

FINAL TRANSCRIPT

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HRL - Q3 2008 Hormel Foods Corporation Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, thank you for standing by, and 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 call is being recorded today, Thursday, August 21, 2008. I would like to turn the conference over to Kevin Jones, Director of Investor Relations. Please go ahead, sir.

Kevin Jones - *Hormel Foods Corporation - Director, Investor Relations*

Good morning, and welcome to the Hormel Foods conference call for the third quarter of fiscal 2008. We released our results this morning before the market opened around 6:30 a.m. Central time. If you did not receive a copy of the release, you can find it on our web site at www.hormelfoods.com under the investor section.

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On our 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 fiscal year 2008. Then Jody will provide detailed financial results for the quarter. The line will be open for questions following Jody's remarks.

An audio replay of this call will be available beginning at 11:00 a.m. Central time today, August 21, 2008. The dial-in number is 800-405-2236. And the access code is 11118122. It will also be posted to our website and archived for one year.

Before we get started with the results of the quarter, I need to reference the Safe Harbor statement. Some of the comments made today will be forward-looking and are made under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed in or implied by the statements we will be making. Among the factors that may affect the operating results of the Company are fluctuations in the cost and availability of raw materials and market conditions for finished products.

Please refer to pages 25 through 30 in the Company's 10-Q for the fiscal quarter ended April 27, 2008 for more details. It can be accessed on our website. Now I will turn the call over to Jeff.

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

Good morning, everyone. We continue to generate strong top line growth at Hormel Foods as all five of our operating segments delivered both volume and dollar sales gains during the quarter. Overall, sales for the quarter reached \$1.68 billion, up 10% from the prior year and up 8% excluding acquisitions.

As indicated in our preannouncement on August 8, our bottom line results for less satisfying. Our earnings per share for the quarter were \$0.38 compared to \$0.41 last year, a decrease of 7%. Feed and fuel costs continue to rise during the quarter, squeezing profitability at our Jennie-O Turkey Store segment. In addition, after generating strong double-digits earnings growth through the first half of the year our Refrigerated Food segment ended Q3 with relatively flat segment profits versus year ago.

Finally, Q3 earnings were also impacted by an \$8 million decline in investment income. I will now take you through each segment. The Grocery Product segment had another excellent quarter reporting 10% dollar sales and 11% operating profit growth. Sales of our HORMEL and STAGG chili products registered strong double-digit gains during the quarter as a result of improved retail promotional programs and gains over competitive brands.

Our DINTY MOORE stews also performed very well with strong double-digit sales growth aided by the sales of the Big Bowl microwave products and a solid consumer marketing and in-store effort. Sales of our SPAM family of products and HORMEL COMPLEATS microwave meals also helped drive results for Grocery Products in Q3.

In Refrigerated Foods, operating profit decreased by 1% while dollar sales were up 8%, up 4% excluding acquisition. The delivery of solid margins in fresh pork, and pricing taken by our Meat Products and Food Service divisions were insufficient to overcome some sharp increases in meat costs experienced by those divisions during the quarter. Rapidly increasing demand in export markets helped drive those higher pork costs.

Retail Products with particularly strong sales growth included DiLUSSO DELI products, HORMEL pepperoni and Hormel refrigerated entrees, all of which posted double-digit sales increases compared to a year ago. Our Food Service division within Refrigerated Foods continued to see softness in the casual dining segment offset in part by increased sales in other channels. Jennie-O Turkey Store sales dollars up 11%, reflecting a combination of price increases and volume gain. Operating profit was down 61% for the quarter.

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Increased feed and fuel input costs pressured margins throughout the business, and excess supply of commodity turkey breast meat also kept pricing at a low level exacerbating the cost price differential. While the Jennie-O Turkey Store team continued to implement price increases across the Retail, Food Service and Deli divisions these increases were not adequate to offset the approximately \$53 million increase in feed and fuel input cost incurred during the quarter.

Jennie-O Turkey Store was not without its bright spots for the quarter. In particular, sales of Jennie-O Turkey Store burgers, retail tray pack products and marinated tenderloins all registered double-digit sales gains during the quarter. The Specialty Food segment had a strong quarter with dollar sales up 14%, and operating profit up 20%. Each of the three business units in this segment reported higher net sales and operating profits for the quarter.

The Specialty Products business unit experienced higher contract manufacturing volume, while Century Foods International significantly expanded its sales of ready-to-drink products as well as generating increases sales of ingredients and nutritional powders. We made a small acquisition during the quarter which will become part of the Diamond Crystal business unit. This company, doing business as Boca Grande Foods, is a small liquid packet manufacturer.

This acquisition will add approximately \$22 million per year in sales to the Specialty Food segment and provides Diamond Crystal with additional capacity and customers for liquid portion products. In the all other segment, our international business team delivered another excellent quarter with sales up 33% and operating profit up 19%. Strong export sales of the SPAM family of products and fresh pork were the key drivers, more than offsetting a decline in equity earnings primarily related to the weaker Philippine peso and decreased royalty income.

In terms of outlook going forward, as stated in our preannouncement on August 8, 2008 and again in our earnings release this morning, we have adjusted our full year guidance to \$2.22 to \$2.28 per share. This is still solidly above our GAAP results last year of \$2.17 per share, \$2.14 excluding the sale of assets in the fourth quarter of 2007. So this level is admittedly not at our targeted level of earnings growth.

It is our view that the longer term outlook is favorable for improvement in the turkey complex. Grain prices have moderated in recent weeks and the industry would certainly benefit from a leveling out of feed costs after two years of dramatic increases. Similarly, we believe there will be a reduction in the amount of turkey meat on the market in 2009 in light of our previously announced 5% production cut, and those we anticipate from others in the industry, based on macro conditions.

It is important to note, however, that the benefit of lower grain costs and the production cuts, may not be fully realized in our Jennie-O Turkey Store operating results until the spring of next year. On the grain side, we still need to cycle through turkeys with feed cost higher than today's levels and to finish the task of getting pricing up to these levels. On the commodity meat side, our cutback will not impact pounds until November and it will likely take the traditional pick up in demand in the spring to finish working down the existing meat inventories.

All told, the combination of these turkey industry conditions, and expected volatility in the pork complex, will likely present continued challenges to our business in the early part of fiscal 2009. We believe we should see a return to more historical earnings growth for the latter part of 2009 and beyond. In the meantime, we remain focused on growing the business by increasing our brand strength, continuing to enjoy success in new product innovation and building upon our market share position in key categories.

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

Jody Feragen - Hormel Foods Corporation - SVP, CFO

Thank you, Jeff. Good morning, everyone. Earnings for the fiscal 2008 third quarter totaled \$51.9 million, or \$0.38 per share, compared to \$57.4 million or \$0.41 a share a year ago. Earnings for the nine months of fiscal 2008 totaled \$217.7 million, or

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\$1.58 a share, compared to \$200.7 million or \$1.44 a share a year ago. Dollar sales for the third quarter totaled \$1.7 billion compared to \$1.5 billion last year, a 10% increase as Jeff mentioned.

Acquisitions added about \$38 million to the top line in the third quarter. For the first three quarters of 2008 dollar sales increased 8% to \$4.9 billion. Acquisitions added \$106 million to the top line in the first nine months. Volume for the third quarter was 1.1 billion pounds, up 7% from 2007. Acquisitions added 24 million pounds to the quarter. Volume for the first three quarters of the year was 3.5 billion, up 6% from fiscal 2007. Acquisitions added about 73 million pounds in the first nine months of 2008.

Selling and delivery expenses in the third quarter were 12.2% of sales this year compared with 12.4% last year. Year-to-date the expenses were 12.7% of sales compared to 12.8% last year. We expect selling and delivery expenses to be above last year's level for for the remainder of the year due to higher freight and warehousing costs as well as increased marketing expenses.

Advertising expenses were 1.5% of sales for the quarter compared to 1.6% last year. And year-to-date the expenses were 1.6% of sales compared to 1.7% in fiscal 2007. Advertising expenditures for the full year are expected to exceed those of fiscal 2007 as we continue media campaigns on several product lines.

Administrative and general expense was 2.8% of sales for the quarter and year-to-date compared with 2.7% for last year's quarter and year-to-date. We expect administrative and general expenses to remain at their current levels for the remainder of this year. The decline in investment income was attributable primarily to performance of our rabbi trust assets. This decline reflects the overall challenging investment environment.

Interest expense for the quarter was \$7.5 million compared to \$6.6 million last year. And year-to-date interest expense is \$20.6 million, compared to \$20 million last year. We expect interest expense to be approximately \$27 million for the full year. Our total long-term debt at the end of the quarter was \$350 million and we ended with \$75 million outstanding on our short-term line of credit related primarily to working capital needs.

Depreciation and amortization for the quarter was \$31 million which is even with last year. For the first nine months of the year, depreciation and amortization was \$95 million compared to \$94 million last year. We expect the full year depreciation and amortization to be about \$125 million to \$130 million. Our effective tax rate in the third quarter was 35.2% versus 36.5% in fiscal 2007. The year-to-date effective tax rate is 36.1% compared to 36.2% last year. For the full year, we expect the effective tax rate to be between 36% and 36.5%.

Capital expenditures for the quarter totaled \$28 million compared to \$27 million last year. For the first nine months of the year, capital expenditures totaled \$96 million compared with \$97 million last year. For the full year, we've lowered our expected capital expenditures to be about \$125 million to \$135 million. Construction of our new microwave plant in Dubuque, Iowa is progressing on schedule.

The basic weighted average number of shares outstanding for the third quarter was 135 million. And for the first nine months of 2008 was 136 million. The diluted weighted average numbers of shares outstanding in the third quarter and the first nine months of the year were 137 million. We repurchased 951,000 shares of common stock during the third quarter at an average price of \$36.34. We have 2.6 million shares remaining to be repurchased from the 10 million share authorization in place.

We processed 2.3 million hogs in the quarter, about even with last year. And for the first nine months of the year we processed 7.1 million hogs compared to 7 million last year. The actual live hog cost in the third quarter was \$57 per live hundred weight, at the top end of the forecasted market we provided on our second quarter conference call. This compared with an average live price of \$55 in the same period a year ago.

At this time, I would like to turn the call over to the operator for question and answers. Operator?

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QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen at this time we will begin the question-and-answer session. (OPERATOR INSTRUCTIONS) And our first question comes from the line of Farha Aslam with Stephens Inc. Please go ahead.

Farha Aslam - *Stephens Inc. - Analyst*

Hi, good morning.

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

Good morning, Farha.

Farha Aslam - *Stephens Inc. - Analyst*

Starting off with the big picture question, over the last few years your operating margin has been around 7.5% to 8%. Looking out, Jeff, do you anticipate that margin to change at all via acquisitions or innovation? Is there a particular goal that you have for that number?

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

We have talked in the past about trying to move operating margins at the 25-basis-point range on an annual basis. Obviously, though, that is subject to fluctuations depending on what we are confronting at any given year. In certain divisions we are clearly not doing that right now.

We do believe there is that kind of opportunity for advancement within Grocery Products in particular. We've talked before about trying to get back on a long range basis into the more 18% range in that group. We think Refrigerated over time has an opportunity to be delivering margins that are above the last three or four-year tracking range has been. We continue to expect overall what we are driving for is the 10% segment profit growth with each area with the exception to that being the international where in the long run we expect it to grow as a longer, faster rate.

Farha Aslam - *Stephens Inc. - Analyst*

That's helpful. Could you share with us your thoughts on the hog market currently? Do you anticipate that the hog herd in the U.S. will contract going forward and if so, when?

Jody Feragen - *Hormel Foods Corporation - SVP, CFO*

That's a tough one to call, Farha. Things have certainly changed a lot since the last quarter that we have been on with the decline in the grain markets and it seems the ever demand from our exports.

The big question, I guess, that we are facing is what is going to happen with export year-over-year and I think USDA is calling 2009 to be stronger than this year. That, obviously, will depend on availability of products elsewhere in the world as well as what the U.S. dollar does. I would expect that for our fourth quarter we will see hog prices higher than a year ago.

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Farha Aslam - *Stephens Inc. - Analyst*

So you're looking for it to be higher than a year ago? Would you venture to guess a range?

Jody Feragen - *Hormel Foods Corporation - SVP, CFO*

You noticed I didn't provide one this time?

Farha Aslam - *Stephens Inc. - Analyst*

Yes, exactly.

Jody Feragen - *Hormel Foods Corporation - SVP, CFO*

I would probably say in the \$58 to \$62 range. On a live hundred basis, that's the way we look at it.

Farha Aslam - *Stephens Inc. - Analyst*

Okay, that's helpful. And then my final question is on your margins in the pork products or the Refrigerated Foods area. Those margins were pressured more than I had anticipated, especially given that fresh pork is doing so well. Could you explain to us how pricing in that segment works for Hormel Foods?

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

Really, Farha, there were two things operating in the Refrigerated Food results that it ended up having them be flat to down for the quarter which was below what our expectations had been. We said we didn't expect them to keep moving along at a 20% plus clip in earnings growth like they did in first half but we had expected at least solid single-digit growth.

The first thing that occurred was that we really got off to a difficult start in terms of the hog market. When we were on the call we were already three weeks into the quarter and we had seen that early spike in the market in terms of the live hog costs. So any time there is a quick run-up like that in unanticipated early run-up like that that did end up pressuring overall margin performance for the unit. It did abate somewhat in June and then kind of ended up a little higher in July, when all told we were at the, as Jody had mentioned, at the upper end of what we predicted for hogs, but that first period got us off to a tough start in the quarter.

Secondly, this whole picture with export demands seems to be causing some distortions in value within certain of the raw materials. Certain items like hams that were anywhere from 15% to 30% above the five-year average during the quarter. Trim values were again 15% to 20% higher than normal. And these are items that we use in a big way to convert into value added products.

When those ran up as quickly as they did and to levels we hadn't anticipated we did not have full pricing in place to cover down those run-ups.

Farha Aslam - *Stephens Inc. - Analyst*

Are they in place now?

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

We feel we are in a better position in the fourth quarter to be able to recover against those markets we're seeing. The markets are still quite high as we sit here in August for a couple of these raw materials, but they are starting to drop and given some of the hog number expectations we have we would expect the continuation of getting down to more normal levels.

Farha Aslam - Stephens Inc. - Analyst

Thank you, I'll pass it on.

Operator

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

William Chappell - SunTrust Robinson Humphrey - Analyst

Good morning.

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

Hey, Bill.

William Chappell - SunTrust Robinson Humphrey - Analyst

On the turkey side, where do we need prices to be to get back to the normalized margins, do you think you can get there as you work through the spring inventory and into the back half of next year?

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

I think we indicated last quarter that we are now in a position, probably not different from others in the industry, where break evens on cost against breast meat component is certainly north of \$2. It's \$2.10, \$2.20 in that range. That's another element of the Jennie-O story during the quarter. We knew it was going to be a difficult quarter. But we didn't expect breast meat to sit there at \$1.74 during the entire quarter. We anticipated a run-up over the \$2 range and getting close to the break even on that.

Typically, the strong time of the year is going to be summer or early fall and we haven't been seeing that run-up this year. That was what I was getting at in the comments was to timing of when we expect recovery. If production cuts come through at the kind of levels we would anticipate seeing, then we would think next year when you get in to the stronger season we should see values that would recover costs and potentially provide some commodity margin.

Our focus is always on value added products and we have a very strong branded position there, so we look as long as the commodity side of the business is not being detrimental to our results we are satisfied with that. That was not the picture during this quarter and it won't be next quarter either.

William Chappell - SunTrust Robinson Humphrey - Analyst

Just to make sure I understand your thought of why the prices didn't rise during the quarter had more to do with inventory out there or was it for production cuts slower than you expected to happen?

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

We didn't expect production cuts in the summer. We announced ours in May and said at that stage it takes 22 weeks basically to cycle in. So we wouldn't see the reduced numbers in our facilities until November and we hadn't heard of any others at that stage. So we really didn't expect cuts to take effect in the summer.

What has happened is it's been a robust year in terms of meat availability. Bird health has been good, livability in the industry has been strong. Weights have been up and so those kind of things have increased total meat supply by a couple of percent and that's been enough to hold the values down. It just so happens, okay, those are down, last year in August, breast meat values were in the \$.280s, the year before in the \$.290s.

This year it's \$1.74 and we're in a much different cost scenario right now than we were in those years too. So it's the combination of having the commodity meat not be worth what we had expected and the added costs that have caused the squeeze going on at Jennie-O.

William Chappell - SunTrust Robinson Humphrey - Analyst

Okay. One last, for your full year guidance or your fourth quarter expectations, are you assuming the rabbit trust posts a similar type performance as it did in the July quarter?

Jody Feragen - Hormel Foods Corporation - SVP, CFO

We traditionally just assume flat for that. That's what we are looking at for the fourth quarter.

William Chappell - SunTrust Robinson Humphrey - Analyst

Great, thank you.

Operator

Thank you. Your next question comes from the line of Christina McGlone with Deutsche Bank. Please go ahead.

Christina McGlone - Deutsche Bank - Analyst

Good morning.

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

Hi, Christina.

Christina McGlone - Deutsche Bank - Analyst

Jeff, just following on Farha's question, in Refrigerated if we look at year-over-year operating profit performance, since you now have more pricing in place and you commented that you think pricing is coming down, do you think that we should see better performance year-over-year in the fourth quarter and then how does that look as we head into next year?

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

Christina, I didn't have a outlook for you at this time for '09. But in terms of Q4, my expectation right now is that we should see a better quarter from Refrigerated Foods. We should see some growth there. I don't expect high double-digit growth that we were generating in the early part of the year, but I do expect that they will be able to have a positive quarter in Q4.

Christina McGlone - Deutsche Bank - Analyst

Okay. Then on the retail side, I don't think there was any pricing on the top line and I remember that you had implemented a price increase earlier this year. I'm curious why that didn't show through?

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

What are you referring to when you say the retail side?

Christina McGlone - Deutsche Bank - Analyst

I'm sorry, in Grocery Products.

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

Within grocery.

Christina McGlone - Deutsche Bank - Analyst

Grocery, yes.

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

It's an item by item basis, there were some items within the portfolio that we did take pricing and did show through, SPAM and COMPLEATS would be two in particular. We didn't do it on every item in the portfolio. So net/net it ended up the volume and the net sales were both similar, both up on a strong basis.

Christina McGlone - Deutsche Bank - Analyst

So the pricing you implemented did flow through it wasn't dealing back, it just netted out with the different products. That's what you're saying?

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

Yes. The other thing that's goes on when you look at the total division is the mix. We had very strong quarters for chili, for example, which are excellent franchises for us, but on a dollar sales basis they are not as high as some of the other items within the mix. That can create a distortion too. But, no, our tracking would show we have not been dealing it back.

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Christina McGlone - Deutsche Bank - Analyst

Then just sticking on Grocery, the run-up in pork prices, will that impact some of those products produced for the winter, would that have a lag in the Grocery segment in terms of profitability later on in the calendar year?

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

Margins as we produce products today are being squeezed somewhat on the pork-based products. SPAM and Bacon Bits, for example. We think we've got strong enough volume momentum in those areas that we are still going to be in good shape to deliver a strong quarter, though, for overall Grocery products. We have a lot of items within Grocery that are not affected by pork costs.

Christina McGlone - Deutsche Bank - Analyst

Okay. Then, Jody, last question, on the CapEx, how much of the Iowa plant is, how much of that expenditure is in '08 versus '09?

Jody Feragen - Hormel Foods Corporation - SVP, CFO

The majority of it is in 2009, but we do have steel and stuff being delivered as we pour footing, so about less than a third, \$25 million.

Christina McGlone - Deutsche Bank - Analyst

Okay. With your reduction in CapEx, should we consider that a shift or an overall reduction?

Jody Feragen - Hormel Foods Corporation - SVP, CFO

It's more of a shift.

Christina McGlone - Deutsche Bank - Analyst

Okay. Thank you.

Operator

Thank you. Your next question comes from the line of Diane Geissler with Merrill Lynch. Please go ahead.

Diane Geissler - Merrill Lynch - Analyst

Good morning.

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

Hi, Diane.

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Jody Feragen - Hormel Foods Corporation - SVP, CFO

Good morning.

Diane Geissler - Merrill Lynch - Analyst

I have a question on the advertising, I think you said it was 1.5% of sales. Would that be down on a year-over-year basis then versus --?

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

On a percentage basis it probably is. In total dollars our expectation is it's going to be up. When you factor in the various price increases going on in certain segments, we weren't pricing up our advertising expenditure to match the price increases. That would distort that number.

Diane Geissler - Merrill Lynch - Analyst

I have it down on an absolute basis in the third quarter. I remember from the last quarter you talked about some marketing initiatives you had around the COMPLEATS line. I wondered was there a shift in the spend between the third quarter and the fourth quarter? Or have you curtailed the advertising behind that pending rollout of the new plant next year or could you help me out there?

Jody Feragen - Hormel Foods Corporation - SVP, CFO

I'm showing that advertising expenses are up year-over-year on an absolute dollar basis.

Diane Geissler - Merrill Lynch - Analyst

On an absolute basis, okay.

Jody Feragen - Hormel Foods Corporation - SVP, CFO

Yes. It is down on the percentage because as Jeff indicated as we take sales price increases, we already planned our advertising for the year.

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

We do have several brands still being featured in advertising both in Q3 and Q4. We have the Hormel program that features COMPLEATS, the refrigerated entrees, the Natural Choice, We've had a very successful SPAM campaign. We've had the first DINTY MOORE campaign in several years. And we have a Chi-Chi's campaign going on right now.

Diane Geissler - Merrill Lynch - Analyst

Okay, terrific. On the, just to get back on the turkey segment, the fourth quarter is usually your largest quarter given the seasonality, I guess, between the first quarter and the fourth quarter, those are generally your larger quarters. Can you just, it sounds like a lot of what is going on with the Jennie-O would be on the deli side or the breast meat side. Can you talk a little bit about the whole bird? Obviously, that's sold in early, with the run-up in costs, can you give us some help there?

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

Sure. Yes, there are situations with the whole birds where we are not achieving full margin recovery, both in terms of prebooking the costs and in terms that even though some values are at a high quoted level, the costs have gone up significantly.

The best picture I can give you overall is our expectation in terms of the, you're right about quarter-to-quarter in terms of total dollar delivery. Our fourth quarter will be significantly higher than the third. On a year-over-year basis, we are looking at the same kind of 50% decline potentially on a year-over-year basis in Jennie-O Turkey Store, but that is built into our annual guidance range that we provided.

Diane Geissler - *Merrill Lynch - Analyst*

Okay. Terrific, thank you.

Operator

Thank you. Your next question comes from the line of Jonathan Feeney with Wachovia Securities. Please go ahead.

Jonathan Feeney - *Wachovia Securities - Analyst*

Good morning. Thank you.

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

Hi, Jon.

Jonathan Feeney - *Wachovia Securities - Analyst*

Hey, Jeff. I wanted to dig into your Refrigerated Food segment. It looks like you had a mix shift out of food service. Is that related to what is going on in the macro environment. Is there a margin shift in when food service grows or contracts while the rest of the business grows?

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

To answer the second question first, it's really not a significant margin shift. I think we've talked in the past where sometimes folks think the food service sales are an inferior sale to the grocery sales. We've always given the focus we've placed on food service, our expectations are really quite similar in terms of returns from both segments. So that one in and of itself causes a shift.

We are seeing some effects in terms of the economy within the food service segment. The casual dining aspect I cited in earlier comments would be one area we enjoyed sales in the past where you can definitely see some softness in some of the customers we're selling to. We have seen some offset in the noncommercial side of the food service business. The institutional feed providers are seeing actually increases in business because they're in an inefficient way of delivering meals to folks and we do a good job of selling into that segment.

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Jonathan Feeney - Wachovia Securities - Analyst

Thinking back over the past couple of years, I remember CAFE H was a big push for you guys and you had a lot of success getting products on menus. Is this, have you sort of ramped back your investment against food service given a tougher environment?

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

Not at all. I think those kind of innovative solution-based items are still doing well. CAFE H was a single-digit gainer during the quarter. Austin Blues was a solidly double-digit gainer. We continue to do well with our Bread Ready franchise. Where you're seeing the softness is more in the traditional products, the bacons, hams and so forth where there is an element of competition and an element of consumers potentially just not frequenting some of those establishments as much where those items are sold.

Jonathan Feeney - Wachovia Securities - Analyst

Great. I guess, I know it's a regular question for your folks, but, Jody, is there any update about -- there is a high cash retention ratio and a very strong balance sheet. Is the primary use of cash here acquisitions still or has anything changed about your outlook there?

Jody Feragen - Hormel Foods Corporation - SVP, CFO

Our focus still remains on investing in our businesses, and certainly we are doing that in a big way with the initiative on the new plant. We continue to look at acquisitions and we're only able to get a small one done this quarter. We will look at returning to shareholders and we had some more progress on our share repurchase and we've continued to pay out that nice dividend.

Jonathan Feeney - Wachovia Securities - Analyst

Could you clarify the constraints on your ability to repurchase shares? There is some limitation. Could you just refresh my memory about the foundation or something?

Jody Feragen - Hormel Foods Corporation - SVP, CFO

Right now I have a 10 million share authorization approved by our board of directors, of which I have about 2.6 million shares left, that's my constraint right now.

Jonathan Feeney - Wachovia Securities - Analyst

Okay. Thank you.

Operator

Thank you. Your next question comes from the line of Robert Moskow with Credit Suisse. Please go ahead.

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Robert Moskow - *Credit Suisse - Analyst*

Hi, thank you. Just kind of a broader question, one of the competitive strengths I've always attributed to Hormel is your value added capabilities in Refrigerated, have you seen any kind of catch up from your competition on what they are doing in value added and whether they are getting more adept, or do you think you're still, there is a big gap there in what you can do?

Secondly, I remember at your analyst day there was an interesting food service initiative you had in the deli counter, I think you were branding some delis at a major customer under the DiLUSSO name. Could you tell us how that test did and whether it can be expanded? Thanks.

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

On the first question, in terms of value added capabilities we've always looked at the competitive set as being sort of in two categories. There are other players that are sort of full protein companies like we have that element of our portfolio, those are some of the companies that have been working to migrate more into some of the value added categories. They have had certainly some areas where they have been successful in doing that and some areas where it's been more of a challenge for them.

The second area of competitors are the ones that are focused almost solely on those kind of items, the Sara Lees, the Oscar Meyers, the Boar's Heads, and, again, we go against those folks in the marketplace in various categories on a regular basis, as well. We are having good success in creating innovative items that build over time. We are enjoying excellent top line growth in our protein-based businesses.

We are confident we are more than holding our own against both sets of competitors. In terms of DiLUSSO DELI Company, that's been very successful for us. We continue to find new customers and new regions of the country to bring that program and even within some of the existing customers we have been able to partner with them to broaden the portfolio and go into sandwiches and salads and other types of items utilizing that brand. We do consider that to be a good growth franchise for us.

Robert Moskow - *Credit Suisse - Analyst*

What percent of your sales do you think in food service gets sold under that kind of a format? Is it big or small? Is it \$100 million idea or how big of an idea is it?

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

It is under \$100 million now, but it's gaining some scale. Although we didn't break out separate sales numbers for the units underneath Refrigerated, I just want to be sure to clarify that we don't count that as food service sale. We count that as a deli sale since it goes through the Grocery channel and the Grocery sales force. It would technically be a part of our meat products group is where we would reference it. It is a hybrid kind of product line we recognize that.

Robert Moskow - *Credit Suisse - Analyst*

Right, thank you very much.

Operator

Thank you. Your next question comes from Tim Ramey with D.A. Davidson. Please go ahead.

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Tim Ramey - D.A. Davidson & Co. - Analyst

Good morning. Jeff, I think you were running the turkey business in the last margin downturn and pulled it out of that. Memory is failing, but I think that was occurring about concurrent with the acquisition of Jennie-O Turkey Store or maybe a little bit after it. How should we think about the margins in kind of the traditional fresh product versus the value added product? Clearly, you were losing money in the fresh product piece of business this quarter and should in the next quarter as well, but how does that relate to kind of how the business felt before the Turkey Store acquisition?

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

Okay, Tim, I certainly remembered it well. We made the acquisition of the Turkey Store in 2001. And the real downturn was 2003. That was when the various export markets kind of dried up in terms of being a source for meat sales to not only the turkey industry but probably even more significantly to chicken and we ended up with breast meat at \$1.13 for that summer as the peak price.

It wasn't exactly concurrent with it but it was fairly soon after the acquisition. What we feel we have done over time is migrate the overall performance of the business upward by attaining efficiencies between the Minnesota-based operations of Jennie-O and the Wisconsin-based operations of the Turkey Store by combining the brand into two, by being able to better utilize meat between the system. But as we're seeing today, the business still has some susceptibility to cyclical in terms of macro conditions.

I think we've talked in terms of kind of our normal earnings expectations for Jennie-O Turkey Store being maybe in the 8% to 9% range. But as, looking at historical results we probably still are in a mode where a low is probably 5% and a high is over 12% like we did a couple of years ago.

We will continue to work on value, adding more and more of that to the portfolio and trying to take some of that volatility out. But for right now, obviously, their focus is on honing in on those types of items and getting the best return they can on the commodity-based items.

Tim Ramey - D.A. Davidson & Co. - Analyst

How is the export market behaving there with exports of protein in general fairly strong, are you starting to see anything in the turkey business as well for exports?

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

It's mixed, markets have been fairly solid for the dark meat side of business. That tends to be the component that the export markets are more interested in. They are not much help on breast meat. There isn't interest in that type of raw material. It doesn't go into the products well they intend to make.

Historically, even with somewhat higher prices of dark meats, say thigh meat is a little over \$1, breast meat we consider it depressed at \$1.70. What they are looking at is the one raw material still a better value than the breast meat. Our consumers aren't really looking for that. It's a mixed result in terms of the operating performance for Jennie-O.

Tim Ramey - D.A. Davidson & Co. - Analyst

Terrific. Thanks.

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Operator

Thank you. Your next question comes from the line of Ann Gurkin with Davenport. Please go ahead.

Ann Gurkin - *Davenport & Co. - Analyst*

Good morning.

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

Hi, Ann.

Ann Gurkin - *Davenport & Co. - Analyst*

Just wondering, just interested in a little more discussion on pricing given the production cuts in turkey and the tightening pork market. Is there momentum building at retail for higher prices for products or is that still lagging?

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

We certainly have been taking pricing in a lot of different segments of our business, not just in retail but within the food service component of the business as well. We have to weigh in each case what type of products they are within some of the food service and deli areas you have a little bit longer contract commitments sometimes. We've been, obviously, in recent times not putting out such long commitments, but that's historically been more of a pattern in that area of the business.

And we are, all retailers, obviously, are quite highly interested in getting the best value proposition they can do their consumers. We certainly are interested in that as well. Everyone recognizes that when you start seeing raw material cost run-ups in the 5%, 10%, 15% range in some cases that the pricing has to follow. Overall, in the value added areas of our business we have been tracking reasonably well with that.

Ann Gurkin - *Davenport & Co. - Analyst*

But commodity still seems to be lagging?

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

Well, certainly on the turkey side it has.

Ann Gurkin - *Davenport & Co. - Analyst*

Okay, great. Are you looking at any additional pricing in your Grocery Product segment over the next six months?

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

Yes. We have some within certain branded items, we've already announced some to the trade there. We've also announced some on the branded meat products items within Refrigerated Foods that are sold to the retail trade. We will continue to look at those as we need to.

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Ann Gurkin - *Davenport & Co. - Analyst*

Okay, that's great. Thank you.

Operator

Thank you. (OPERATOR INSTRUCTIONS) And our next question comes from the line of Chris Bledsoe with Lehman Brothers. Please go ahead.

Chris Bledsoe - *Lehman Brothers - Analyst*

Good morning.

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

Hi, Chris.

Chris Bledsoe - *Lehman Brothers - Analyst*

Hi, there. Just a clarification on turkey, it sounds like that you're kind of anticipating a turn maybe in the cycle and thinking spring could be that time frame. But I guess I'm wondering if that's based on what you're seeing in profitability in the industry right now anticipating that it not sustainable at these levels, or if it's based on actual actions that you're seeing taking place today? I think Smithfield last said they were thinking about 9inaudible0 reductions in Butterball but actually hadn't committed to it. So I was just curious if it is based on what you're actually seeing or just more on what you are anticipating?

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

It starts with the anticipation based on the economic realities that everyone is facing within the poultry side of the business. We certainly try to get as much information as we can from neutral sources within the industry as to what they hear going on out there. We have some indications based on that that there are indeed others that would be following the pattern of looking to tighten up their production. In terms of the published egg numbers, we have seen a couple of weeks in a row some down numbers there which would support the notion of it tightening up. It's a little bit of a combination, Chris.

Chris Bledsoe - *Lehman Brothers - Analyst*

Okay. Thinking about your new products like COMPLEATS and if you can give an update on where we are at in terms of ACV distribution nationally and also how high you think can get on national TV on COMPLEATS?

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

For COMPLEATS the ACV is quite high. There the continued growth is going to come from acceleration of the sales rates of the items in the store and potentially on having bigger and bigger sections.

We certainly saw a quantum leap within the last 12 to 18 months between the typical set in a lot of the retailers in the United States of COMPLEATS it was just a handful of items to now many of them carrying double digits worth of SKUs on the line. We

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also rolled out our four, what we call our green label items, our more health-oriented offerings within that segment and those have gotten good acceptance there. The ACV rate there is in the 60% to 70% range and are enjoying good sales success.

We think there is a lot of run rate left and we think we put our money where our mouth is with our \$90 million investment in a plant that's not even going to open until November of 2009, but we feel will definitely be warranted based on what we expect from the category.

Chris Bledsoe - *Lehman Brothers - Analyst*

Yes, so the runway you still see ahead has maybe more to do with line extensions and kind of faster turns in the category rather than just ACV itself?

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

Yes. There are a lot of retailers that would be very interested in driving meal solution areas within the stores that would equate to those you see in frozen. If you look at the kind of shelf space that's in the frozen case that, oh, by the way, costs the retailer a lot more to maintain in energy and everything else that we think that we are ultimately going to be able to drive much larger meal-based sections within the dry good section than what you see today.

Chris Bledsoe - *Lehman Brothers - Analyst*

Have you been surprised by acceptance in maybe a channel that you hadn't anticipated on that, or is it pretty much more grocery-oriented and you think that's where it stays?

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

Without implying that these are big numbers, we have seen some acceptance within the convenient store channel, which is gratifying. We think that fits that channel as well. Our food service team has had some success on an account-by-account basis with some hotel chains.

When you arrive at the hotel at 9:00 and it's not a hotel with a restaurant and you would rather having something other than microwave popcorn to eat, these are really excellent options for them to be able to provide their patrons. We are seeing some growth there as well.

Chris Bledsoe - *Lehman Brothers - Analyst*

Got it. Then switching gears to the hogs, hog cost situation. Are you still, I think you mentioned you were seeing south slaughter facilities at one point running at full utilization levels. I'm curious if you're still seeing that?

Jody Feragen - *Hormel Foods Corporation - SVP, CFO*

I think the industry has slowed down a little bit with the grain prices coming down and the future prices looking quite favorable, the producers are back in the black. We've seen that slowdown and we are still expecting there will be a 9% increase in hogs that will have come to market in 2008.

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Chris Bledsoe - *Lehman Brothers - Analyst*

Okay. And that \$58 to \$62 per hundred weight, I think that was a range that you provided for '09. Is that a level that allows the hog production industry to get back to more normalized profit levels or is there another leg up from there?

Jody Feragen - *Hormel Foods Corporation - SVP, CFO*

I haven't looked at it in terms of what the producer would get. I would expect a lot depends on where the grain prices go. I would expect that that should still provide them a level of profitability.

Chris Bledsoe - *Lehman Brothers - Analyst*

Okay. And then my last question is just more around what the right way to think about your use of balance sheet flexibility would be. It seems like you are taking a pretty measured and balanced approach to it.

If I think about sort of from an EPS growth trajectory standpoint, you've noted a number of headwinds you've got coming up. In a lot of ways it seems like you control your own destiny when it comes to EPS growth because of the balance sheet flexibility that you have. I'm just not sure that's the way you approach the use of your balance sheet, though. I would be curious if you look at EPS growth and kind of a providing an outlook more consistent with the long-term 10% EPS growth range and how your balance sheet could help you do that?

Jody Feragen - *Hormel Foods Corporation - SVP, CFO*

I think our balance sheet will definitely help us do that as we make investments both in acquisition side or further expansion of the businesses we already have. And as we've talked, we certainly would like to have more leverage on the balance sheet which we need to get that there by those investment modes.

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

I guess I would just add that, we are not looking for quick hits. We are not looking to just pick up a business to kind of jab short-term results if we don't think that's a franchise we are adding value to and has significant growth opportunities itself.

And, secondly, on the cash side, we don't intend to sit on large quantities of cash for a long time, that as years ebb and flow, and as our repurchase and other acquisition activity ebbs and flows the cash number may go up and down somewhat.

We recognize we are not doing the shareholder any favors if we have large amounts of cash for too long a time.

Chris Bledsoe - *Lehman Brothers - Analyst*

Very helpful, thank you.

Operator

Thank you. There are no further questions. Mr. Jones, I'll turn it back to you for closing comments.

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Kevin Jones - Hormel Foods Corporation - Director, Investor Relations

Thank you. We appreciate all of you participating in this conference call today. We, thanks for joining us. That's the end of the call.

Operator

Thank you. Ladies and gentlemen, that will conclude today's teleconference. If you would like to listen to a replay of today's conference, please dial into 303-590-3000, or 1-800-405-2236 and enter the access code of 11118122 followed by the pound sign.

We thank you again for your participation and at this time you may disconnect. Have a nice day.

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