

HORMEL FOODS CORPORATION



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(as at May 31, 2020)

Business Description:

Hormel Foods Corporation engages in the production of meat and food products. It operates through the following segments: Grocery Products, Refrigerated Foods, Jennie-O Turkey Store and International and Other. The Grocery Products segment consists primarily of the processing, marketing and sale of shelf-stable food products sold in the retail market. The Refrigerated Foods segment involves the processing, marketing and sale of branded and unbranded pork, beef and poultry products for retail, foodservice, deli and commercial customers. The Jennie-O Turkey Store segment includes processing, marketing and sale of branded and unbranded turkey products for retail, foodservice and fresh product customers. The International and Other segment comprises Hormel Foods International which manufactures, markets and sells company products internationally. The company was founded by George A. Hormel in 1891 and is headquartered in Austin, MN.

Investment Thesis:

- **With changing consumer tastes, Hormel has made strides in plant-based meat products.** With an increasing amount of environmentally conscious consumers and public knowledge of animal meat's carbon footprint, Hormel has produced innovative and nutritious products that are plant based. These products serve as a strategy moving forward to broaden the food portfolio while also providing consumers with a healthy, plant based meat replica.
- **Hormel has demonstrated a clear strategy for improved quality of earnings.** The company has recently undergone a small restructuring process where they aim to grow profitable segments and divest from underperforming segments. Recently the company exited subsidiaries such as Farmer John and Saag's Specialty Meat to focus on segments such as Applegate and Columbus Brands to allow for segment profit margins and net sales to increase.
- **The company has improved profitability without relying on volatile commodities prices.** Hormel has also begun to shift product mix to higher margin items such as premium, natural choice, organic and reserve products. This allows for more consumer value as well as higher profitability for the company. In addition, this strategic shift also allows for lower exposure to commodities prices in the markets.

Industry Drivers/Trends

Packaged Foods:

- **Evolving Consumer Tastes** – As the millennial population grows, there has been a large shift away from “unhealthy” meat products. There is also a larger focus on eco-friendly and organic foods.
- **Purpose Driven Brands** – In addition to demographic shifting, there is more awareness within the general population for purpose driven brands. These are brands that are giving back to the community and society, such as plant-based protein companies or organic free-range specific companies.

Competitive Advantages:

- **Strong Customer Relationships** – Some of the company's food products have had relationships with customers and distributors for a very long time. These customers will continue to look to Hormel's products for quality and service
- **Supply Chain Capabilities** – Hormel has made tremendous asset and capital optimization efforts, creating automation solutions and logistics & customer service models that serve to decrease costs and increase consumer satisfaction.
- **Insights-Driven Innovations** – The company has world class and award-winning R&D (research and development) and innovation teams. Products of innovation serve to match consumer needs with wants.

Competitors:

- Conagra Brands, Inc., Tyson Foods, Inc., Marfrig Global Foods S.A., Pilgrim's Pride Corporation

Barriers to Entry:

- **Asset Heavy Industry** – Although the barriers to entry for the food industry are relatively low, packaging poultry, beef, and pork food products at scale requires a large amount of plant and equipment which will be difficult for new entrants to establish.
- **Established Distribution Network** – Hormel has one of the best distribution networks in the world and this is a key part to its success. New entrants within this industry will find it difficult to replicate this network and thus find limited success in the industry.
- **Brand Recognition** – Hormel possesses leading brands in categories such as luncheon meats, stew, hash and nut butters. This brand recognition commands consumer loyalty and new entrants will find it difficult to gain material market share

Officers and Directors:

Jim Snee, Chairman, President, and Chief Executive Officer;
Jim Sheehan, Executive Vice President and Chief Financial Officer;
Deanna Brady, Executive Vice President Refrigerated Foods;
Glenn Leitch, Executive Vice President Supply Chain.



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Financial Summary:

Income Statement (USD millions, years ended October 27th)

	2015	2016	2017	2018	2019
Revenue	9,263.9	9,523.2	9,167.5	9,545.7	9,497.3
Costs of Goods	(7,455.3)	(7,365.0)	(7,164)	(7,550)	(7,613)
EBIT	1,067.3	1,323.9	1,280.5	1,198.9	1,197.3
Net Profit	686.1	890.1	846.7	1,012.1	979.2
EPS (Diluted)	1.27	1.64	1.57	1.86	1.80
Dividends per Share	0.50	0.58	0.68	0.75	0.84

Balance Sheet

Total Assets	6,139.8	6,370.1	6,975.9	8,142.3	8,109.0
Long-Term Debt	250.0	250.0	250.0	624.8	250.0
Total Equity	4,001.4	4,451.4	4,939.7	5,604.8	5,925.5

Statement of Cash Flow

Cash Flows from Operations	992.0	1,040.0	1,033.9	1,241.7	923.0
Cash Flows from Investing	(901.0)	(408.5)	(587.2)	(1,235.4)	220.2
Cash Flows from Financing	347.2	415.1	444.1	11.6	(926.2)

Key Ratios and Figures (%)

Operating Margin, EBIT	11.5%	13.9%	14.0%	12.6%	12.6%
Net Profit Margin	7.4%	9.3%	9.2%	10.6%	10.3%
Debt-to-Equity	6.2%	5.6%	5.1%	11.1%	4.2%

Source: Hormel Foods Corporation 2019 Annual Report; Wall Street Journal



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