

FINAL TRANSCRIPT

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HRL - Q1 2009 Hormel Foods Corporation Earnings Conference Call

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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. (Operator Instructions) I would now like to turn the conference over to Kevin Jones. Please go ahead, sir.

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

Good morning. Welcome to the Hormel Foods conference call for the first quarter of fiscal 2009. 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 website at 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 for the quarter and an outlook for the new fiscal year, 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 10:30 a.m. Central Time, today, February 19, 2009. The dial-in number is 800-405-2236 and the access code is 11125920. It will also be posted on our website and archived for one year.

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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 costs and availability of raw materials and market conditions for finished products. Please refer to Pages 31 through 35 in the Company's annual report for the fiscal year ended October 26, 2008 for more details. It can be accessed on our website. Now I'll turn the call over to Jeff.

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Thanks, Kevin. Good morning. I think we did a decent job of holding our own in a turbulent economic environment during the first quarter. Overall sales grew 4% to \$1.7 billion. Earnings were \$0.60 per share, down from our record earnings of \$0.64 per share a year ago. Four of our five business segments showed increased sales, but only one segment delivered increased operating profits.

I will now take you through each segment. Our grocery product segment reported a dollar sales increase of 6% and a segment profit increase of 9% for the first quarter. Sales of the Spam family of products, Dinty Moore stew and Hormel Chili were all up double-digits during the quarter. Our strong advertising and promotional efforts helped us maintain strong brand loyalty, giving us bigger shares of these product categories, which are benefiting from a strong value proposition. These sales increases more than made up for a decline in sales of our Hormel Compleats microwave meals during the quarter. We have taken steps to firm up sales of Compleats, which have suffered from an industry-wide consumer trend away from microwavable convenience products. These steps include enhanced marketing support, both on-air and in-store. Sales of our ethnic products also increased during the quarter, primarily driven by the restaging and increased support of our Chi Chi's salsas.

The Refrigerated Foods segment had a difficult first quarter, reporting a 5% increase in sales, but a 27% decrease in segment profit. Higher than expected hog costs, combined with lower than expected primal values, resulted in unusually weak cutout results. We have gone from relatively high packer margins last summer, to some of the worst packer margins we've seen in some time. Our Farmer John subsidiary was pressured by these same difficult circumstances during the quarter. We did achieve strong performance in our Meat Products group from the sale of value-added branded products. We registered double-digit sales increases of Hormel Cure 81 hams, Dilusso Deli Company products, Hormel Black Label bacon, and Hormel Natural Choice sliced meats, among others. Food service sales declined for the quarter, as the consumer trend toward eating more meals at home and decreased travel continues to impact the industry.

The Jennie-O Turkey Store operating segment reported a 5% increase in sales and a 16% decrease in segment profit during the quarter. As expected, Jennie-O had to deal with high grain input costs, as birds with higher price grain than current market prices, were brought to market. As was also expected, these costs were not fully recaptured due to weak commodity meat markets, stemming from an industry-wide oversupply of breast meat and whole birds. We continue to work aggressively to reduce production at Jennie-O in order to minimize our exposure to these low commodity meat markets and to better align our meat supplies with our value-added business needs. Decreasing egg sets and poults placements elsewhere in the industry should also improve the balance between supply and demand. In the meantime, the team at Jennie-O continues to focus its attention on increasing sales of value-added products, with notable success being achieved during the quarter on Jennie-O Turkey Store Fresh Tray Pack turkey and turkey burgers and our Grand Champion deli turkey.

The Specialty Food segment reported decreased sales of 8%, down 11% excluding acquisitions, and a segment profit decrease of 16%. Within the segment, our Specialty Products group saw a reduction in contract packaging volume for microwave products and Century Foods suffered from decreased sales of nutritional and ready-to-drink beverages. Our Diamond Crystal brands group did generate a solid quarter, with increased sales of nutritional and liquid portion products. Our All Other segment, consisting primarily of our Hormel Foods International business, reported a 17% increase in sales, but a 9% decrease in segment profit. We did enjoy increased export sales of fresh pork and the Spam family of products. However, these were offset on the bottom line by the increased strength of the US dollar and weaker results by our joint ventures. Overall, we had predicted a

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down quarter, and indeed a down first half for fiscal 2009, and our results, thus far, are in keeping with our expectations. But based on this result and the continued vibrancy of demand for many of our branded value-added products, we believe we remain on track to achieve our guidance goal of \$2.15 to \$2.25 per share for the full fiscal year.

Needless to say, we recognize that we will continue to confront challenges to our business as a result of the economy. These include the prevailing oversupply of commodity turkey meats, today's unfavorable cutout values in pork, uncertainty regarding commodity grain prices later this year, evidence of some trading down within the retail space, and increased competitive pressures. But on the flip side, we have a number of strengths that we feel give us a competitive edge in this economy. These include our strong portfolio of leading brands, our balanced business model between packaged foods and value-added protein products, and a strong development program for innovation. And with regard to innovation, I am pleased to report that we remain on track to meet our goal of \$2 billion in sales of new products by fiscal 2012. At this time, I will turn the call over to Jody Feragen to discuss the financial information relating to the first quarter of fiscal 2009.

Jody Feragen - *Hormel Foods Corporation - Senior Vice President and Chief Financial Officer*

Thank you, Jeff. Good morning, everyone. Earnings for the fiscal 2009 first quarter totaled \$81.4 million, or \$0.60 per share, compared to \$88.2 million, or \$0.64 per share a year ago. Dollar sales for the first quarter totaled \$1.7 billion, compared to \$1.6 billion last year, a 4% increase. Acquisitions added about \$5 million to the top line in the first quarter. Volume for the first quarter was 1.2 billion pounds, down 1% from fiscal 2008. Acquisitions added 5 million pounds to the quarter. We processed 2.4 million hogs in the quarter, about even with last year. Selling, general and administrative expenses in the first quarter were 8.4% for sales this year compared with 8.9% last year.

As we stated in our earnings release, we have changed the classification of shipping and handling costs from the selling and delivery expense, to cost of products sold. Classification of the expense in cost of products sold better reflects the cost of producing and distributing our products. The 2008 first quarter results have been reclassified for comparability. We expect SG&A expenses to be approximately 9% of sales for the remainder of the year. Advertising expenses were 1.5% of sales for the quarter, compared to 1.7% last year. We expect full year advertising expenditures for fiscal 2009 to exceed fiscal 2008 as we continue media campaigns to support our brands.

Interest and investment income was a net gain of \$2.4 million for the first quarter, compared to a loss of \$4.9 million in fiscal 2008. That was due to higher returns on the rabbi trust investments and interest on higher cash balances. Interest expense for the quarter was \$7.5 million compared to \$6.7 million last year, primarily driven by higher borrowings on our short-term line of credit. We expect interest expense to be approximately \$28 million to \$30 million for the full fiscal 2009. Our effective tax rate in the first quarter was 34.7% versus 36.7% in fiscal 2008. This lower rate is attributable to the mark-to-market gains in the rabbi trust, which are not taxable. We expect the effective tax rate for fiscal 2009 to be about 36% to 37%.

The basic weighted average number of shares outstanding for the first quarter was 134 million. The diluted weighted average number of shares outstanding for the first quarter was 135 million. We repurchased 375,000 shares of common stock during the first quarter at an average price of \$27.67. We have 1.9 million shares remaining to be purchased from the 10 million share authorization in place. We will continue to be strategic in repurchasing shares of our stock as a use of our free cash flow.

Depreciation and amortization for the quarter was \$31 million, compared to \$33.1 million last year. We expect full year depreciation and amortization to be about \$130 million to \$135 million. Total long-term debt at the end of the quarter was \$350 million and we ended the quarter with \$100 million outstanding on our short-term line of credit. Cash flow from operations improved over 2008 as we emphasize initiatives to reduce our working capital. Capital expenditures for the quarter totaled \$25.5 million, compared to \$31.9 million last year. For fiscal 2009, we expect capital expenditures to be about \$140 million, mainly relating to the completion of our new production plant in Dubuque, Iowa. We continue to maintain our traditionally balance sheet. Our solid capital position not only gives us the flexibility to weather the tough economic times, but it also allows us the opportunity

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to make strategic investments to generate additional profitable growth for our company. At this time, I'll turn the call over to the operator for the question and answer portion of the call. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you, ma'am. (OPERATOR INSTRUCTIONS) Our first question comes from the line of Laura Farhamson with Stephens. Please go ahead.

Laura Farhamson - *Stephens, Inc. - Analyst*

Good morning.

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Good morning, Laura.

Laura Farhamson - *Stephens, Inc. - Analyst*

Jeff, I'm trying to do a better job of understanding your Turkey division and the moving parts. It did quite well compared to the challenges it faces. Was there anything particular in the quarter that you could highlight in the Turkey division that allowed it to deliver pretty decent results in a tough environment?

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

I think the biggest impact probably related to the production cuts we put through last May. It allowed us to be positioned going into the quarter with minimizing the amount of surplus meat we would have in the face of what we knew were going to be tough meat markets. It also allowed us to realistically feed fewer turkeys less grain at a very expensive price and so we see that unit. Our expectation had been, by the second half of this year, to start looking at positive comps and they seem to be well on their way toward achieving that.

Laura Farhamson - *Stephens, Inc. - Analyst*

In terms of your grain hedges, traditionally Hormel hedges its grain in the fall. Are you continuing your current grain hedging policies, or have you changed them at all in the face of current volatility?

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Really for the last two years, we've maintained a policy that we're willing to take positions in the range of, say, 25% to 75% coverage on the primary feed ingredients of corn and soy meal. They are not necessarily put on anymore at one particular time and at any given time, we look out a time horizon of up to 18 to 24 months. But it varies as to just how much hedged we are in any given period within that 24-month timeframe.

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Laura Farhamson - *Stephens, Inc. - Analyst*

Okay, and when you look at the current economy as it stands, is economic weakness favorable to you because you have some recession-resistant products such as Spam or chili, or are tough economic times a challenge because of the food service? If you had to weigh the two, which would you say is more a factor for Hormel?

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Well, despite the national economic brain trust declaring that the recession started retroactively in the fall of 2007, we really didn't start seeing it in our businesses until the fall of 2008 so we're pretty early on still in measuring these effects. At this point, I really would have to tell you it's mix. We certainly have seen a downturn in demand in some of our food service-related businesses. We've suffered some in the microwavable areas, both in shelf stable products and in refrigerated, as people seem to be moving more towards the canned alternative in those areas. And I think it hit our specialty business this quarter as they have some of their contract business proved to be susceptible to the economy. But as you pointed out on the plus side, we have very solid franchises in many of our traditional products, and overall, we seem to be more than holding our own in this environment.

Laura Farhamson - *Stephens, Inc. - Analyst*

Okay, thank you very much.

Operator

Thank you. Our next question comes from the line of Ella Bucheger with D.A. Davidson. Please go ahead.

Tim Ramey - *D.A Davidson - Analyst*

Hi. It's actually Tim Ramey conferencing in here, too. Good morning.

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Good morning, Tim.

Tim Ramey - *D.A Davidson - Analyst*

So Jody, you ended the quarter with quite a good pile of cash and great cash generation during the quarter.

Jody Feragen - *Hormel Foods Corporation - Senior Vice President and Chief Financial Officer*

Thank you.

Tim Ramey - *D.A Davidson - Analyst*

A, I'm wondering why there was anything on the line of credit out. B, can you remind us what the terms are on that \$350 million note and whether it would make sense to prepay any of that or--where you stand--

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Jody Feragen - *Hormel Foods Corporation - Senior Vice President and Chief Financial Officer*

We continue to evaluate what our capital position is and the \$350 million note has (inaudible) penalties to it and I haven't been able to justify that additional cost on it. And additionally, we like to keep some dry powder available for opportunities that may present themselves. I think we're in an enviable position in the marketplace with very clean balance sheet and the opportunity to look for acquisitions that can drive profitable growth.

Tim Ramey - *D.A Davidson - Analyst*

Okay, and, Jeff, would you give us a little bit more color on the difficult packer margins and how you see that--a snapshot of where we're at now and how it might progress over the next few months, if you care to?

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Well, I'll give it a shot. It's hard to tell, Tim. I mean we went through the first part of the quarter in pretty normal conditions and then it really reared its head late in the quarter and is still -- we're still upside down right now in terms of the value of the meat versus what we're paying for hogs is negative. And historically, these time periods don't last particularly long. I mean, they shouldn't over time, but it's really hard to tell right now what's driving it and when exactly we should expect it to reverse.

Jody Feragen - *Hormel Foods Corporation - Senior Vice President and Chief Financial Officer*

We still do expect to see a reduction in the supply of hogs in fiscal 2009, probably late spring, early summer to hit and really, like Jeff indicated, it's hard to tell, it shouldn't be upside down, but it currently is.

Tim Ramey - *D.A Davidson - Analyst*

And then just on the dry grocery side, great performance there, but we've been hearing a lot down at CAGNY and other venues that there's been some inventory deloading and destocking. Doesn't seem like it based on the sell-through that you had. Did you note any inventory issues either at the consumer level or the grocery level?

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Tim, I really didn't. I mean, to me, maybe we went through that earlier than other companies. There was a time two, three years ago where we saw pretty big disconnect between our shipments and what was still selling through on Nielsen on a scan basis. Maybe we're just in the type category that people decided earlier they weren't going to maintain large inventories but we really did not see any effect of that this quarter.

Tim Ramey - *D.A Davidson - Analyst*

Okay. Congrats.

Operator

Thank you. Our next question comes from the line of Jonathan Feeny with Janney Montgomery Scott. Please go ahead.

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Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Good morning, thank you.

Jody Feragen - *Hormel Foods Corporation - Senior Vice President and Chief Financial Officer*

Good morning.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Just two quick ones. The first, Jeff, following up on our earlier question about the trading down, it strikes me that the portion of your business that carries the highest margins are products that are really good value ways to eat in that grocery products business and would benefit a lot from people eating more meals at home and even within that, finding more reasonable ways to stretch a dollar for a family meal and the part of your business that's more vulnerable to just the general sort of economic malaise, which would be refrigerated foods and food service and all that goes with that carries at lower margin. Have you done any sort of consumer work that would verify or deny that thought?

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Well, John, I think the numbers of the quarter certainly would lend some support to what you're saying. I mean if you look at the grocery division, you've got 6% increase in sales, 9% increase in profits with a big downturn in microwave. So obviously but for that, the numbers would have been even stronger, so it's clearly momentum in that area and refrigerated did experience some issues with food service and with some of the other items. It's not--so far, though, it's not a neat--expensive items are down and less costly items are up matrix and we have items that run counter to that and it kind of depends on what purpose they serve in the portfolio, what people are buying them for, and if they still believe that they are a good value for that proposition then even a higher priced item can hold its own.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

So within the meat segment, you're actually not seeing the sort of bottom end, if you will, like a less expensive parts outperform, it's kind of all over the board, right, because you get good performance in these Cure 81 and stuff?

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Yes, you could make an argument that the migration to such franchises as ham or raw bacon would indicate a move toward value, because those are pretty good value per pound type of items but we're always the branded, more premium player within those segments and so we're not seeing the tradedown within. With the exception--I know private label's been a big theme and at the CAGNY Conference, and I think that we would reiterate what some of your other speakers have said, which is we're getting more and more to a world of leading brands and private labels and the folks in the middle are the ones seeing share loss, but we have pretty much in most of our categories, I think 34 items, number one, number two brands, so we pretty much have those leading share positions in the niche categories that we're competing in.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Great, and then the second one, Jody, there's been a couple of--in a tumultuous year, there's been a couple of consistent things. Everything I've been thinking about the hog market has been wrong and everything you've been saying about the hog market has been right.

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Jody Feragen - *Hormel Foods Corporation - Senior Vice President and Chief Financial Officer*

Well, thank you.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

What, what do you currently thinking about as far as hog prices for the next quarter or two and what are you seeing on that cost side going forward?

Jody Feragen - *Hormel Foods Corporation - Senior Vice President and Chief Financial Officer*

Well, I really appreciate you giving me these kudos because I am no longer am forecasting the hog market. I think generally, you're going to see with a reduction in the numbers, that the prices obviously should increase. I don't think you're going to see substantial increases over what--where we were for a full year in 2008 and then obviously on the cutout side, it's going to depend a lot on what happens with exports and consumer demand within the industry.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Okay. Thank you.

Operator

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

Robert Moskow - *Credit Suisse - Analyst*

Hi, thanks.

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Good morning, Robert.

Robert Moskow - *Credit Suisse - Analyst*

I don't know if--did you break out the price and the volume on the grocery products division?

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Yes, overall, volume was up 2% and prices--well, net sales were up 6%. There are mix issues in there also, not just pricing.

Jody Feragen - *Hormel Foods Corporation - Senior Vice President and Chief Financial Officer*

Obviously, with the decline in the Compleats, that has a big impact on it.

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Robert Moskow - *Credit Suisse - Analyst*

Okay, and that's just grocery?

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Yes.

Robert Moskow - *Credit Suisse - Analyst*

How do you think your pricing in grocery is going to track through the year? I mean are you--are we going to see some price deflation in that group, or are you done taking pricing and how should we forecast it?

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

In general, Robert, I mean we've been in a catch-up mode on pricing. You look at the meat-based items. Many of our meat competitors, obviously, are suffering from it big time and we have certain subsegments of our business where we see that, where it's been very difficult to get full pricing to cover down that kind of increase in raw material costs. Now, that being said, most of the branded item pricing has kind of worked its way through the system. There's currently right now being executed in the marketplace, a price increase on Hormel Chili that frankly, we worked in partnership with the retailers. We ended up delaying it, in essence, because we had so many significant programs out in the marketplace for the chili season. It would have been appropriate, give the runup in can costs and the runup in beef costs, to take it last fall, but we decided to go ahead and just do it this spring instead. So that's the last branded franchising being executed on that basis.

Robert Moskow - *Credit Suisse - Analyst*

Okay. So if your pricing is, say positive 2 or positive 3, I can't remember what we're lapping from a year ago. Do we think you're going to be pretty consistent in how it plays through, throughout the year, like in the 2 to 3 range?

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Yes, I--in terms of what the net sale increase will be over volume increase?

Robert Moskow - *Credit Suisse - Analyst*

Yes. Well, do you think that the way you report pricing will be up, you know, pretty consistently 2 to 3 over a year ago?

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

I don't have the math--I'm pretty sure that you're going to see in most of the segments that the net sales figure will be up more than the volume figure. But I just want to be careful. If you're referencing how we're doing on pricing versus costs, we haven't caught up on it and I kind of doubt we will on a full basis, but we're close and we're certainly at a more comfortable rate than we were a year ago at this time.

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Robert Moskow - *Credit Suisse - Analyst*

Okay, and then another forecasting thing, I was tracking pork cutouts in November and December and they actually look just fine. It wasn't until January that those margins went negative. Is that what you were seeing also and are we very negative right now?

Jody Feragen - *Hormel Foods Corporation - Senior Vice President and Chief Financial Officer*

We are very negative right now. We -- I think we had a couple days where it finally turned and went into a positive territory. But it's back negative and yes, that's what we did. January was a month like we have --the industry hasn't seen in well over a decade.

Robert Moskow - *Credit Suisse - Analyst*

Okay.

Jody Feragen - *Hormel Foods Corporation - Senior Vice President and Chief Financial Officer*

And that really did impact our refrigerated foods business.

Robert Moskow - *Credit Suisse - Analyst*

Okay. All right. Thank you very much.

Operator

Thank you. 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 of the Board, President, and Chief Executive Officer*

Good morning.

Christina McGlone - *Deutsche Bank - Analyst*

I just wanted to say the results were very good and I was curious if they were in line with--even though you had forecasted down first quarter, down first half, they were still stronger than we expected and I was wondering if they were in-line or perhaps a bit better than you expected for the quarter.

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Well, our segment results were, when all said and done, slightly better than we expected. And then we did see some benefits on the tax rate and the rabbi trust comparison and so forth that made the earnings per share number even a little bit higher.

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Christina McGlone - Deutsche Bank - Analyst

Okay, and then just going back to Jennie-O, the results were very strong and I know that you had some corn hedges on, do they roll off now? Do we see them--I guess, how do we think about this business going to the second quarter? Because the industry's been very aggressive in egg set and poult placement reductions and it looks like you're reducing your commodity meat on the market and then at the same time, if you rolled through higher cost corn hedges, should we look at this margin as sustainable for the rest of the fiscal year?

Jeff Ettinger - Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer

Well, I wouldn't--I would urge you not to look at a particular margin rate versus sales as being sustainable in any year with Jennie-O just because it's a pretty season business in terms of the returns. The first and fourth quarters are high and the second and third quarters are low. Now, if you look year-over-year to same quarters, I do think you'll--we could be in a position to see an improvement in the second quarter. Our outlook had been more like the third quarter, the fourth quarter. There's still a lot of meat on the market. The breast meat price is depressed versus where it was a year ago and hasn't shown a lot of signs of movement yet. The cold storage stocks are mounting, but we have done a nice job of tightening our sales up and making--reducing the ratio of surplus meat that we would have internally and having it match better to our value-added needs and so that helped the team in the first quarter, should help, continue to help them in the second quarter.

Christina McGlone - Deutsche Bank - Analyst

And do the corn hedges, are they rolling off, or are they still there?

Jeff Ettinger - Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer

Well, they just do naturally roll off, the one you put in place for a certain time frame. But I answered earlier, that given that we have a general philosophy of a 25 to 75% range, and given that we could be out at any time as much as 18 to 24 months, it's not like all hedges are just going to go off and be replaced with no hedge. So, they will just be new price positions that are part of our hedge equation and we true up that math in the Q filing each quarter. So you can kind of see where that ended up.

Jody Feragen - Hormel Foods Corporation - Senior Vice President and Chief Financial Officer

We basically put hedges on to cover grain as the turkeys consume it and they consume it 12 months out of the year. So there's not like an end point to something.

Christina McGlone - Deutsche Bank - Analyst

Okay, and then my last question, in terms of going back to the packer margins, if the industry is negative now and the supply of hogs is just going to get tighter, Jody, as you said, as we get into the spring and the summer, how would you say the industry will respond to that? Do you expect slaughter to be cut back? Historically, how is the industry responded when they are facing a tighter hog supply?

Jody Feragen - Hormel Foods Corporation - Senior Vice President and Chief Financial Officer

I don't know that I have that many years to go back to when we were upside down back in 1996. But I would think that you look at the opportunity to reduce your production numbers and we've certainly--while we harvested the same number of heads last

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year, certainly look for opportunities, particularly in January, where we could reduce the numbers that we had going through so some discretion by production packers might be in order to get things turned around.

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Yes, we have most of our hogs on contract and certainly, we honor the contracts in terms of what we're supposed to take delivery for. But in this--as things turned around here, if there were free markets hogs that normally we would be bidding on, we're not looking to take them in and cut red on them.

Christina McGlone - *Deutsche Bank - Analyst*

Okay, thank you.

Operator

Thank you. Our next question comes from the line of Mike Hamilton with RBC. Please go ahead.

Mike Hamilton - *RBC - Analyst*

Thanks, good morning, everyone.

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Hi, Mike.

Jody Feragen - *Hormel Foods Corporation - Senior Vice President and Chief Financial Officer*

Good morning.

Mike Hamilton - *RBC - Analyst*

First one for Jody, I was wondering if you could quantify a gain off of the rabbi trust in the quarter.

Jody Feragen - *Hormel Foods Corporation - Senior Vice President and Chief Financial Officer*

Well, last year we actually--it was a minimal gain for the first quarter, somewhere a little over \$1.5 million, but it was a bigger loss last year, so it's a year-over-year change. Last year, I think it was a \$6 million loss.

Mike Hamilton - *RBC - Analyst*

Is a piece of the trust in Hormel shares?

Jody Feragen - *Hormel Foods Corporation - Senior Vice President and Chief Financial Officer*

No, no.

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Mike Hamilton - RBC - Analyst

Okay.

Jody Feragen - Hormel Foods Corporation - Senior Vice President and Chief Financial Officer

It is all market investments and obviously because of the performance of the equity markets, it's kind of--and I have not rebalanced, it's kind of skewed itself to fixed income so we tend to have a little better than market favorable results right now, but if anybody can tell me what the market's going to do the next three months, I would welcome that. I was going to applaud you. Your portfolio's doing better than mine. Not my personal one!

Mike Hamilton - RBC - Analyst

Jeff, could you take a couple minutes and give your views, knowing there's a huge volatility on international outlook, how you see things playing out and impact into the Hormel business model?

Jeff Ettinger - Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer

In terms of export?

Mike Hamilton - RBC - Analyst

Exactly and the full international model given, you know, what we're seeing in emerging market pressure and the unknowns on the demand side.

Jeff Ettinger - Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer

Well, I mean we're expecting, frankly, a little bit of a downturn in export volume on pork. Our expectation would be the 10% to 15% range. Others have other opinions. We'll all just see, I guess, but that would be a 10% to 15% decline off of a very large number, obviously. The numbers mounted over the years. When all is said and done, our pork exports are pretty niched and pretty limited. They are a valuable part of our portfolio, but it's not a big volume area. We obviously have in-country presence in markets like China and there we have seen a reduction in the--there's more pigs and so there's been a reduction in the cost of that raw material and so that's favorable. On the turkey side, dark meat is holding in there for now. You know, we worried about political risks with kind of sporadic delistings of plants from Russia and others, but, overall right now we're--the meat's moving and there seems to be good, solid demand for it, but it's certainly something we're keeping our eye on. Overall, effects of our business, it's not as much of a direct effect, but clearly if it made markets back up and meat back up, then we would feel that even in our domestic business.

Mike Hamilton - RBC - Analyst

Then, on the specialty side, where you mentioned some economic pressures contract-wise, is your feeling that you're taking some market share issues, or is it mainly showing up in pricing?

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Jeff Ettinger - Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer

The areas where we really got hit in specialty is where we do more contract manufacturing for others. The downside to that is you're kind of at the mercy of however their franchise is doing. Those will just have to correct themselves over time. In addition to that, we did lose a customer or two in those areas. In that case, the team has been aggressive about trying to find replacement business and has some -- in one case, already landed some and in others, some pretty favorable things looking to be able to utilize those facilities on a capacity basis. So they may well see another quarter that's a down quarter, but I don't know that it will be down as far as this first quarter turned out to be.

Mike Hamilton - RBC - Analyst

Thanks, Jeff.

Operator

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

Ann Gurkin - Davenport & Company - Analyst

Good morning.

Jody Feragen - Hormel Foods Corporation - Senior Vice President and Chief Financial Officer

Good morning.

Ann Gurkin - Davenport & Company - Analyst

We've heard lots of discussion at CAGNY about cost cutting and companies looking at reducing costs further and it's just a program that Hormel has been working on as well?

Jody Feragen - Hormel Foods Corporation - Senior Vice President and Chief Financial Officer

Well, if I had a lot of excess costs to cut, I'll certainly look to do that. But we really have run ourselves as a very lean company, not to say that we don't judiciously look at every job that needs to be replaced in this economic environment. We've asked our business units, as well as our corporate staff, to really scrutinize expenditures. But that's been kind of the normal day-to-day thing that we do at Hormel.

Ann Gurkin - Davenport & Company - Analyst

Great, that's great. Secondly, may I get an update on China and your commitment to that market?

Jeff Ettinger - Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer

Well, we've been in the market now for 11 years. We have a, we think, a strong niche position there. Our brand has a great reputation. It's more of a high-end brand in that market. Obviously we're hearing about some downturn in that economy, but for now, a downturn means high single-digit growth instead of double-digit growth and our volumes and sales in China were

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up during the first quarter we're still very committed to that market and over time, we want to find the right way to continue to grow with our customers over there.

Ann Gurkin - *Davenport & Company - Analyst*

That's great. Thank you very much.

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Thanks.

Operator

Thank you. Our next question comes from the line of Chris Bloodson with Barclays. Please go ahead.

Chris Bloodson - *Barclays - Analyst*

Good morning.

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Hi, Chris.

Jody Feragen - *Hormel Foods Corporation - Senior Vice President and Chief Financial Officer*

Good morning.

Chris Bloodson - *Barclays - Analyst*

Just curious, I've had a difficult time trying to quantify elasticity historically in recessionary periods. So I'm just curious if your own work has suggested across the protein complex any certain magnitude of elasticity that we can think about just as kind of a framework for the more of a macro perspective, rather than anything specific to Hormel.

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

I have to say we don't have a lot of work in that regard and just even this current case study example we're in now, I wouldn't have necessarily guessed all of the franchise reactions that we've seen. I think it just depends on how the consumer sees the value proposition of the items, what the competitors do at the same time, what retailers added towards the items. I probably can't help you a lot in terms of something that would be--you would be able to sink your teeth into in terms of modeling.

Chris Bloodson - *Barclays - Analyst*

And it's a global marketplace today, so obviously the impact that exports or imports have on any one protein is important as well. And just even anecdotely then, perhaps among your own restaurant customer base, are you seeing any change in future activity, for instance, favoring poultry over red meat items or any change of behavior among your restaurant customers?

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Jeff Ettinger - Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer

Well, we're certainly traffic changes. The ones that are in that casual dining or higher end areas are suffering more. The fast food side clearly is hanging in there. We don't have a heck of a lot of fast food exposure on the Hormel side, although that was one of the reasons Diamond Crystal hung in there during the quarter, even though they are a big food service business, they have a lot of their business going to the pizza chains and the fast food chains and so those are doing well. In terms of particular items, I mean chain by chain, I'm sure they are looking for opportunities to hit a certain ticket point to drive traffic into their stores, but that's what they need. They need head count in there and it's a mixed bag as to who is able to achieve that right now.

Chris Bloodson - Barclays - Analyst

Okay, and then in your own sort of mix of skews at the retail level in grocery, you are thinking about sort of altering your mix a bit to favor more chicken items to drive value to the consumer that way?

Jeff Ettinger - Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer

No, I don't know that it's protein-based. I mean we really--to me, that's one of the underlying stories of success for us right now, that we're very pleased in this environment. If you look at grocery, and you measure in terms of volume and dollars, we had volume and dollar increases on chili, Spam, Dinty Moore hash, Chi Chi salsa, Herdez salsa--so pretty across the board. The only down items really were Compleats and Bacon Bits and then our chunk meat franchise was kind of mixed with Valley Fresh being up and Hormel down. Overall, we think we have the right items that people are looking for right now. We're doing a good job of promoting and storing and partnering with our retailers.

Chris Bloodson - Barclays - Analyst

Okay. My last question is on Compleats. Since you've seen what was a frozen entree player encroach a bit into the shelf stable category, is there--do you also see an opportunity to kind of do the reverse and make a name for Compleats within the frozen entree space? Do you think that would--do you think that would test well with consumers?

Jeff Ettinger - Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer

Chris, I mean you never say never, but I would say it's highly unlikely. We did have a foray into the frozen world in past years with what we had our quick meal sandwiches and our Mrs. Patterson's pies. It's a very competitive area. Our experience was you have to have some significant scale to be a player in that area and we just didn't have it. And so when you think about that you would have to turn your whole supply chain, your trucks, everything else to run a certain way and you don't have that kind of branded presence, it's unlikely to me that we would make that kind of a move with Compleats. We think there's all sorts of room on the dry grocery shelf over time to offer multiple items and between that and refrigerated is where we're focusing our meals efforts.

Chris Bloodson - Barclays - Analyst

Makes sense. Thank you.

Operator

Thank you. Our next question comes from the line of Akshay Jabdel with KeyBanc. Please go ahead.

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Akshay Jabdel - KeyBanc - Analyst

Good morning.

Jeff Ettinger - Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer

Hi, Akshay.

Akshay Jabdel - KeyBanc - Analyst

Just wanted to get back to a question Christina asked, I believe. You had talked about your internal expectations and the segment profits overall being a little bit better and I wanted to take that back to the last conference call when we talked a little bit about refrigerated foods and I believe, if I remember correctly, it said for the full year you were expecting refrigerated foods EBIT to be flat or maybe slightly up and this quarter it was down about 27%. So if you look at the overall, the comment you made was segment profits were better, but if you take it segment by segment, is it fair to say that the refrigerated foods was a lot worse than you expected and Jennie-O Turkey was better and also grocery products was a lot better? I mean I'm just trying to get a sense of--you beat by whatever \$0.09 and you haven't increased guidance and it seems like you're being very conservative basically what's going on in refrigerated. Just trying to get some perspective on that for the full year.

Jeff Ettinger - Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer

Okay, Akshay. Yeah, I mean I was with you for most of it. I would agree with you that refrigerated did worse than we had thought and Jennie-O did better than we thought. Grocery was kind of about where we thought it would be. So I mean that's kind of the--those are the big picture color items in terms of segment profit delivery. I guess what I was trying to allude to earlier in terms of the \$0.09, we can see on our end there's an element of below the line benefit we had with the rabbi trust year-over-year performance with the tax rate change. Those things were favorable to us and added to earnings per share. Those come and go. I mean last year, we ended up having a down year on earnings per share, but our segment profit results were up 6%. You know, if you report GAAP and you live with your earnings per share number and this quarter our earnings per share reflected higher because of some of the below the line items. That's part of why we're sticking with our guidance, is we don't have an expectation of those same kind of below line gains quarter after quarter going forward.

Jody Feragen - Hormel Foods Corporation - Senior Vice President and Chief Financial Officer

And Akshay, certainly we did not expect to see the pork packer margins turn like they did in January for us. So that really was what led to the surprise on the refrigerated foods side.

Akshay Jabdel - KeyBanc - Analyst

Okay, and just one follow-up. You know, just overall, if you look at your company, there's always a debate whether to--you guys are the packaged food company or protein company. So, if I look at you from a packaged food perspective, and I look at your quarter, your results at the EBIT level were still better than what the market was expecting, but, if I saw these same numbers for the packaged food company, certainly everyone would be questioning the SG&A. So can you put some color around, you know, the flexibility you have in SG&A and how much of that really is related to future growth and if that was effected because certainly we don't want to see a drop in investments towards your brand. So if you could comment on that, that would be great.

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Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

The advertising ratio as a percentage of sales did go down a little bit. But our expectation for the last year advertising was higher than year before. That's two years in a row. Our expectation for this year is that we will support our brands at a higher level overall. Sometimes the flow from quarter to quarter can vary a little bit. Otherwise, I mean I think when you are looking at us modeling wise and looking at ratios, you have to--we have to concede that we have a balanced entity and that there are elements of our business that don't have the margin returns that General Mills has, for example. But that being said, I would say because of our balanced business-month-old, you look at our track record, that we behave more like a packaged food company. We've had 24 up years out of the last 27. We're very branded oriented, very value-added oriented. That's certainly how we look at ourselves.

Jody Feragen - *Hormel Foods Corporation - Senior Vice President and Chief Financial Officer*

And the last time I did a comparison of our SG&A to our peer group, which includes protein as well as packaged companies, we certainly weren't as low as the protein players, but we were nowhere near the percentage of sales in SG&A that some of the packaged food companies were so I'm a little surprised by that comment.

Akshay Jabdel - *KeyBanc - Analyst*

Yeah, I mean I--the absolute numbers are fine. I'm just looking at the change and the deviation relative to what the industry was expecting and if you saw that kind of deviation for packaged food companies suddenly people would be talking about quality for the quarter, but, no, I mean I'm just trying to get a sense of what's--how much flexibility you have relative to a packaged food company in moving that SG&A number but the comments were helpful. Thank you.

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Thank you.

Operator

(Operator Instructions) And at this there are no questions in the queue.

Jeff Ettinger - *Hormel Foods Corporation - Chairman of the Board, President, and Chief Executive Officer*

Thank you all for joining us today. For those at CAGNY, I hope safe travel home and I'll be available for questions after the call. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes the Hormel Foods first quarter earnings conference call. You may now disconnect. Thank you for using ACT conferencing.

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