

# FINAL TRANSCRIPT

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**HRL - Q1 2008 Hormel Foods Corporation Earnings Conference Call**

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## CORPORATE PARTICIPANTS

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**Jeff Ettinger**

*Hormel Foods Corporation - Chairman, President & CEO*

**Jody Feragen**

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## CONFERENCE CALL PARTICIPANTS

**Jonathan Feeney**

*Wachovia - Analyst*

**Farha Aslam**

*Stephens Inc. - Analyst*

**Steven Nissen**

*Mindful Capital Investments - Analyst*

**Mark Churchill**

*Piper Jaffray - Analyst*

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*RBC Dain Rauscher - Analyst*

**Christine McCracken**

*Cleveland Research - Analyst*

## PRESENTATION

**Operator**

Good morning ladies and gentlemen. Thank you for standing by. Welcome to the Hormel Foods first 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. As a reminder this conference is being recorded today, Friday, February 15, 2008. I would now like to turn the conference over to Mr. Kevin Jones, Director of Investor Relations. Please go ahead, sir.

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**Kevin Jones** - Hormel Foods Corporation - Director Of IR

Good morning. Welcome to the Hormel Foods conference call for the first 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 at our website at [www.hormelfoods.com](http://www.hormelfoods.com) under the investor section. 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 new fiscal year. They know Jody will provide a 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 12 p.m. central time today, February 15, 2008. The dial-in number is 800-405-2236, and the access code is 11107655. It will also be posted to 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 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 32 through 35 in the company's annual report for the fiscal year ended October 28, 2007, for more details. It can be accessed at our website. Now, I will turn the call over to Jeff.

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

Good morning. We are off to a good start this year building upon the momentum we achieved in the last quarter of fiscal 2007. Sales for Q1 were \$1.6 billion, up 8% from the prior year and up 5% excluding acquisitions. Earnings for the quarter were \$0.64 per share compared to \$0.54 per share last year, an increase of 19%, and operating profit was up 25% from a year ago. In reviewing our performance this quarter, I am happy to see that all five segments reported both top line and bottom line growth, and I will now take you through each segment.

Our Grocery Products segment reported a 10% increase in both sales and segment profits for the quarter. The explosive growth of our Hormel Completes Microwave Tray business has continued, as sales were for the quarter were up 64%. We have addressed the continued strong demand for this product line with the announcement of an \$89 million plant dedicated to microwave trays, that will be built in Dubuque, Iowa, and is scheduled to open in November 2009. Grocery Products also benefit from strong sales of the SPAM family of products which were up 15% from a year ago, enhanced promotional and advertising support as well as increased distribution of our SPAM singles line, led to increased household penetration. Sales of our Stagg and Hormel Chilli businesses were also strong aided by increased distribution. We are still experiencing weaker results with Valley Fresh Chunk meats and Chi-Chi's sauces. Our refrigerated foods segment had an outstanding quarter reporting 50% higher operating profit on a 8% increase in sales. This group benefited from lower pork raw material costs and strong sales of value-added products. Products in the retail channel reporting strong double-digit growth include Hormel refrigerated entrees and Hormel Natural Choice sandwich meats. The refrigerated foods segment also benefited from a full quarter of results by the Burke Corporation. Jenny O turkey store had another strong quarter with operating profit up 16% and sales up 5%. Higher commodity grain input costs were offset through a combination of recaptured pricing, product mix improvements, and manufacturing efficiencies. Products reporting strong growth included Jenny O Turkey store frozen burgers, marinated tenderloins and rotisserie deli products. The specialty food segment reported increased sales of 7% and a 1% increase in operating profit versus a year ago. The specialty products business unit helped the segment results with added contract manufacturing volumes. Century foods international also posted improved profit results due to a favorable product mix shift. Operating profits were lower in the Diamond Crystal brands business unit, as they were unable to completely offset higher commodity input costs.

And the all other segment, our International Business unit, had another exceptional quarter, with sales up 21% and operating profits up 39% compared to last year. Strong export sales of the SPAM family of products, Stagg Chili and fresh pork were the key drivers. As I mentioned, we anticipate continued pressure from higher grain and energy costs. Given the increase in corn and soy prices, we expect the full-year impact of feed costs to be an additional \$80 million above the \$40 million we discussed during our fourth quarter call. Some of this increase in costs will be offset by hedges we have in place, and we will continue to

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pursue strategic pricing advances. We also expect to see continued benefit from lower protein input costs as Jody will elaborate upon later in the call. Ultimately the major driver of value for our company and our shareholders, is our continued focus on growing our value-add the products and on new product innovation. As you know, we achieved our billion dollar goal of new products introduced during the decade as of the end of fiscal 2007, two years earlier than our original stated target. We continue to emphasize innovation at Hormel Foods and have set a new goal of \$2 billion in sales by 2012 of new products introduced since 2000. Our most recent tracking of these items shows sales of over \$300 million in the first quarter of 2008 alone, a 23% increase over the same measure a year ago. After evaluating both the macroeconomic factors affecting our business, and our momentum in creating value-added growth, we are reconfirming our fiscal 2008 guidance range to \$2.30 to \$2.40 per share. At this time I will turn the call over to Jody Feragen to discuss the financial information.

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

Thank you, Jeff. Good morning, everyone. As Jeff mentioned, dollar sales for the quarter totaled over \$1.6 billion compared to \$1.5 billion last year, an 8% increase. Acquisitions added \$39 million to the top line in the first quarter. Volume for the first quarter was 1.2 billion pounds, up 5.2% from fiscal 2007. Acquisitions added 29.3 million pounds to the quarter. Selling and delivery expenses in the first quarter were 12.8% of sales this year compared with 13.2% last year. You may have noticed we are no longer reporting marketing expense as a separate line item on our income statement. Marketing expense has been included in the selling and delivery expense to align our financial information in the earnings releases with the presentation we used in our SEC filings. We will begin reporting consolidated advertising expense which includes the cost of production and consumer communication.

For the first quarter advertising expense was 1.7% of sales compared to 1.9% in fiscal 2007. We expect advertising expense throughout 2008 to increase as we implement branding campaigns behind SPAM, Completes, Lloyd's Bar-B-Que and our fully cooked entrees. Administrative and general expense with 2.8% of sales for the quarter which is even with last year. Interest expense for the quarter was \$6.7 million compared to \$6.4 million last year. Interest expense increased in the quarter due to higher outstanding short-term debt balances associated with our Burke acquisition. We expect interest expense to be approximately \$24 million for the full year. Interest and investment income was a loss of \$5 million for the first quarter of 2008 compared to income of \$2 million in fiscal 2007. Returns on our rabbi trust investments, which we used to fund our non qualified pension plans and deferred compensation were significantly lower this year due to the volatile market conditions. Total debt at the end of the quarter was \$350 million, flat with last year. We expect cash flow from operations to fund the majority of our capital needs during fiscal 2008, including our new Dubuque, Iowa, plant. Depreciation and amortization for the quarter was \$33 million compared to \$31 million last year. We expect full year depreciation and amortization to be about \$130 million. Our effective tax rate in the first quarter was 36.7% versus a 34.8% in fiscal 2007. We expect the effective tax rate to be in the range of 36% to 37% in our second quarter.

Capital expenditures for the quarter totaled \$32 million compared to \$36 million last year. For 2008 we expect our capital expenditures to be in the \$145 to \$150 million range. We have expansion projects under way at several locations to meet expected consumer demand for our value-added products. The basic weighted average number of shares outstanding for the first quarter was \$136 million. The diluted weighted average number of shares outstanding for the quarter was \$138 million. We repurchased 384,000 shares of common stock during the quarter at an average price of \$36.91 per share. We had 3.8 million shares remaining to be repurchased from our 10 million share authorization. We processed 2.5 million hogs in the quarter compared with 2.4 million last year. The actual live hog costs in the first quarter was \$40 per live hundred weight, slightly less than our forecast of \$41 we gave in the fourth quarter conference call. This compared with an average live base price of \$46 for the same period last year. We anticipate an average market of \$44 to \$45 per live hundred weight for our second quarter compared to a \$48 last year. We expect the favorable supply conditions in the hog market to continue into the latter part of 2008. We are not seeing significant sow liquidation and do agree with the USDA assessment of a 4% increase in pork production for 2008. At this time I would like to turn the call over to the operator for the question and answer portion.

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## QUESTIONS AND ANSWERS

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

Thank you ma'am. Ladies and gentleman, we will now begin the question and answer session. (OPERATOR INSTRUCTIONS) Our first question comes from the line of Jonathan Feeney with Wachovia, please go ahead.

**Jonathan Feeney** - *Wachovia - Analyst*

Good morning and thank you.

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

Good morning.

**Jonathan Feeney** - *Wachovia - Analyst*

Nice quarter.

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

Thank you.

**Jonathan Feeney** - *Wachovia - Analyst*

When you look at -- just first, Jody, when you talk about -- I am interested, you talk about sow liquidate -- a lack of sow liquidation. I guess we have been hearing conflicting things about that. Can you talk a little bit more about your forecast for meat costs over the next three to six months?

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

We're expecting, based on the supply numbers we're seeing out there and conversations we're having with our producers, that there is going to be a plentiful supply, and that prices are going to be less than what they were last year. I think we're saying \$44 to \$45 for our second quarter and continue to be under where they were in 2007 for the remainder of the year. There has been some uptick in some of the weeks on sow liquidation, but we have seen plentiful hogs coming in out of Canada. That's where we see the market at this point.

**Jonathan Feeney** - *Wachovia - Analyst*

That's interesting. And now my original question which was going to be for Jeff. Some pretty nice volume performance in grocery products, and I know you have a lot of nice new products in there but also a portfolio that seems to offer a decent amount of, say, convenient value to consumers. Do you think that's a fair statement? Do you think you're getting better lift in your products because of that, maybe trading down, from restaurants or maybe trading down from some other categories?

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

I think there could be some of that going on, John, but mean I think we've talked in past calls, that if we could even neutralize the effect of the some of more mature franchises in grocery and allow completes in the microwave side to shine through, that grocery would be in good shape and if the look at sales this quarter, of the \$21 million increase for grocery, completes was \$16 million of it. It really is having that effect, but that being said, it was a good quarter also for Hormel Chili and SPAM, and so there certainly could be some element of consumers seeing the value propositions in those items and responding accordingly.

**Jonathan Feeney** - Wachovia - Analyst

And could you just comment more generally about the -- I know for the most part your most important meat commodities are pretty low, but your costs overall are rising. Is it -- are there -- is it easier now for you guys to take pricing? I guess is it a good pricing environment for you where pricing is -- in places where pricing is appropriate even though maybe some of your commodity costs are actually a little deflationary?

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

Well, first of all on the cost side, it is somewhat of a mixed bag. We don't have that same benefit necessarily on all the beef inputs we have for items like Hormel Chili and Dinty Moore Beef Stew and turkey being more vertically integrated is a pure cost play in essence and that's clearly been in -- heavily inflationary. On the pork aspects of Grocery Products and all of refrigerated, they have seen a benefit there. In terms of outlook, I mean, it is hard to say right now from our perspective. We think -- we've had good success in most cases taking pricing, but we are in situations such as with Jenny O where we are in round three and round four and you have to balance your needs, the customer's needs, what the threshold is for the consumer. All we're trying to do with our pricing frankly, is tread water. Where we -- if we can recapture the cost increases that we're confronted with, then we have enough innovation going on in the company and enough growth in our branded items, that we can deliver our bottom line goals through expanded volumes there.

**Jonathan Feeney** - Wachovia - Analyst

Okay. Well, thanks very much.

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

Thanks John.

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

Thanks John.

**Operator**

Thank you, sir. Our next question is from the line of Farha Aslam with Stephens Inc., please go ahead.

**Farha Aslam** - Stephens Inc. - Analyst

Good morning.

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

Hello Farha.

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

Good morning.

**Farha Aslam** - *Stephens Inc. - Analyst*

Congratulations on a great quarter.

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

Well, thank you.

**Farha Aslam** - *Stephens Inc. - Analyst*

Can you just comment on your thoughts on country of origin labeling? Do you think that's going to go through and what's your view about Canadian hogs with that legislation?

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

Well, first of all it's hard to say -- we're not sure on country of origin labeling and where it stands, and the whole farm bill has been kind of a mess with an election year proceeding. There's been a lot of efforts to work towards some compromised language so that the language that was in the old bill that has been delayed won't take effect and we're in favor of the compromised language, and our best assessment is that it will eventually get worked into the law, but it hasn't happened yet. All of that being said, we're in favor of the compromised language. We're kind of aghast that we're even at this stage. It's such a nonissue to consumers as far as anything we've ever heard, and so it's going to impose added costs and added handling to assist on a totally unnecessary basis. I notice that there was a proposal before Congress to pass on fees to the retailers to help the government offset their costs of imposing this which just shows how ridiculous the whole thing is. Anyway, that all being said, in the area of Canadian hogs, it clearly is having a short-term effect because they have a concern that whatever emerges could be detrimental to the free flow of commerce from Canada, so we are seeing that, but I don't have a very good outlook for you past the next few months. It depends on what that final language is and how consumers react to it.

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

I think there is some impact on the hogs from Canada also because of decreased production capabilities up there with some of the businesses shuttering some of their plants as well as, Farha.

**Farha Aslam** - *Stephens Inc. - Analyst*

Okay, that's fair. And could you comment on the actions you're taking to improve Farmer John, you've been working on that. Could you just share with us, your progress there?

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

Farmer John and the timing of our acquisition for Farmer John has ended up being less than fully opportunistic. They are much more of a -- more integrated, more susceptible to commodity markets, more susceptible to the input costs because they do raise a percentage of their own hogs and have others on cost-based contracts. And so it's been a struggle. The long-term goal there is clearly to convert Farmer John in the same way as we converted the Hormel portfolio over the last 10 years, to increase the percentage of products that get in to the category are branded to value-added, and we are making some progress. It has been better on the food service side so far than it has in retail, but it's a terrific brand. Just tremendous awareness and strong association in the western markets. So, it's a great platform for us to turn loose our innovation, expertise and come up with some better margining items for the portfolio and so we're confident in the long run that the team we have in place out there will get the job done.

**Farha Aslam** - *Stephens Inc. - Analyst*

And my final question is on your food service contract, your food service business overall. Could you just share with us what you anticipate that to do with the weakening economy.

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

Well, we saw our first quarter sales volumes were lower than what we've had been experiencing over the past few years, and we typically are a mid-to high single-digit growth entity within that realm and this quarter it was more low single digits, so we are seeing some effect. It seems to be more in the casual dining sector, so we're both working with those accounts and with other accounts to make sure that we can continue to bring items that the consumers are looking for in various applications, and overall it was a good quarter for the division in terms of their overall operating results. So, we're cautiously optimistic about their ability to continue to grow in this environment, but that does seem to be where the overall economy pressures are landing first.

**Farha Aslam** - *Stephens Inc. - Analyst*

Okay great. Thank you.

**Operator**

Thank you, ma'am. Our next question comes from line of line of Steven Nissen with Mindful Capital Investments. Please go ahead.

**Steven Nissen** - *Mindful Capital Investments - Analyst*

Thanks a lot, guys, Jeff, great job as usual. A couple things. Regarding your operational improvement initiatives for 2008 what are you guys going to be doing revolving around lean and Six Sigma and how do you expect that to benefit throughput in all of your plan?

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

We -- we -- I don't want to say we dabble in it, because that wouldn't be the right word, but we're not a full-on lean operator. We are not -- we have elements of Six Sigma in our company. We have trained black belts, et cetera, but they tend to be very specific projects as opposed to entire plant installations that are on that basis. That being said, I think that that group has done a very nice job at assisting our operations units and our industrial engineering group at finding a lot of opportunities to attain

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improved efficiencies in our plants and that was a key contributor to results particularly in refrigerated foods and Jenny O Turkey store. It's finding ways to gain more throughput through certain of the facilities, it's shifting lines between facilities to optimized those returns. We are doing some expansions within the company. Jody mentioned those and in most of those cases, you end up with a lower operating cost when you have a dedicated, focused new operation that's going to have the kind of throughputs that can drive those kind of returns, so it is a key contributor to our success.

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**Steven Nissen** - *Mindful Capital Investments - Analyst*

How do you feel like your ability right now is to synchronize orders that are coming in with your materials capacity? Are those pretty much in sync or are you running a little bit behind in terms of lead times -- what would you say in terms of throughput?

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

We're in good shape with that. As a primarily mid-meat business player, you have to do that. If we were not getting that job done on a day in and day out basis, we'd be letting a lot of value go out the door.

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**Steven Nissen** - *Mindful Capital Investments - Analyst*

Okay. What metrics are you using in your manufacturing process to look at your successes? Are you looking at Rona or OE? How are you guys judging yourselves against your peers?

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

Well, you're getting into specifics that we'd just as soon not disclose on a public call.

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**Steven Nissen** - *Mindful Capital Investments - Analyst*

Okay. And, final question going forward for 2008, what would you like to accomplish as your number one goal as CEO to make sure you improve shareholder value, give in to all your demand and also be able -- give in all your throughput throughout your plans to allow customers to get the right product, at the right place, at the right time?

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

Our key focus is, the company continues to be our branded value-added business, and we're enjoying really excellent success with that. We're -- our 8% top line growth in Q1 builds upon 8% last year, 6% in '06, 13% in '05, and so we think we have the right recipe in place for meeting the needs of consumers, and we produce them on an efficient basis.

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**Steven Nissen** - *Mindful Capital Investments - Analyst*

Thank you very much.

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**Operator**

Thank you, sir. Our next question comes from the line of Michael Hamilton with RBC Dain Rauscher. Please go ahead.

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

Hi, Michael.

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

Hi, Michael.

**Operator**

Pardon me. Michael has dropped out of the queue. Our next question will be from the line of Mark Churchill with Piper Jaffray. Please go ahead.

**Mark Churchill** - Piper Jaffray - Analyst

You guys had mentioned a few different things for commodity costs. But can you give us an idea on the balance of the portfolio, what you're looking for as a percentage increase year-over-year?

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

Are you talking about inputs?

**Mark Churchill** - Piper Jaffray - Analyst

Yes. I mean, I think you had talked before about 3% to 3.5% higher in-puts on a previous call. Can you talk about how that's changed now as you've gotten to see one quarter?

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

Well if kind of varies by unit. It's -- clearly the bigger increase is going to confront the Jenny O unit.

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

Yes, and then we actually did quantify it on the call for you. We expect it to be about 80 million more than the 40 we talked about at the end of the fourth quarter on our call.

**Mark Churchill** - Piper Jaffray - Analyst

Okay, thanks a lot.

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

All right.

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**Mark Churchill** - *Piper Jaffray - Analyst*

I must have missed it, in there.

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

Sorry.

**Mark Churchill** - *Piper Jaffray - Analyst*

No problem. Can you talk about your marketing? You said it's down year-to-date, but increasing through '08. How should we view that against '07 when we get to the end of the year?

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

Well, at this point our plan would be you that you'll see an increase by the end of the year. We're continuing a strong effort against the Hormel brand which we started handling on an integrated basis last year with our new label design and a new campaign, and we have a strong effort against that brand as well this year. But we've expanded our overall investments in our brands to cover some of our other brands as well. We have a new TV and print campaign for SPAM, we have print campaigns for Lloyd's and Chi-Chi's, and so we are -- and Jenny O Turkey store has both print and television. So, we think -- we have a lot of momentum with the branded items and we think these advertising campaigns will add to that.

**Mark Churchill** - *Piper Jaffray - Analyst*

Okay, thank you very much.

**Operator**

Thank you, sir. Our next question comes from the line of Bill Chappell with Suntrust Robinson Humphrey. Please go ahead.

**Bill Chappell** - *Suntrust Robinson Humphrey - Analyst*

Good morning.

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

Hi, Bill.

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

Good morning.

**Bill Chappell** - *Suntrust Robinson Humphrey - Analyst*

Just a quick question on the rabbi trust. Is that something ongoing? Should we model that in similar quarters or is this more of a one-time charge?

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

You can look back through any of our quarters, and it's been there for the last four years. It's a market portfolio securities, so you'll see what the results of that reflecting what's going on in the broader market. And it's meant to mirror the underlying plans that it exists for.

**Bill Chappell** - Suntrust Robinson Humphrey - Analyst

Got you. I just hadn't seen the volatility like this in prior quarters. I guess does this have to do -- ?

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

Well, the stock market it the driver there.

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

It was a bigger number than usual.

**Bill Chappell** - Suntrust Robinson Humphrey - Analyst

Got you. And then in terms of -- I know you've talked a little about the company maybe being in a unlevered situation or less levered than you could be comfortable with. Is there any change on that front or right now have you decided cash for more of these capital expenditures and still looking for acquisitions?

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

Our number one priority for our uses of cash flow is to reinvest in our business, and that's either through organic investments like we're doing in some of our plants to meet the needs of our value-added products or through acquisitions. So, we continue to be looking at those opportunities. We're hoping that the current state of the private equity markets allow strategic buyers to be a little more opportunistic and get these deals at multiples that we feel are accretive for our shareholders.

**Bill Chappell** - Suntrust Robinson Humphrey - Analyst

And then just last one. On kind of understanding your marketing spend, I guess my understanding was a lot of the marketing on the grocery side would have historically gone towards the chili and the stew, which were big towards kind of the Fall, football season type time frame, but it sounds like that's shifting towards other products and the whole spend has shifted. Is that the right way to look at it?

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

I think you're right in your assessment from kind of a few years ago, but as we've -- the Hormel items range from Natural Choice which is lunch meet meat, more of a summer skew for sandwiches, even their entree line has a very balanced seasonal distribution. Hormel Completes, is the year-round item and if anything, last year we advertised in the Summer and Fall and that's probably what we're targeting again this year. Lloyd's is a year-round product, so -- Dinty Moore prints been in place and is out there right now for the seasonality, there is some Hormel Chili print as well. But it's a more balanced seasonal approach than what we have probably done in past years.

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**Bill Chappell** - Suntrust Robinson Humphrey - Analyst

And I guess just conversely it sounds then -- the chili and stew wars must have really have died down if you don't sound like you have to step up advertising and promotions on those categories?

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

Well, I think the aggressive pricing and features that we saw when there were no entrants into the chilli category in particular that has stabilized but if anything, we're really trying to focus attention on innovation, one of the drivers of growth for Hormel chilli for the quarter was the introduction of microwavable meals that use the same tray format as Completes but are branded under the Hormel chilli brand and those are off to a good start, so we're focusing attention on gaining distribution on those.

**Bill Chappell** - Suntrust Robinson Humphrey - Analyst

Great, well thanks and good quarter.

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

Thanks.

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

Your welcome.

**Operator**

Thank you sir. Our next question comes from the line of Tim Ramey with D.A. Davidson. Please go ahead.

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

Good morning. Congratulations.

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

Hey Tim.

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

Hey, the big gain in SPAM, that has to be attributable to something, either a comparison or a promotion. Do you mind giving us more detail on what made the needle move so far on that?

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

Well, to be candid, SPAM has some volatility in terms of the purchase, that is one advantage frankly of having a long shelf life product, is the stores can kind of decide when to feature it when they want and when to bring it in and whether they want to

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carry inventory or not. We kind of had a little bit that story last year. We had a quarter or two that were really outstanding and a quarter or two that were less so. So, I don't want to imply from a 15% first quarter that that's the new run rate for SPAM. We do think SPAM singles is helping the franchise, and we do think, to John's earlier question, there's probably some benefit to the franchise coming from the overall economy, but we do have new advertising against it. We're certainly hopeful that we're going to be able to sustain maybe low to mid-single-digit kind of sustainable growth against it, but the 15% is a little more of an aberration.

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

It wasn't a trade load?

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

No, they're really not at all.

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

Okay. Was there a meaningful price increase on that in the quarter?

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

We are taking pricing on SPAM. There has been kind of a lag effect with some of it in the quarter and some coming into the next quarter. So, there is a little element of that in there. The volumes were strong also.

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

Okay. Jody, it looked like you bought maybe 100,000 shares or something like that in the quarter.

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

About 384,000.

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

Okay. Sorry. My math must have been off.

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

Slightly less than \$37 a share I think is where I picked up most of it.

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

Good for you. Is that a run rate we should think of or is this one of the more cash-strapped quarters of the year?

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

Well, you know, I think we kind of talked at our invest or day and even in the fourth quarter that -- look at 2007 and we'll probably be in that type of run rate. That's what I would expect. Barring any large acquisition.

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

Great. Thank you.

**Operator**

Thank you sir. Our 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*

Jody, it seems like our outlook for live hog costs was pretty benign, but can you reconcile that with PURS? Maybe it isn't such a big deal and also, this morning we heard statistics that in China, there are like 69 million chicken and hogs that were destroyed by the storm. How do you think that impacts their need to satisfy consumer demand for meat?

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

The China question is kind of a little bit of a black box right now because everybody is talked big about it, but we've not really seen a lot of movement. Ultimately, they do have to figure out how they're going to feed their population and certainly we seem to have the low price as well as low valued currency, so that could -- make sure that that demand that we see from the production does clear the system. Your other question was reconciling the hog costs and the PURS impact.

**Christina McGlone** - *Deutsche Bank - Analyst*

The disease outbreak.

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

You know, PURS is a seasonal thing that happens. If you go back and look at the statistics, you're going to see PURS outbreaks this is time of year, and it's really driven by a lot of moisture and weather conditions. With the state of technology and the veterinary medicine, we're not seeing it be a huge impact with our producers.

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**Christina McGlone** - Deutsche Bank - Analyst

Okay. Then back to China, so you haven't seen any pickup in the top because of the weather issue there?

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

I haven't seen anything in the recent days.

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

I mean, it's been a pressured market for a year with the disease issues they had over there, costs in our plant more than doubled last year, and they've moderated a little bit in more recent times, but no, we haven't been able to assess a new effect if there is one to dis-situated it's weather-related issue.

**Christina McGlone** - Deutsche Bank - Analyst

Okay, and then Jeff, last quarter you talked about normalized margins in Refrigerated at kind of 5.5% to 6.5% and Jennie-O in the 9% to 10% range. Obviously refrigerated were both above that. How would you expect those margins -- basically has your outlook changed for hitting those margins this year based on what you had said earlier on the call on feed costs?

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

I think on a long-term basis and the ballparks I've provided are probably still relevant. There is some flux, for for example, clearly Refrigerated is benefiting right now from the lower hog input costs, and so that will come and go as long as they're continuing to drive their value-added business throughout, that will be important. We probably haven't had a chance to fully assess a long-term impact of Burke being added to the operation, but it's not a big piece, but it's a nice business, and so that certainly could be a few basis point difference on a long-term basis. And as for Jennie-O, it's harder to read Jennie-O quarter to quarter, the first quarter and the fourth quarter are always Jennie-O's stronger quarter, and then second and third usually will fall under. And so, on a full year basis I think the range I gave -- it's probably still going to be about right.

**Christina McGlone** - Deutsche Bank - Analyst

Okay. Thank you.

**Operator**

Thank you, ma'am. Our next question comes from the line of Robert Moskow with Credit Suisse.

**Robert Moskow** - Credit Suisse - Analyst

Thanks. All my questions have been answered. Thanks very much.

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

Thanks.

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

Have a good one.

**Operator**

Our next question comes from the line of Michael Hamilton with RBC Dain Rauscher. Please go ahead.

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

You're back. Maybe.

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

Maybe not.

**Operator**

And I guess once again he has dropped off. So, we will go to the next question. And that's from the line of Justin Mauer with Lord Abbott. Please go ahead.

**Justin Mauer** - Lord Abbott - Analyst

Good morning, guys.

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

Good morning.

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

Good morning Justin.

**Justin Mauer** - Lord Abbott - Analyst

Just quick, Jody, I think you said that \$16 of the \$22 million in grocery was Completes, right?

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

Yes.

**Justin Mauer** - Lord Abbott - Analyst

Okay, I just wanted to verify it. And then just to the earlier question on the rolling through of the feed costs relative to the hog costs. Would you anticipate that the next quarter or two, you benefit more from the decrease in hog costs year over year than you are getting hit with the grain costs or are you not really thinking of it that way?

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

I mean, the grain costs will -- you're right, will hit these next couple quarters in particular, even if the market were to fall today, we've had several weeks of \$5 corn, and that's going to now start coming to market in our system, and that's when we would realize costs. The pork is kind of one of the offsets we're looking at overall. We are looking, as I mentioned, to try to stay as current as we can on our pricing against our costs, and have ongoing efforts against that, and then we also have our general business momentum we have in the sale of our value-added items that we're looking for to not only offset the cost but hopefully enable us to continue to grow our bottom line as built into our annualized guidance.

**Justin Mauer** - *Lord Abbott - Analyst*

Got you. Okay. Thanks. My last editorial comment is that if the guy is still listening asking the questions about Rona to not spend anybody's time since he does it on all the calls I seem to listen to. Thanks.

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

Alright, thanks, Justin.

**Operator**

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

**Diane Geissler** - *Merrill Lynch - Analyst*

This is actually Ryan (inaudible) calling in for Diane. I am just curious where the quarter came in versus your expectations? Obviously it was a solid beat versus the street, was it just that we were under estimating the first quarter because you maintained the outlook for the entire year?

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

It was somewhat better than what we had anticipated as of the last conference call. Grocery Products, I think we talked about at the last call that the first half of the year for grocery would be more flat and the second half of the year was when we would really see a benefit, and obviously they out performed that due to strength not only in Completes but in SPAM and Hormel Chili and some of the traditional items. And the Refrigerated foods had an even better quarter than we thought. We weren't necessarily looking at 50% segment profit increase but, not only did they have their usual value-added growth in the Burke effect that we knew was there but they also benefited from what turned out to be the pork transfer prices for the quarter.

**Diane Geissler** - *Merrill Lynch - Analyst*

Okay. Thank you very much.

**Operator**

Thank you, sir. Our next question comes from the line again of Michael Hamilton with RBC Dain Rauscher. Please go ahead.

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**Michael Hamilton** - *RBC Dain Rauscher - Analyst*

All the years of pounding my phone against the wall has finally taken their toll.

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

It just died or what?

**Michael Hamilton** - *RBC Dain Rauscher - Analyst*

I apologize. Just one big picture question for you. You've been able to spend time now assessing what goes on in the cut out versus a whole hog pricing game. Are you seeing any dynamics change there that you can share to benefit analysts?

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

I don't see anything that I would call a long-term change. It's still volatile. For example, right now even with fairly low in-puts we're probably not looking at quite a favorable cutout as we were a year ago. But, both sides of the coin move, and so, no, I am really not seeing any significant change in it at this point.

**Michael Hamilton** - *RBC Dain Rauscher - Analyst*

And then my other question, can you comment at all on where you want to go forward with Natural Choice?

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

We're really very happy with how Natural Choice is going. We -- it's initial focus was to utilize our high pressure pasteurization technology and to get us an entry point into the sliced meats category. We started with three varieties of ham and three varieties of turkey, and those have been quite successful on a get them in the store, get trial, get repeat, and we continue to -- we'll have another advertising campaign against them here this Spring and Summer, and then because that line had that success and because consumers do seem to have a strong interest in natural products, we've added roast beef to the sliced line, we've added Canadian bacon, we've added an uncured bacon, we've added chicken strips, we're in the deli with it. So, we think it's a really exciting overall platform for Hormel and do see it as a good area of growth.

**Michael Hamilton** - *RBC Dain Rauscher - Analyst*

Thanks for a gratifying quarter.

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

Well, thank you.

**Operator**

Thank you, sir. Our next question comes from the line of Christine McCracken with Cleveland research. Please go ahead.

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**Christine McCracken** - *Cleveland Research - Analyst*

Just a quick question on turkey. We've seen a move-up in production in the last couple of months. I am wondering, is it your expectation that you'd probably take some weight off as these grain costs go up and that would be an offset or how do you look at that increase?.

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

We have seen some of that, Christine, you are right. We're getting more towards maybe a more normalized supply and demand balance, and I went through years where high \$1.85 \$1.85 to \$1.95 breast meat this time of year would have been wonderful, but the cost environment has changed as well. I don't know if you have anything to add to that?

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

Our group continually evaluates age of birds versus how the throughput in the plant goes Christine, so we take advantage of whatever opportunities are there.

**Christine McCracken** - *Cleveland Research - Analyst*

Have you seen any change I guess in the way -- is it your expectation that there is some give there in terms of the size of the bird?

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

We've seen bigger birds this last quarter, and more had (dilivabilities) and improved as well as the weight, so there may be an opportunity to evaluate the age that you bring in them to production.

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

t may turn out that optimal weight in this grain environment is different than what we've been used to, and so we're certainly taking a look at that.

**Christine McCracken** - *Cleveland Research - Analyst*

All right. And just in terms of the timing of Easter this year, you have some seasonal product sales. Are you expecting any impact from the timing of Easter this year on your business?

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

Not on a reported quarter basis. Clearly internally when we look week to week there will be some fairly significant moves for ham and other items, but, no, it will all come out in the wash in the second quarter.

**Christine McCracken** - *Cleveland Research - Analyst*

Any shift between hams and turkey that you can see relative to pricing and where ham prices are right now?

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

Well, for our -- our experience has been -- as much as we'd like Easter to be a big turkey opportunity for the Jennie-O operation as well, it really isn't -- for us it's dominated by ham. The other times of the year where you have a little more balance, so, no, I am not really seeing any significant shift in that.

**Christine McCracken** - Cleveland Research - Analyst

All right. I will leave it there. Thanks.

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

Thanks.

**Operator**

Thank you, ma'am. Our next question is a follow-up from the line of Tim Ramey. Please go ahead.

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

Jody, I meant to ask you for any more clarity on the comment that costs were up an incremental \$80 million, but you hedged some of that. That doesn't really help us much in modeling. Can you talk about what percentage perhaps the hedges have offset of that?

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

You know, Tim, we really don't talk about what our hedging strategy is but we do have some in place that are less than current market prices that will add some benefit as we go through the rest of the year.

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

I guess the only thing I would add, is that we are in a stronger hedge position this year against this run up than we were last year against the run up, and the run ups are fairly similar so, if that provides you with at least a little color as to the total situation.

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

When you mentioned the things that provided margin relief in the 1Q, you did not mention hedges. You mentioned pricing mix and cost and productivity. Is that implied that hedging was not among the top three reasons for margin preservation?

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

No, it probably belongs in there.

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

Okay, alright. Thanks.

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**Operator**

Thank you sir. (OPERATOR INSTRUCTIONS) And, Mr. Ettinger, there are no further questions. Please continue with any closing remarks.

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

I just wanted to thank everyone for participating. I know a lot of you will be at the CAGNY conference next week, and although Hormel is not presenting, we'll have both Kevin Jones and Fred Halvin from our company, so if you have any further questions about what you heard today, please feel free to contact them. Have a good week. Bye bye.

**Operator**

Ladies and gentlemen, this concludes the Hormel Foods first quarter earnings conference call. If you would like to listen to a replay of today's conference please dial 800-405-2236 or internationally 303-590-3000 entering pass code 11107655. Once again if you would like to listen to a replay of today's conference please dial 1-800-405-2236 or internationally 303-590-3000 entering pass code 11107655. ACT would like to thank you for your participation. You may now disconnect. Have a pleasant day and a pleasant weekend.

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