference call. We thank you for your participation. You may now disconnect.

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