

HORMEL FOODS CORP /DE/
Form 10-Q
September 08, 2017
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended July 30, 2017

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 1-2402

HORMEL FOODS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

41-0319970
(I.R.S. Employer Identification No.)

1 Hormel Place
Austin, Minnesota

55912-3680

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(Address of principal executive offices)

(Zip Code)

(507) 437-5611

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. X YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). X YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer X Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at September 8, 2017 |
|-------------------------|----------------------------------|
| Common Stock | \$.01465 par value 527,828,196 |
| Common Stock Non-Voting | \$.01 par value -0- |

Table of Contents

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1.

Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION July 30, 2017 and October 30, 2016

CONSOLIDATED STATEMENTS OF OPERATIONS Three and Nine Months Ended July 30, 2017 and July 24, 2016

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME Three and Nine Months Ended July 30, 2017 and July 24, 2016

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS INVESTMENT Twelve Months Ended October 30, 2016 and Nine Months Ended July 30, 2017

CONSOLIDATED STATEMENTS OF CASH FLOWS Nine Months Ended July 30, 2017 and July 24, 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

CRITICAL ACCOUNTING POLICIES

RESULTS OF OPERATIONS

Overview

Consolidated Results

Segment Results

Related Party Transactions

LIQUIDITY AND CAPITAL RESOURCES

FORWARD-LOOKING STATEMENTS

Item 3.

Quantitative and Qualitative Disclosures About Market Risk

Item 4.

Controls and Procedures

PART II - OTHER INFORMATION

Item 1.

Legal Proceedings

Item 1A.

Risk Factors

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

Item 6.

Exhibits

SIGNATURES

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****HORMEL FOODS CORPORATION****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****(in thousands, except share and per share amounts)**

| | July 30, 2017 (Unaudited) | October 30, 2016 |
|---|---|-----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 633,341 | \$ 415,143 |
| Accounts receivable | 549,011 | 591,310 |
| Inventories | 1,013,214 | 985,683 |
| Income taxes receivable | - | 18,282 |
| Prepaid expenses | 17,096 | 13,775 |
| Other current assets | 4,433 | 5,719 |
| TOTAL CURRENT ASSETS | 2,217,095 | 2,029,912 |
| DEFERRED INCOME TAXES | - | 6,223 |
| GOODWILL | 1,822,671 | 1,834,497 |
| OTHER INTANGIBLES | 882,717 | 903,258 |
| PENSION ASSETS | 98,893 | 68,901 |
| INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES | 248,129 | 239,590 |
| OTHER ASSETS | 184,364 | 182,237 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land | 46,847 | 67,557 |
| Buildings | 757,190 | 805,858 |
| Equipment | 1,665,520 | 1,675,549 |
| Construction in progress | 152,217 | 218,351 |
| Less: Allowance for depreciation | (1,567,678) | (1,661,866) |
| Net property, plant and equipment | 1,054,096 | 1,105,449 |
| TOTAL ASSETS | \$ 6,507,965 | \$ 6,370,067 |

See Notes to Consolidated Financial Statements

Table of Contents**HORMEL FOODS CORPORATION****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(in thousands, except share and per share amounts)

| | July 30, 2017 (Unaudited) | October 30, 2016 |
|---|---|-----------------------------|
| LIABILITIES AND SHAREHOLDERS' INVESTMENT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 421,170 | \$ 481,826 |
| Accrued expenses | 71,284 | 82,145 |
| Accrued workers compensation | 24,842 | 36,612 |
| Accrued marketing expenses | 77,151 | 119,583 |
| Employee related expenses | 188,327 | 251,433 |
| Taxes payable | 1,990 | 4,331 |
| Interest and dividends payable | 93,007 | 77,266 |
| TOTAL CURRENT LIABILITIES | 877,771 | 1,053,196 |
| LONG-TERM DEBT less current maturities | 250,000 | 250,000 |
| PENSION AND POST-RETIREMENT BENEFITS | 529,107 | 522,356 |
| OTHER LONG-TERM LIABILITIES | 88,336 | 93,109 |
| DEFERRED INCOME TAXES | 9,571 | - |
| SHAREHOLDERS' INVESTMENT | | |
| Preferred stock, par value \$.01 a share authorized 160,000,000 shares; issued none | | |
| Common stock, non-voting, par value \$.01 a share authorized 400,000,000 shares; issued none | | |
| Common stock, par value \$.01465 a share authorized 1,600,000,000 shares; issued 527,739,696 shares July 30, 2017 issued 528,483,868 shares October 30, 2016 | 7,732 | 7,742 |
| Additional paid-in capital | - | - |
| Accumulated other comprehensive loss | (291,964) | (296,303) |
| Retained earnings | 5,033,945 | 4,736,567 |
| HORMEL FOODS CORPORATION SHAREHOLDERS' INVESTMENT | 4,749,713 | 4,448,006 |
| NONCONTROLLING INTEREST | 3,467 | 3,400 |
| TOTAL SHAREHOLDERS' INVESTMENT | 4,753,180 | 4,451,406 |
| TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT | \$ 6,507,965 | \$ 6,370,067 |

See Notes to Consolidated Financial Statements

Table of Contents

HORMEL FOODS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 |
| Net sales | \$ 2,207,375 | \$ 2,302,376 | \$ 6,674,911 | \$ 6,895,283 |
| Cost of products sold | 1,754,966 | 1,827,091 | 5,183,302 | 5,335,628 |
| GROSS PROFIT | 452,409 | 475,285 | 1,491,609 | 1,559,655 |
| Selling, general and administrative | 176,660 | 206,876 | 567,886 | 627,968 |
| Goodwill impairment charge | - | - | - | 991 |
| Equity in earnings of affiliates | 3,956 | 6,381 | 27,376 | 27,449 |
| OPERATING INCOME | 279,705 | 274,790 | 951,099 | 958,145 |
| Other income and expense: | | | | |
| Interest and investment income | 1,376 | 2,474 | 6,643 | 3,920 |
| Interest expense | (3,057) | (3,147) | (9,106) | (9,583) |
| EARNINGS BEFORE INCOME TAXES | 278,024 | 274,117 | 948,636 | 952,482 |
| Provision for income taxes | 95,473 | 78,341 | 319,896 | 306,155 |
| NET EARNINGS | 182,551 | 195,776 | 628,740 | 646,327 |
| Less: Net earnings attributable to noncontrolling interest | 43 | 122 | 159 | 215 |
| NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION | \$ 182,508 | \$ 195,654 | \$ 628,581 | \$ 646,112 |
| NET EARNINGS PER SHARE: | | | | |
| BASIC | \$ 0.35 | \$ 0.37 | \$ 1.19 | \$ 1.22 |
| DILUTED | \$ 0.34 | \$ 0.36 | \$ 1.17 | \$ 1.19 |
| WEIGHTED-AVERAGE SHARES OUTSTANDING: | | | | |
| BASIC | 528,165 | 529,660 | 528,487 | 529,473 |
| DILUTED | 538,814 | 542,163 | 539,504 | 542,890 |
| DIVIDENDS DECLARED PER SHARE: | \$ 0.170 | \$ 0.145 | \$ 0.510 | \$ 0.435 |

See Notes to Consolidated Financial Statements

Table of Contents

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
| | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 |
| NET EARNINGS | \$ 182,551 | \$ 195,776 | \$ 628,740 | \$ 646,327 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation | 4,143 | (2,960) | (3,037) | (4,681) |
| Pension and other benefits | 3,314 | (835) | 9,961 | 2,705 |
| Deferred hedging | (170) | 5,017 | (2,677) | 3,069 |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS) | 7,287 | 1,222 | 4,247 | 1,093 |
| COMPREHENSIVE INCOME | 189,838 | 196,998 | 632,987 | 647,420 |
| Less: Comprehensive income attributable to noncontrolling interest | 143 | 40 | 67 | 1 |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO HORMEL FOODS CORPORATION | \$ 189,695 | \$ 196,958 | \$ 632,920 | \$ 647,419 |

See Notes to Consolidated Financial Statements

Table of Contents**HORMEL FOODS CORPORATION****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS INVESTMENT****(in thousands, except per share amounts)****(Unaudited)**

| | Hormel Foods Corporation Shareholders | | | | Accumulated | | | Total |
|--|---------------------------------------|----------|------------|--------------|---------------|-------------|----|--------------|
| | Common | Treasury | Additional | Retained | Other | Non- | | Shareholders |
| | Stock | Stock | Paid-in | Earnings | Comprehensive | controlling | | Investment |
| | | | Capital | | Income (Loss) | Interest | | |
| Balance at October 25, 2015 | \$ 7,741 | \$ - | \$ - | \$ 4,216,125 | \$ (225,668) | \$ 3,195 | \$ | 4,001,393 |
| Net earnings | | | | 890,052 | | 465 | | 890,517 |
| Other comprehensive loss | | | | | (70,635) | (260) | | (70,895) |
| Purchases of common stock | | (87,885) | | | | | | (87,885) |
| Stock-based compensation expense | 1 | | 17,828 | | | | | 17,829 |
| Exercise of stock options/nonvested shares | 35 | | 7,476 | | | | | 7,511 |
| Shares retired | (35) | 87,885 | (25,304) | (62,546) | | | | - |
| Declared cash dividends \$0.58 per share | | | | (307,064) | | | | (307,064) |
| Balance at October 30, 2016 | \$ 7,742 | \$ - | \$ - | \$ 4,736,567 | \$ (296,303) | \$ 3,400 | \$ | 4,451,406 |
| Net earnings | | | | 628,581 | | 159 | | 628,740 |
| Other comprehensive income (loss) | | | | | 4,339 | (92) | | 4,247 |
| Purchases of common stock | | (94,487) | | | | | | (94,487) |
| Stock-based compensation expense | 1 | | 13,866 | | | | | 13,867 |
| Exercise of stock options/nonvested shares | 29 | | 18,881 | | | | | 18,910 |
| Shares retired | (40) | 94,487 | (32,747) | (61,700) | | | | - |
| Declared cash dividends \$0.51 per share | | | | (269,503) | | | | (269,503) |
| Balance at July 30, 2017 | \$ 7,732 | \$ - | \$ - | \$ 5,033,945 | \$ (291,964) | \$ 3,467 | \$ | 4,753,180 |

See Notes to Consolidated Financial Statements

Table of Contents

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

| | July 30, 2017 | July 24, 2016 |
|--|-------------------|-------------------|
| OPERATING ACTIVITIES | | |
| Net earnings | \$ 628,740 | \$ 646,327 |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Depreciation | 89,930 | 89,996 |
| Amortization of intangibles | 6,191 | 6,524 |
| Goodwill impairment charge | - | 991 |
| Equity in earnings of affiliates, net of dividends | (7,855) | (2,905) |
| Provision for deferred income taxes | 11,359 | 4,428 |
| Gain on property/equipment sales and plant facilities | 1,283 | 138 |
| Non-cash investment activities | (3,790) | (1,247) |
| Stock-based compensation expense | 13,867 | 16,091 |
| Excess tax benefit from stock-based compensation | (24,859) | (39,190) |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Decrease in accounts receivable | 18,348 | 47,767 |
| Increase in inventories | (72,598) | (60,579) |
| (Increase) decrease in prepaid expenses and other current assets | (22,333) | 6,603 |
| Decrease in pension and post-retirement benefits | (6,370) | (26,266) |
| Decrease in accounts payable and accrued expenses | (166,509) | (105,466) |
| Increase in net income taxes payable | 46,069 | 38,474 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 511,473 | 621,686 |
| INVESTING ACTIVITIES | | |
| Proceeds from sale of business | 135,944 | 110,149 |
| Acquisitions of businesses/intangibles | - | (281,655) |
| Purchases of property/equipment | (118,511) | (165,828) |
| Proceeds from sales of property/equipment | 2,532 | 2,590 |
| (Increase) decrease in investments, equity in affiliates, and other assets | (1,154) | 6,865 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 18,811 | (327,879) |
| FINANCING ACTIVITIES | | |
| Proceeds from short-term debt | - | 145,000 |
| Principal payments on short-term debt | - | (185,000) |
| Dividends paid on common stock | (256,341) | (219,744) |
| Share repurchase | (94,487) | (44,976) |
| Proceeds from exercise of stock options | 14,337 | 9,233 |
| Excess tax benefit from stock-based compensation | 24,859 | 39,190 |
| NET CASH USED IN FINANCING ACTIVITIES | (311,632) | (256,297) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | (454) | (5,152) |
| INCREASE IN CASH AND CASH EQUIVALENTS | 218,198 | 32,358 |
| Cash and cash equivalents at beginning of year | 415,143 | 347,239 |
| CASH AND CASH EQUIVALENTS AT END OF QUARTER | \$ 633,341 | \$ 379,597 |

Table of Contents

HORMEL FOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE A GENERAL

Basis of Presentation

The accompanying unaudited consolidated financial statements of Hormel Foods Corporation (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information, and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year. The balance sheet at October 30, 2016, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended October 30, 2016. Fiscal 2017 is a 52-week year as compared with fiscal 2016, which was 53 weeks, with the additional week occurring in the fourth quarter.

Reclassifications

Certain reclassifications of previously reported amounts have been made to conform to the current year presentation. The reclassifications had no impact on net earnings or operating cash flows as previously reported.

Assets Held for Sale

The Company classifies assets as held for sale when management approves and commits to a formal plan of sale with the expectation the sale will be completed within one year. The net assets of the business held for sale are then recorded at the lower of their current carrying value or the fair market value, less costs to sell. See additional discussion regarding the Company's assets held for sale in Note E.

Investments

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The Company maintains a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans. Under the plans, the participants can defer certain types of compensation and elect to receive a return on the deferred amounts based on the changes in fair value of various investment options, primarily a variety of mutual funds. The Company has corporate-owned life insurance policies on certain participants in the deferred compensation plans. The cash surrender value of the policies is included in other assets on the Consolidated Statements of Financial Position. The securities held by the trust are classified as trading securities. Therefore, unrealized gains and losses associated with these investments are included in the Company's earnings. Securities held by the trust generated gains of \$1.5 million and \$4.8 million for the third quarter and nine months ended July 30, 2017, respectively, compared to gains of \$1.2 million and \$2.4 million for the third quarter and nine months ended July 24, 2016.

Supplemental Cash Flow Information

Non-cash investment activities presented on the Consolidated Statements of Cash Flows primarily consist of unrealized gains or losses on the Company's rabbi trust. The noted investments are included in other assets on the Consolidated Statements of Financial Position. Changes in the value of these investments are included in the Company's net earnings and are presented in the Consolidated Statements of Operations as either interest and investment income (loss) or interest expense, as appropriate.

Table of Contents

Guarantees

The Company enters into various agreements guaranteeing specified obligations of affiliated parties. The Company's guarantees either terminate in one year or remain in place until such time as the Company revokes the agreement. The Company currently provides revocable standby letters of credit totaling \$4.0 million to guarantee obligations that may arise under workers compensation claims of an affiliated party. This potential obligation is not reflected in the Company's Consolidated Statements of Financial Position.

New Accounting Pronouncements

In May 2014, the FASB issued ASC 606, *Revenue from Contracts with Customers*. This topic converges the guidance within U.S. generally accepted accounting principles (GAAP) and international financial reporting standards and supersedes ASC 605, *Revenue Recognition*. The new standard requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions which were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. On July 8, 2015, the FASB approved a one-year deferral of the effective date. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period, and early adoption is permitted for annual reporting periods beginning after December 15, 2016. The updated guidance is to be applied either retrospectively or by using a cumulative effect adjustment. The Company expects to adopt the provisions of this new accounting standard at the beginning of fiscal year 2019, and is currently assessing the impact on its consolidated financial statements with a focus on arrangements with customers.

In April 2015, the FASB updated the guidance within ASC 835, *Interest*. The update provides guidance on simplifying the presentation of debt issuance costs. The amendments require debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The updated guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company retrospectively adopted the new provisions of this accounting standard at the beginning of fiscal year 2017, and adoption did not have a material impact on its consolidated financial statements.

In May 2015, the FASB updated the guidance within ASC 820, *Fair Value Measurements and Disclosures*. The update provides guidance on the disclosures for investments in certain entities that calculate net asset value (NAV) per share (or its equivalent). The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share (or its equivalent) as a practical expedient. The updated guidance is to be applied retrospectively and is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company adopted the new provisions of this accounting standard at the beginning of fiscal year 2017, and adoption did not have a material impact on its consolidated financial statements.

In February 2016, the FASB updated the guidance within ASC 842, *Leases*. The update requires lessees to put most leases on their balance sheets while recognizing expenses on their income statements in a manner similar to current U.S. GAAP. The guidance also eliminates current real estate-specific provisions for all entities. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted and the modified retrospective method is to be applied. The Company expects to adopt the provisions of this new accounting standard at the beginning of fiscal year 2020, and is currently assessing the

impact on its consolidated financial statements.

In March 2016, the FASB updated the guidance within ASC 718, *Compensation - Stock Compensation*. The update simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted in any interim or annual period, with adjustments reflected as of the beginning of the fiscal year. The Company expects to adopt the provisions of this new accounting

Table of Contents

standard at the beginning of fiscal year 2018, and is currently assessing the impact on its consolidated financial statements.

In June 2016, the FASB updated the guidance within ASC 326, *Financial Instruments – Credit Losses*. The update provides guidance on the measurement of credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The amendments replace the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to explain credit loss estimates. The updated guidance is to be applied on a modified retrospective approach and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for all entities for fiscal years beginning after December 15, 2018, and interim periods therein. The Company is currently assessing the timing and impact of adopting the updated provisions.

In August 2016, the FASB updated the guidance within ASC 230, *Statement of Cash Flows*. The update makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted provided all amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company is currently assessing the timing and impact of adopting the updated provisions.

In October 2016, the FASB updated the guidance within ASC 740, *Income Taxes*. The updated guidance requires the recognition of the income tax consequences of an intra-entity asset transfer, other than transfers of inventory, when the transfer occurs. For intra-entity transfers of inventory, the income tax effects will continue to be deferred until the inventory has been sold to a third party. The updated guidance is effective for reporting periods beginning after December 15, 2017, with early adoption permitted only within the first interim period of a fiscal year. The guidance is required to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently assessing the timing and impact of adopting the updated provisions.

In January 2017, the FASB updated the guidance within ASC 350, *Intangibles – Goodwill and Other*. The updated guidance eliminates the second step of the two-step impairment test. The updated guidance modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An impairment charge should be made if a reporting unit's carrying amount exceeds its fair value, limited to the amount of goodwill allocated to that reporting unit. The updated guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The updated guidance is required to be adopted on a prospective basis. The Company is currently assessing the timing and impact of adopting the updated provisions.

In March 2017, the FASB updated the guidance within ASC 715, *Compensation – Retirement Benefits*. The updated guidance requires an employer to report the service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item or items as other compensation costs. The updated guidance also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside income from

operations. Additionally, only the service cost component is eligible for capitalization, when applicable. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The updated guidance should be applied retrospectively for the presentation of the service cost component and other components of net benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net benefit cost. The Company is currently assessing the timing and impact of adopting the updated provisions.

In August 2017, the FASB updated the guidance within ASC 815, *Derivatives and Hedging*. The updated guidance expand an entity's ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest rate risk. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of

Table of Contents

hedge effectiveness. Entities will apply the amendments to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach. The presentation and disclosure requirements apply prospectively. The updated guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted in any interim or annual period. The Company is currently assessing the timing and impact of adopting the updated provisions.

NOTE B ACQUISITIONS

On August 22, 2017, subsequent to the end of the third quarter, the Company acquired Cidade do Sol (Ceratti) for a preliminary purchase price of approximately \$104.0 million, subject to customary working capital adjustments. The transaction was funded by the Company with cash on hand.

Ceratti is a growing, branded, value-added meats company in Brazil offering more than 70 products in 15 categories including authentic meats such as mortadella, sausage, and salami for Brazilian retail and foodservice markets under the popular *Ceratti®* brand. The acquisition of the *Ceratti®* brand allows the Company to establish a full in-country presence in the fast-growing Brazilian market with a premium brand.

Operating results for this acquisition will be included in the Company's Consolidated Statements of Operations from the date of acquisition and will be reflected in the International & Other segment.

On August 16, 2017, subsequent to the end of the third quarter, the Company acquired Fontanini Italian Meats and Sausages (Fontanini), a branded foodservice business, from Capitol Wholesale Meats, Inc. for a purchase price of \$425.0 million, subject to customary working capital adjustments. The transaction provides a cash flow benefit resulting from the amortization of the tax basis of assets, the net present value of which is approximately \$90.0 million. The transaction was funded by the Company with cash on hand and by utilizing short-term financing.

Fontanini specializes in authentic Italian meats and sausages, as well as a variety of other premium meat products, including pizza toppings and meatballs, and allows the Company to expand its foodservice business.

Operating results for this acquisition will be included in the Company's Consolidated Statements of Operations from the date of acquisition and will be reflected in the Refrigerated Foods segment.

On May 26, 2016, the Company acquired Justin's, LLC (Justin's) for a final purchase price of \$280.9 million. The transaction provides a cash flow benefit resulting from the amortization of the tax basis of assets, the net present value of which is approximately \$70.0 million. The purchase price was funded by the Company with cash on hand and by utilizing short-term financing. Primary assets acquired include goodwill of \$186.4 million and intangibles of \$89.9 million.

Justin's is a pioneer in nut butter-based snacking and this acquisition allows the Company to enhance its presence in the specialty natural and organic nut butter category, complementing the Company's *SKIPPY* peanut butter products.

Operating results for this acquisition are included in the Company's Consolidated Statements of Operations from the date of acquisition and are reflected in the Grocery Products segment.

NOTE C INVENTORIES

Principal components of inventories are:

| <u>(in thousands)</u> | July 30, 2017 | October 30, 2016 |
|-----------------------------------|--------------------------|-----------------------------|
| Finished products | \$ 580,835 | \$ 553,634 |
| Raw materials and work-in-process | 261,926 | 253,662 |
| Materials and supplies | 170,453 | 178,387 |
| Total | \$ 1,013,214 | \$ 985,683 |

Table of Contents**NOTE D GOODWILL AND INTANGIBLE ASSETS**

The carrying amounts of goodwill for the nine months ended July 30, 2017, are presented in the table below. There were no changes to the carrying amount of goodwill in the third quarter of fiscal 2017. The reduction during the first nine months is due to the sale of Farmer John on January 3, 2017. See additional discussion regarding the Company's assets held for sale in Note E.

| <u>(in thousands)</u> | Grocery Products | Refrigerated Foods | JOTS | Specialty Foods | International & Other | Total |
|--------------------------------|-----------------------------|-------------------------------|-------------|----------------------------|--------------------------------------|--------------|
| Balance as of | | | | | | |
| October 30, 2016 | \$ 508,800 | \$ 584,443 | \$ 203,214 | \$ 373,782 | \$ 164,258 | \$ 1,834,497 |
| Goodwill sold | - | (11,826) | - | - | - | (11,826) |
| Balance as of July 30, 2017 | \$ 508,800 | \$ 572,617 | \$ 203,214 | \$ 373,782 | \$ 164,258 | \$ 1,822,671 |

The gross carrying amount and accumulated amortization for definite-lived intangible assets are presented in the table below.

| <u>(in thousands)</u> | July 30, 2017 | | October 30, 2016 | |
|------------------------------|----------------------------------|-------------------------------------|----------------------------------|-------------------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer lists/relationships | \$ 85,440 | \$ (23,931) | \$ 88,240 | \$ (20,737) |
| Formulas and recipes | 1,950 | (1,943) | 1,950 | (1,796) |
| Other intangibles | 3,100 | (1,918) | 3,520 | (1,677) |
| Total | \$ 90,490 | \$ (27,792) | \$ 93,710 | \$ (24,210) |

Amortization expense was \$2.1 million and \$6.2 million for the third quarter and nine months ended July 30, 2017, respectively, compared to \$2.5 million and \$6.5 million for the third quarter and nine months ended July 24, 2016.

Estimated annual amortization expense for the five fiscal years after October 30, 2016, is as follows:

| <u>(in millions)</u> | |
|----------------------|--------|
| 2017 | \$ 8.1 |
| 2018 | 7.6 |
| 2019 | 7.4 |
| 2020 | 7.4 |
| 2021 | 7.4 |

The carrying amounts for indefinite-lived intangible assets are presented in the table below.

| <u>(in thousands)</u> | July 30, 2017 | October 30, 2016 |
|------------------------------|----------------------|-------------------------|
| Brands/tradenames/trademarks | \$ 819,835 | \$ 825,774 |
| Other intangibles | 184 | 7,984 |
| Total | \$ 820,019 | \$ 833,758 |

NOTE E ASSETS HELD FOR SALE

At the end of fiscal year 2016, the Company was actively marketing Clougherty Packing, LLC, parent company of Farmer John and Saag's Specialty Meats, along with PFFJ, LLC, farm operations in California, Arizona, and Wyoming (Farmer John). Through this process, the Company identified the specific assets and liabilities to be sold and allocated goodwill based on the relative fair values of the assets held for sale and the assets that would be retained by the Company. In November 2016, the Company entered into an agreement for the sale and the transaction closed on January 3, 2017. The purchase price was \$145 million in cash. The assets held for sale were

Table of Contents

reported within the Company's Refrigerated Foods segment. The assets held for sale were not material to the Company's annual net sales, net earnings, or earnings per share.

Amounts classified as assets and liabilities held for sale on October 30, 2016, were presented on the Company's Consolidated Statement of Financial Position within their respective accounts, and include the following:

Assets held for sale (in thousands)

| | | |
|-------------------------------|----|---------|
| Current assets | \$ | 80,861 |
| Goodwill | | 12,703 |
| Intangibles | | 14,321 |
| Property, plant and equipment | | 74,812 |
| Total assets held for sale | \$ | 182,697 |

Liabilities held for sale (in thousands)

| | | |
|---|----|--------|
| Total current liabilities held for sale | \$ | 44,066 |
|---|----|--------|

NOTE F

PENSION AND OTHER POST-RETIREMENT BENEFITS

Net periodic benefit cost for pension and other post-retirement benefit plans consists of the following:

| (in thousands) | Pension Benefits | | | | | |
|------------------------------------|--------------------|---------------|-------------------|---------------|--|--|
| | Three Months Ended | | Nine Months Ended | | | |
| | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 | | |
| Service cost | \$ 7,564 | \$ 6,645 | \$ 22,692 | \$ 20,005 | | |
| Interest cost | 13,565 | 13,674 | 40,697 | 41,030 | | |
| Expected return on plan assets | (22,734) | (21,716) | (68,202) | (65,071) | | |
| Amortization of prior service cost | (750) | (1,037) | (2,250) | (3,169) | | |
| Recognized actuarial loss | 6,542 | 4,787 | 19,625 | 13,958 | | |
| Curtailment gain | - | (4,438) | - | (4,438) | | |
| Net periodic cost | \$ 4,187 | \$ (2,085) | \$ 12,562 | \$ 2,315 | | |

| (in thousands) | Post-retirement Benefits | | | | | |
|------------------------------------|--------------------------|---------------|-------------------|---------------|--|--|
| | Three Months Ended | | Nine Months Ended | | | |
| | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 | | |
| Service cost | \$ 275 | \$ 317 | \$ 824 | \$ 950 | | |
| Interest cost | 2,871 | 3,236 | 8,613 | 9,708 | | |
| Amortization of prior service cost | (1,069) | (1,050) | (3,206) | (3,151) | | |
| Recognized actuarial loss | 598 | 392 | 1,825 | 1,176 | | |
| Net periodic cost | \$ 2,675 | \$ 2,895 | \$ 8,056 | \$ 8,683 | | |

During the third quarter of fiscal 2017, the Company made discretionary contributions of \$16.1 million to fund its pension plans, compared to discretionary contributions of \$25.7 million during the third quarter of fiscal 2016. The curtailment gain recognized in the third quarter of fiscal 2016 is due to plan amendments related to the sale of Diamond Crystal Brands (DCB).

NOTE G **DERIVATIVES AND HEDGING**

The Company uses hedging programs to manage price risk associated with commodity purchases. These programs utilize futures contracts to manage the Company's exposure to price fluctuations in the commodities markets. The Company has determined its programs which are designated as hedges are highly effective in offsetting the changes in fair value or cash flows generated by the items hedged.

Table of Contents

Cash Flow Hedges: The Company utilizes corn and lean hog futures to offset price fluctuations in the Company's future direct grain and hog purchases. The financial instruments are designated and accounted for as cash flow hedges, and the Company measures the effectiveness of the hedges at least quarterly. Effective gains or losses related to these cash flow hedges are reported in accumulated other comprehensive loss (AOCL) and reclassified into earnings, through cost of products sold, in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. The Company typically does not hedge its grain exposure beyond the next two upcoming fiscal years and its hog exposure beyond the next fiscal year. As of July 30, 2017, and October 30, 2016, the Company had the following outstanding commodity futures contracts that were entered into to hedge forecasted purchases:

| Commodity | July 30, 2017 | Volume | October 30, 2016 |
|-----------|----------------------|--------|----------------------|
| Corn | 12.1 million bushels | | 22.4 million bushels |
| Lean hogs | 0.1 million cwt | | - |

As of July 30, 2017, the Company has included in AOCL, hedging gains of \$4.9 million (before tax) relating to these positions, compared to gains of \$9.2 million (before tax) as of October 30, 2016. The Company expects to recognize the majority of these gains over the next 12 months.

Fair Value Hedges: The Company utilizes futures to minimize the price risk assumed when forward priced contracts are offered to the Company's commodity suppliers. The intent of the program is to make the forward priced commodities cost nearly the same as cash market purchases at the date of delivery. The futures contracts are designated and accounted for as fair value hedges, and the Company measures the effectiveness of the hedges at least quarterly. Changes in the fair value of the futures contracts, along with the gain or loss on the hedged purchase commitment, are marked-to-market through earnings and are recorded on the Consolidated Statements of Financial Position as a current asset and liability, respectively. Effective gains or losses related to these fair value hedges are recognized through cost of products sold in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. As of July 30, 2017, and October 30, 2016, the Company had the following outstanding commodity futures contracts designated as fair value hedges:

| Commodity | July 30, 2017 | Volume | October 30, 2016 |
|-----------|---------------------|--------|---------------------|
| Corn | 3.9 million bushels | | 3.6 million bushels |
| Lean hogs | 0.4 million cwt | | 0.2 million cwt |

Other Derivatives: The Company holds certain futures and options contract positions as part of a merchandising program and to manage the Company's exposure to fluctuations in commodity markets. The Company has not applied hedge accounting to these positions.

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As of July 30, 2017, and October 30, 2016, the Company had the following outstanding futures and options contracts related to these programs:

| Commodity | July 30, 2017 | Volume | October 30, 2016 |
|------------------|----------------------|---------------|-------------------------|
| Corn | 0.3 million bushels | | 4.0 million bushels |
| Soybean meal | - | | 11,000 tons |

Table of Contents

Fair Values: The fair values of the Company's derivative instruments (in thousands) as of July 30, 2017, and October 30, 2016, were as follows:

| | | Fair Value (1) | |
|--|---|------------------|---------------------|
| | Location on Consolidated Statements of Financial Position | July 30, 2017 | October 30, 2016 |
| <u>Asset Derivatives:</u> | | | |
| Derivatives Designated as Hedges: | | | |
| Commodity contracts | Other current assets | \$ 1,109 | \$ (194) |
| Derivatives Not Designated as Hedges: | | | |
| Commodity contracts | Other current assets | 19 | 144 |
| Total Asset Derivatives | | \$ 1,128 | \$ (50) |

(1) Amounts represent the gross fair value of derivative assets and liabilities. The Company nets the derivative assets and liabilities for each of its hedging programs, including cash collateral, when a master netting arrangement exists between the Company and the counterparty to the derivative contract. The amount or timing of cash collateral balances may impact the classification of the derivative in the Consolidated Statements of Financial Position. See Note L Fair Value Measurements for a discussion of these net amounts as reported in the Consolidated Statements of Financial Position.

Derivative Gains and Losses: Gains or losses (before tax, in thousands) related to the Company's derivative instruments for the third quarter ended July 30, 2017, and July 24, 2016, were as follows:

| | Gain/(Loss) | | | Gain/(Loss) | | Gain/(Loss) | |
|---------------------|-------------------------|---------------|-------------------------------------|--------------------------------------|---------------|-------------------------------------|---------------|
| | Recognized in AOCL | | | Reclassified from AOCL into Earnings | | Recognized in Earnings (Ineffective | |
| | (Effective Portion) (1) | | Location on Consolidated Statements | (Effective Portion) (1) | | Portion) (2) (4) | |
| | Three Months Ended | | | Three Months Ended | | Three Months Ended | |
| | July 30, 2017 | July 24, 2016 | of Operations | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 |
| Cash Flow Hedges: | | | | | | | |
| Commodity contracts | \$ 1,490 | \$ 7,702 | Cost of products sold | \$ 1,758 | \$ (346) | \$ (22) | \$ (14,277) |
| | | | | | | Gain/(Loss) | |
| | | | | Gain/(Loss) | | Recognized in Earnings (Ineffective | |
| | | | | Recognized in Earnings (Effective | | Portion) (2) (5) | |
| | | | Location on Consolidated | Portion) (3) | | Three Months Ended | |
| | | | | Three Months Ended | | Three Months Ended | |

| | Statements | | | | |
|--|--|---|------------------|------------------|------------------|
| | of Operations | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 |
| Fair Value Hedges: | | | | | |
| Commodity contracts | Cost of products sold | \$ (730) | \$ (1) | \$ 51 | \$ 4,658 |
| | | Gain/(Loss) | | | |
| | | Recognized | | | |
| | Location on Consolidated Statements | in Earnings Three Months Ended | | | |
| | of Operations | July 30, 2017 | July 24, 2016 | | |
| Derivatives Not Designated as Hedges: | | | | | |
| Commodity contracts | Cost of products sold | \$ 9 | \$ (244) | | |

Table of Contents

Derivative Gains and Losses: Gains or losses (before tax, in thousands) related to the Company's derivative instruments for the nine months ended July 30, 2017, and July 24, 2016, were as follows:

| | Gain/(Loss) | | | Gain/(Loss) | | Gain/(Loss) | |
|---------------------------------------|--|---------------|-------------------------------------|--|---------------|--|---------------|
| | Recognized in AOCL | | | Reclassified from AOCL into Earnings | | Recognized in Earnings (Ineffective Portion) | |
| | (Effective Portion) (1) Nine Months Ended | | Location on Consolidated Statements | (Effective Portion) (1) Nine Months Ended | | Portion) (2) (4) Nine Months Ended | |
| | July 30, 2017 | July 24, 2016 | of Operations | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 |
| Cash Flow Hedges: | | | | | | | |
| Commodity contracts | \$ 703 | \$ 3,234 | Cost of products sold | \$ 4,980 | \$ (1,690) | \$ 17 | \$ (14,255) |
| | | | | | | | |
| | Gain/(Loss) | | | Gain/(Loss) | | Gain/(Loss) | |
| | Recognized in Earnings (Effective Portion) (3) | | | Recognized in Earnings (Effective Portion) (3) | | Recognized in Earnings (Ineffective Portion) | |
| | Nine Months Ended | | Location on Consolidated Statements | Nine Months Ended | | Portion) (2) (5) Nine Months Ended | |
| | July 30, 2017 | July 24, 2016 | of Operations | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 |
| Fair Value Hedges: | | | | | | | |
| Commodity contracts | | | Cost of products sold | \$ (1,321) | \$ 1,905 | \$ 52 | \$ 4,419 |
| | | | | | | | |
| | Gain/(Loss) | | | Gain/(Loss) | | Gain/(Loss) | |
| | Recognized | | | Recognized | | Recognized | |
| | in Earnings | | | in Earnings | | in Earnings | |
| | Nine Months Ended | | Location on Consolidated Statements | Nine Months Ended | | Nine Months Ended | |
| | July 30, 2017 | July 24, 2016 | of Operations | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 |
| Derivatives Not Designated as Hedges: | | | | | | | |
| Commodity contracts | | | Cost of products sold | \$ (228) | \$ (674) | | |

(1) Amounts represent gains or losses in AOCL before tax. See Note I Accumulated Other Comprehensive Loss or the Consolidated Statements of Comprehensive Income for the after-tax impact of these gains or losses on net earnings.

(2) There were no gains or losses excluded from the assessment of hedge effectiveness during the third quarter or first nine months. Due to market volatility, the Company temporarily suspended the use of the special hedge accounting exemption for its JOTS corn futures contracts in the third quarter of fiscal 2016 due to ineffectiveness. During the time of suspension, all gains or losses related to these contracts were recorded in earnings as incurred.

(3) Amounts represent losses on commodity contracts designated as fair value hedges that were closed during the third quarter or the first nine months, which were offset by a corresponding gain on the underlying hedged purchase commitment. Additional gains or losses related to changes in the fair value of open commodity contracts, along with the offsetting gain or loss on the hedged purchase commitment, are also marked-to-market through earnings with no impact on a net basis.

- (4) There were no gains or losses resulting from the discontinuance of cash flow hedges during the third quarter or the first nine months.
- (5) There were no gains or losses recognized as a result of a hedged firm commitment no longer qualifying as a fair value hedge during the third quarter or first nine months.

NOTE H

INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES

The Company accounts for its majority-owned operations under the consolidation method. Investments in which the Company owns a minority interest, and for which there are no other indicators of control, are accounted for under the equity or cost method. These investments, along with any related receivables from affiliates, are included in the Consolidated Statements of Financial Position as investments in and receivables from affiliates.

Investments in and receivables from affiliates consists of the following:

| <u>(in thousands)</u> | Segment | % Owned | July 30, 2017 | October 30, 2016 |
|------------------------|-----------------------|------------------|--------------------------|-----------------------------|
| MegaMex Foods, LLC | Grocery Products | 50% | \$ 184,470 | \$ 180,437 |
| Foreign Joint Ventures | International & Other | Various (26-40%) | 63,659 | 59,153 |
| Total | | | \$ 248,129 | \$ 239,590 |

Table of Contents

Equity in earnings of affiliates consists of the following:

| (in thousands) | Segment | Three Months Ended | | Nine Months Ended | |
|------------------------|-----------------------|--------------------|------------------|-------------------|------------------|
| | | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 |
| MegaMex Foods, LLC | Grocery Products | \$ 2,528 | \$ 5,039 | \$ 20,715 | \$ 20,812 |
| Foreign Joint Ventures | International & Other | 1,428 | 1,342 | 6,661 | 6,637 |
| Total | | \$ 3,956 | \$ 6,381 | \$ 27,376 | \$ 27,449 |

Dividends received from affiliates for the three and nine months ended July 30, 2017, were \$7.0 million and \$19.5 million, respectively, compared to \$10.0 million and \$24.5 million dividends received for the three and nine months ended July 24, 2016.

The Company recognized a basis difference of \$21.3 million associated with the formation of MegaMex Foods, LLC, of which \$14.6 million is remaining as of July 30, 2017. This difference is being amortized through equity in earnings of affiliates.

NOTE I**ACCUMULATED OTHER COMPREHENSIVE LOSS**

Components of accumulated other comprehensive loss are as follows:

| (in thousands) | Foreign Currency Translation | Pension & Other Benefits | Deferred Gain (Loss) - Hedging | Accumulated Other Comprehensive Loss |
|------------------------------------|------------------------------------|--------------------------------|--------------------------------------|---|
| Balance at April 30, 2017 | \$ (12,477) | \$ (289,905) | \$ 3,231 | \$ (299,151) |
| Unrecognized gains (losses) | | | | |
| Gross | 4,043 | - | 1,490 | 5,533 |
| Tax effect | - | - | (559) | (559) |
| Reclassification into net earnings | | | | |
| Gross | - | 5,321(1) | (1,758)(2) | 3,563 |
| Tax effect | - | (2,007) | 657 | (1,350) |
| Net of tax amount | 4,043 | 3,314 | (170) | 7,187 |
| Balance at July 30, 2017 | \$ (8,434) | \$ (286,591) | \$ 3,061 | \$ (291,964) |
| | | | | |
| (in thousands) | Foreign Currency Translation | Pension & Other Benefits | Deferred Gain (Loss) - Hedging | Accumulated Other Comprehensive Loss |
| Balance at October 30, 2016 | \$ (5,489) | \$ (296,552) | \$ 5,738 | \$ (296,303) |

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| | | | | |
|------------------------------------|------------|--------------|------------|--------------|
| Unrecognized gains (losses) | | | | |
| Gross | (2,945) | - | 703 | (2,242) |
| Tax effect | - | - | (265) | (265) |
| Reclassification into net earnings | | | | |
| Gross | - | 15,994(1) | (4,980)(2) | 11,014 |
| Tax effect | - | (6,033) | 1,865 | (4,168) |
| Net of tax amount | (2,945) | 9,961 | (2,677) | 4,339 |
| Balance at July 30, 2017 | \$ (8,434) | \$ (286,591) | \$ 3,061 | \$ (291,964) |

(1) Included in the computation of net periodic cost (see Note F Pension and Other Post-Retirement Benefits for additional details).

(2) Included in cost of products sold in the Consolidated Statements of Operations.

Table of Contents**NOTE J INCOME TAXES**

The amount of unrecognized tax benefits, including interest and penalties, is recorded in other long-term liabilities. If recognized as of July 30, 2017, and July 24, 2016, \$20.3 million and \$18.4 million, respectively, would impact the Company's effective tax rate. The Company includes accrued interest and penalties related to uncertain tax positions in income tax expense. Interest and penalties included in income tax expense for the third quarter and first nine months of fiscal 2017 was \$0.1 million and \$0.2 million, respectively, compared to \$0.1 million expense and \$0.3 million benefit for the comparable quarter and first nine months of fiscal 2016. The amount of accrued interest and penalties at July 30, 2017, and July 24, 2016, associated with unrecognized tax benefits was \$2.8 million and \$3.0 million, respectively.

The Company is regularly audited by federal and state taxing authorities. The United States Internal Revenue Service (I.R.S.) concluded its examination of fiscal year 2015 in the first quarter of fiscal 2017. The Company has elected to participate in the Compliance Assurance Process (CAP) for fiscal years 2016 and 2017. The objective of CAP is to contemporaneously work with the I.R.S. to achieve federal tax compliance and resolve all or most of the issues prior to filing of the tax return. The Company may elect to continue participating in CAP for future tax years; the Company may withdraw from the program at any time.

The Company is in various stages of audit by several state taxing authorities on a variety of fiscal years, as far back as 2011. While it is reasonably possible that one or more of these audits may be completed within the next 12 months and that the related unrecognized tax benefits may change, based on the status of the examinations it is not possible to reasonably estimate the effect of any amount of such change to previously recorded uncertain tax positions.

NOTE K STOCK-BASED COMPENSATION

The Company issues stock options and nonvested shares as part of its stock incentive plans for employees and non-employee directors. The Company's policy is to grant options with the exercise price equal to the market price of the common stock on the date of grant. Options typically vest over four years and expire ten years after the date of the grant. The Company recognizes stock-based compensation expense ratably over the shorter of the requisite service period or vesting period. The fair value of stock-based compensation granted to retirement-eligible individuals is expensed at the time of grant.

A reconciliation of the number of options outstanding and exercisable (in thousands) as of July 30, 2017, and changes during the nine months then ended, is as follows:

| | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--------|--|--|------------------------------|
| Shares | | | |

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| | | | | |
|---------------------------------|--------|----------|-----------|------------|
| Outstanding at October 30, 2016 | 31,998 | \$ 16.05 | | |
| Granted | 2,360 | 33.58 | | |
| Exercised | 2,935 | 10.17 | | |
| Forfeited | 36 | 9.35 | | |
| Outstanding at July 30, 2017 | 31,387 | \$ 17.93 | 4.8 years | \$ 518,421 |
| Exercisable at July 30, 2017 | 25,228 | \$ 14.54 | 3.9 years | \$ 496,814 |

The weighted-average grant date fair value of stock options granted and the total intrinsic value of options exercised (in thousands) during the third quarter and first nine months of fiscal years 2017 and 2016, are as follows. There were no stock options granted during the third quarter of fiscal year 2017.

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | July 30, 2017 | July 24, 2016 | July 30 2017 | July 24, 2016 |
| Weighted-average grant date fair value | \$ - | \$ 7.46 | \$ 6.41 | \$ 7.82 |
| Intrinsic value of exercised options | \$ 12,385 | \$ 7,895 | \$ 73,473 | \$ 111,111 |

Table of Contents

The fair value of each option award is calculated on the date of grant using the Black-Scholes valuation model utilizing the following weighted-average assumptions:

| | Three Months Ended | | Nine Months Ended | |
|-------------------------|---------------------------|--------------------------|--------------------------|--------------------------|
| | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 |
| Risk-free interest rate | - | 1.9% | 2.4% | 2.1% |
| Dividend yield | - | 1.5% | 2.0% | 1.5% |
| Stock price volatility | - | 19.0% | 19.0% | 19.0% |
| Expected option life | - | 8 years | 8 years | 8 years |

As part of the annual valuation process, the Company reassesses the appropriateness of the inputs used in the valuation models. The Company establishes the risk-free interest rate using stripped U.S. Treasury yields as of the grant date where the remaining term is approximately the expected life of the option. The dividend yield is set based on the dividend rate approved by the Company's Board of Directors and the stock price on the grant date. The expected volatility assumption is set based primarily on historical volatility. As a reasonableness test, implied volatility from exchange traded options is also examined to validate the volatility range obtained from the historical analysis. The expected life assumption is set based on an analysis of past exercise behavior by option holders. In performing the valuations for option grants, the Company has not stratified option holders as exercise behavior has historically been consistent across all employee and non-employee director groups.

Nonvested shares vest on the earlier of the day before the Company's next annual meeting date or one year from grant date. A reconciliation of the nonvested shares (in thousands) as of July 30, 2017, and changes during the nine months then ended, is as follows:

| | Shares | | Weighted- Average Grant- Date Fair Value |
|-------------------------------|---------------|----|---|
| Nonvested at October 30, 2016 | 47 | \$ | 41.01 |
| Granted | 58 | | 35.62 |
| Vested | 47 | | 41.01 |
| Nonvested at July 30, 2017 | 58 | \$ | 35.62 |

The weighted-average grant date fair value of nonvested shares granted, the total fair value (in thousands) of nonvested shares granted, and the fair value (in thousands) of shares that have vested during the first nine months of fiscal years 2017 and 2016, are as follows:

| | Nine Months Ended | |
|--|--------------------------|--------------------------|
| | July 30, 2017 | July 24, 2016 |
| Weighted-average grant date fair value | \$ 35.62 | \$ 41.01 |
| Fair value of nonvested shares granted | 2,080 | 1,920 |
| Fair value of shares vested | 1,920 | 1,920 |

Stock-based compensation expense, along with the related income tax benefit, for the third quarter and first nine months of fiscal years 2017 and 2016, is presented in the table below.

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 |
| <u>(in thousands)</u> | | | | |
| Stock-based compensation expense recognized | \$ 2,006 | \$ 1,913 | \$ 13,867 | \$ 16,091 |
| Income tax benefit recognized | (757) | (726) | (5,231) | (6,105) |
| After-tax stock-based compensation expense | \$ 1,249 | \$ 1,187 | \$ 8,636 | \$ 9,986 |

At July 30, 2017, there was \$13.2 million of total unrecognized compensation expense from stock-based compensation arrangements granted under the plans. This compensation is expected to be recognized over a weighted-average period of approximately 2.3 years. During the third quarter and nine months ended July 30, 2017, cash received from stock option exercises was \$5.4 million and \$14.3 million, respectively, compared to \$0.8 million and \$9.2 million for the third quarter and nine months ended July 24, 2016. The total tax benefit to be

Table of Contents

realized for tax deductions from these option exercises for the third quarter and nine months ended July 30, 2017, was \$4.7 million and \$27.7 million, respectively, compared to \$3.0 million and \$42.2 million in the comparable periods of fiscal 2016.

Shares issued for option exercises and nonvested shares may be either authorized but unissued shares, or shares of treasury stock acquired in the open market or otherwise.

NOTE L FAIR VALUE MEASUREMENTS

Pursuant to the provisions of ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), the Company measures certain assets and liabilities at fair value or discloses the fair value of certain assets and liabilities recorded at cost in the consolidated financial statements. Fair value is calculated as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). ASC 820 establishes a fair value hierarchy which requires assets and liabilities measured at fair value to be categorized into one of three levels based on the inputs used in the valuation. Assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The three levels are defined as follows:

Level 1: Observable inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable inputs, other than those included in Level 1, based on quoted prices for similar assets and liabilities in active markets, or quoted prices for identical assets and liabilities in inactive markets.

Level 3: Unobservable inputs that reflect an entity's own assumptions about what inputs a market participant would use in pricing the asset or liability based on the best information available in the circumstances.

The Company's financial assets and liabilities are measured at fair value on a recurring basis as of July 30, 2017, and October 30, 2016, and their level within the fair value hierarchy, are presented in the tables below.

| | Fair Value at July 30, 2017 | Fair Value Measurements at July 30, 2017 | | |
|-----------------------|-----------------------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <u>(in thousands)</u> | | | | |
| Assets at Fair Value | | | | |

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| | | | | | | | | |
|--|-----------|----------------|-----------|----------------|-----------|----------------|-----------|----------|
| Cash and cash equivalents (1) | \$ | 633,341 | \$ | 633,341 | \$ | - | \$ | - |
| Other trading securities (2) | | 127,114 | | - | | 127,114 | | - |
| Commodity derivatives (3) | | 3,005 | | 3,005 | | - | | - |
| Total Assets at Fair Value | \$ | 763,460 | \$ | 636,346 | \$ | 127,114 | \$ | - |
| Liabilities at Fair Value | | | | | | | | |
| Deferred compensation (2) | \$ | 60,029 | \$ | - | \$ | 60,029 | \$ | - |
| Total Liabilities at Fair Value | \$ | 60,029 | \$ | - | \$ | 60,029 | \$ | - |

Table of Contents

| | | Fair Value Measurements at October 30, 2016 | | | |
|--|----|---|--|---|--|
| | | Fair Value at October 30, 2016 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <u>(in thousands)</u> | | | | | |
| Assets at Fair Value | | | | | |
| Cash and cash equivalents (1) | \$ | 415,143 | \$ 415,143 | \$ - | \$ - |
| Other trading securities (2) | | 122,305 | - | 122,305 | - |
| Commodity derivatives (3) | | 3,094 | 3,094 | - | - |
| Total Assets at Fair Value | \$ | 540,542 | \$ 418,237 | \$ 122,305 | \$ - |
| Liabilities at Fair Value | | | | | |
| Deferred compensation (2) | \$ | 60,949 | \$ - | \$ 60,949 | \$ - |
| Total Liabilities at Fair Value | \$ | 60,949 | \$ - | \$ 60,949 | \$ - |

The following methods and assumptions were used to estimate the fair value of the financial assets and liabilities above:

- (1) The Company's cash equivalents consist primarily of bank deposits, money market funds rated AAA, or other highly liquid investment accounts. As these investments have a maturity date of three months or less, the carrying value approximates fair value.
- (2) A majority of the funds held in the rabbi trust relate to the supplemental executive retirement plans and have been invested in fixed income funds managed by a third party. The declared rate on these funds is set based on a formula using the yield of the general account investment portfolio supporting the fund, adjusted for expenses and other charges. The rate is guaranteed for one year at issue, and may be reset annually on the policy anniversary, subject to a guaranteed minimum rate. As the value is based on adjusted market rates, and the fixed rate is only reset on an annual basis, these funds are classified as Level 2. The funds held in the rabbi trust are included in other assets on the Consolidated Statements of Financial Position. The remaining funds held are also managed by a third party insurance policy, the values of which represent their cash surrender value based on the fair value of the underlying investments in the account and include equity securities, money market accounts, bond funds, or other portfolios for which there is an active quoted market. Therefore these policies are also classified as Level 2. The related deferred compensation liabilities are included in other long-term liabilities on the Consolidated Statements of Financial Position with investment options generally mirroring those funds held by the rabbi trust. Therefore these investment balances are classified as Level 2. The Company also offers a fixed rate investment option to participants. The rate earned on these investments is adjusted annually based on a specified percentage of the United States Internal Revenue Service (I.R.S.) Applicable Federal Rates. These balances are classified as Level 2.
- (3) The Company's commodity derivatives represent futures contracts used in its hedging or other programs to offset price fluctuations associated with purchases of corn, soybean meal, and hogs, and to minimize the price risk assumed when forward priced contracts are offered to the Company's commodity suppliers. The Company's futures contracts for corn and soybean meal are traded on the Chicago Board of Trade, while futures contracts for lean hogs are traded on the Chicago Mercantile Exchange. These are active markets with quoted prices available, and these contracts are classified as Level 1. All derivatives are reviewed for potential credit risk and risk of nonperformance. The Company nets the derivative assets and liabilities for each of its hedging programs, including cash collateral, when a master netting arrangement exists between the Company and the counterparty to the derivative contract. The net balance for each program is included in other current assets or accounts payable, as appropriate, in the Consolidated Statements of Financial Position. As of July 30, 2017, the Company has recognized the right to reclaim net cash collateral of \$1.9 million from various counterparties (including \$11.4 million of realized gains offset by cash owed of \$9.5 million on closed positions). As of October 30, 2016, the Company had recognized the right to reclaim net cash collateral of \$3.1 million from various counterparties (including \$7.1 million of realized gains offset by cash owed of \$4.0 million on closed positions).

The Company's financial assets and liabilities include accounts receivable, accounts payable, and other liabilities, for which carrying value approximates fair value. The Company does not carry its long-term debt at fair value in its Consolidated Statements of Financial Position. Based on borrowing rates available to the Company for long-term financing with similar terms and average maturities, the fair value of long-term debt, utilizing discounted cash flows (Level 2), was \$271.6 million as of July 30, 2017, and \$274.9 million as of October 30, 2016.

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In accordance with the provisions of ASC 820, the Company measures certain nonfinancial assets and liabilities at fair value, which are recognized or disclosed on a nonrecurring basis (e.g. goodwill, intangible assets, and property, plant and equipment). During the second quarter of fiscal year 2016, a \$1.0 million goodwill impairment charge was recorded for the portion of DCB assets held for sale which was based on the valuation of

Table of Contents

these assets as implied by the agreed-upon sales price. See additional discussion regarding the Company's assets held for sale in Note E. During the nine months ended July 30, 2017, there were no material remeasurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition

NOTE M EARNINGS PER SHARE DATA

The reported net earnings attributable to the Company were used when computing basic and diluted earnings per share. The following table sets forth the shares used as the denominator for those computations:

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|--------------------------|--------------------------|--------------------------|
| | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 |
| (in thousands) | | | | |
| Basic weighted-average shares outstanding | 528,165 | 529,660 | 528,487 | 529,473 |
| Dilutive potential common shares | 10,649 | 12,503 | 11,017 | 13,417 |
| Diluted weighted-average shares outstanding | 538,814 | 542,163 | 539,504 | 542,890 |

For the third quarter and nine months ended July 30, 2017, 2.4 million and 3.4 million weighted-average stock options, respectively, were not included in the computation of dilutive potential common shares since their inclusion would have had an antidilutive effect on earnings per share, compared to 1.8 million and 0.9 million for the third quarter and nine months ended July 24, 2016.

NOTE N SEGMENT REPORTING

The Company develops, processes, and distributes a wide array of food products in a variety of markets. The Company reports its results in the following five segments: Grocery Products, Refrigerated Foods, Jennie-O Turkey Store, Specialty Foods, and International & Other.

The Grocery Products segment consists primarily of the processing, marketing, and sale of shelf-stable food products sold predominantly in the retail market. This segment also includes the results from the Company's MegaMex Foods, LLC joint venture.

The Refrigerated Foods segment consists primarily of the processing, marketing, and sale of branded and unbranded pork, beef, chicken, and turkey products for retail, foodservice, and fresh product customers.

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The Jennie-O Turkey Store segment consists primarily of the processing, marketing, and sale of branded and unbranded turkey products for retail, foodservice, and fresh product customers.

The Specialty Foods segment consists of the processing, marketing, and sale of nutritional and private label shelf-stable products to retail, foodservice, and industrial customers.

The International & Other segment includes Hormel Foods International which manufactures, markets, and sells Company products internationally. This segment also includes the results from the Company's international joint ventures.

Intersegment sales are recorded at approximate cost and are eliminated in the Consolidated Statements of Operations. The Company does not allocate investment income, interest expense, and interest income to its segments when measuring performance. The Company also retains various other income and unallocated expenses at corporate. Equity in earnings of affiliates is included in segment operating profit; however, earnings attributable to the Company's noncontrolling interests are excluded. These items are included below as net interest and investment expense (income), general corporate expense, and noncontrolling interest when reconciling to earnings before income taxes.

Sales and operating profits for each of the Company's reportable segments and reconciliation to earnings before income taxes are set forth below. The Company is an integrated enterprise, characterized by substantial intersegment cooperation, cost allocations, and sharing of assets. Therefore, the Company does not represent

Table of Contents

these segments, if operated independently, would report the operating profit and other financial information shown below.

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|---------------|-------------------|---------------|
| | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 |
| Sales to Unaffiliated Customers | | | | |
| Grocery Products | \$ 421,986 | \$ 399,342 | \$ 1,271,936 | \$ 1,193,032 |
| Refrigerated Foods | 1,086,546 | 1,155,297 | 3,237,071 | 3,409,897 |
| Jennie-O Turkey Store | 369,078 | 403,953 | 1,178,304 | 1,199,559 |
| Specialty Foods | 196,873 | 212,197 | 597,716 | 722,460 |
| International & Other | 132,892 | 131,587 | 389,884 | 370,335 |
| Total | \$ 2,207,375 | \$ 2,302,376 | \$ 6,674,911 | \$ 6,895,283 |
| Intersegment Sales | | | | |
| Grocery Products | \$ - | \$ - | \$ - | \$ - |
| Refrigerated Foods | 1,223 | 1,648 | 5,039 | 7,635 |
| Jennie-O Turkey Store | 29,264 | 27,921 | 85,080 | 88,604 |
| Specialty Foods | 7 | 8 | 22 | 17 |
| International & Other | - | - | - | - |
| Total | \$ 30,494 | \$ 29,577 | \$ 90,141 | \$ 96,256 |
| Intersegment elimination | (30,494) | (29,577) | (90,141) | (96,256) |
| Total | \$ - | \$ - | \$ - | \$ - |
| Net Sales | | | | |
| Grocery Products | \$ 421,986 | \$ 399,342 | \$ 1,271,936 | \$ 1,193,032 |
| Refrigerated Foods | 1,087,769 | 1,156,945 | 3,242,110 | 3,417,532 |
| Jennie-O Turkey Store | 398,342 | 431,874 | 1,263,384 | 1,288,163 |
| Specialty Foods | 196,880 | 212,205 | 597,738 | 722,477 |
| International & Other | 132,892 | 131,587 | 389,884 | 370,335 |
| Intersegment elimination | (30,494) | (29,577) | (90,141) | (96,256) |
| Total | \$ 2,207,375 | \$ 2,302,376 | \$ 6,674,911 | \$ 6,895,283 |
| Segment Operating Profit | | | | |
| Grocery Products | \$ 58,780 | \$ 53,344 | \$ 201,894 | \$ 185,727 |
| Refrigerated Foods | 138,314 | 120,702 | 442,316 | 417,612 |
| Jennie-O Turkey Store | 44,986 | 56,147 | 176,952 | 237,128 |
| Specialty Foods | 23,336 | 27,089 | 80,895 | 90,735 |
| International & Other | 17,111 | 20,308 | 62,191 | 58,839 |
| Total segment operating profit | \$ 282,527 | \$ 277,590 | \$ 964,248 | \$ 990,041 |
| Net interest and investment expense | 1,681 | 673 | 2,463 | 5,663 |
| General corporate expense | 2,865 | 2,922 | 13,308 | 32,111 |
| Less: Noncontrolling interest | 43 | 122 | 159 | 215 |
| Earnings before income taxes | \$ 278,024 | \$ 274,117 | \$ 948,636 | \$ 952,482 |

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CRITICAL ACCOUNTING POLICIES

There have been no material changes in the Company's Critical Accounting Policies, as disclosed in its Annual Report on Form 10-K for the fiscal year ended October 30, 2016.

RESULTS OF OPERATIONS

Overview

The Company is a processor of branded and unbranded food products for retail, foodservice, and fresh product customers. It operates in five reportable segments as described in Note N in the Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

The Company reported net earnings per diluted share of \$0.34 for the third quarter of fiscal 2017, compared to \$0.36 per diluted share in the third quarter of fiscal 2016. Significant factors impacting the quarter were:

- The Company delivered record earnings before income tax as strong earnings growth in the Refrigerated Foods and Grocery Products segments was able to offset lower earnings in the Company's other segments.
- Refrigerated Foods segment profit rose as strong demand for pork and operational improvements offset higher input costs and the divestiture of Farmer John.
- Grocery Products segment profit increased as higher input costs were offset by advertising reductions and incremental earnings from an additional period of *Justin's* specialty nut butters.
- Specialty Foods segment profit declined as pricing of contract packaging sales did not keep pace with input cost increases along with lower sales of *Muscle Milk* ready-to-drink protein products.
- International & Other segment profit decreased driven by lower results in China, reflecting startup costs for the Company's new Jiaxing production facility and the closing of the Shanghai facility.
- Jennie-O Turkey Store (JOTS) segment profit decreased during the quarter due to lower turkey commodity prices, pricing pressure from competing proteins, and increased operating expenses.

Consolidated Results

Net Earnings and Diluted Earnings per Share

| (in thousands, except per share amounts) | Three Months | | | Nine Months | | |
|---|------------------|------------------|-------------|------------------|------------------|-------------|
| | July 30, 2017 | July 24, 2016 | % Change | July 30, 2017 | July 24, 2016 | % Change |
| Net earnings | \$ 182,508 | \$ 195,654 | (6.7) | \$ 628,581 | \$ 646,112 | (2.7) |
| Diluted earnings per share | 0.34 | 0.36 | (5.6) | 1.17 | 1.19 | (1.7) |

Net Sales

| (in thousands) | Three Months Ended | | | Nine Months Ended | | |
|-----------------------|--------------------|------------------|-------------|-------------------|------------------|-------------|
| | July 30, 2017 | July 24, 2016 | % Change | July 30, 2017 | July 24, 2016 | % Change |
| Tonnage (lbs.) | 1,112,064 | 1,220,435 | (8.9) | 3,495,215 | 3,771,041 | (7.3) |
| Adjusted(1) tonnage | 1,110,950 | 1,121,474 | (0.9) | 3,408,331 | 3,357,537 | 1.5 |
| Net sales | \$ 2,207,375 | \$ 2,302,376 | (4.1) | \$ 6,674,911 | \$ 6,895,283 | (3.2) |
| Adjusted(1) net sales | 2,198,696 | 2,168,140 | 1.4 | 6,531,534 | 6,384,837 | 2.3 |

(1) The non-GAAP adjusted financial measurements are presented to provide investors additional information to facilitate the comparison of past and present operations. The Company believes these non-GAAP adjusted financial measurements provide useful information to investors because they are the measurements used to evaluate performance on a comparable year-over-year basis. Non-GAAP measurements are not intended to be a substitute for U.S. GAAP measurements in analyzing financial performance. These non-GAAP measurements are

Table of Contents

not in accordance with generally accepted accounting principles and may be different from non-GAAP measures used by other companies.

Adjusted volume and net sales excludes the impact from the Justin's acquisition in May 2016, and the divestitures of the DCB business in May 2016, and the Farmer John business in January 2017. Results below reflect only the incremental sales and tonnage through period 7 of fiscal 2017 for the Justin's, LLC acquisition and only through the date of divestiture, or period 7 of fiscal 2016, for the DCB divestiture. The tables below show the calculations to reconcile from the non-GAAP adjusted measures to the GAAP measures in the third quarter and third quarter year-to-date of fiscal 2016 and fiscal 2017.

3rd Quarter

Tonnage (lbs.)

| (in thousands) | 2017 Tonnage | Justin's Acquisition (Pd 7, 2017) | 2017 Non-GAAP Tonnage | 2016 Tonnage | DCB Divestiture (Pd 7, 2016) | Farmer John Divestiture | 2016 Non-GAAP Tonnage | Non-GAAP % Change |
|-----------------------|------------------|---|-----------------------------|------------------|------------------------------------|-------------------------------|-----------------------------|----------------------|
| Grocery Products | 219,088 | (1,114) | 217,974 | 210,877 | | | 210,877 | 3.4% |
| Refrigerated Foods | 503,296 | | 503,296 | 596,389 | | (87,264) | 509,125 | (1.1%) |
| Jennie-O Turkey Store | 200,143 | | 200,143 | 215,447 | | | 215,447 | (7.1%) |
| Specialty Foods | 111,417 | | 111,417 | 120,487 | (11,697) | | 108,790 | 2.4% |
| International & Other | 78,120 | | 78,120 | 77,235 | | | 77,235 | 1.1% |
| Total Tonnage | 1,112,064 | (1,114) | 1,110,950 | 1,220,435 | (11,697) | (87,264) | 1,121,474 | (0.9%) |

Net Sales

| (in thousands) | 2017 Net Sales | Justin's Acquisition (Pd 7, 2017) | 2017 Non-GAAP Net Sales | 2016 Net Sales | DCB Divestiture (Pd 7, 2016) | Farmer John Divestiture | 2016 Non-GAAP Net Sales | Non-GAAP % Change |
|------------------------|--------------------|---|-------------------------------|---------------------|------------------------------------|-------------------------------|-------------------------------|----------------------|
| Grocery Products | \$ 421,986 | (8,679)\$ | 413,307 | \$ 399,342 | -\$ | -\$ | 399,342 | 3.5% |
| Refrigerated Foods | 1,086,546 | | 1,086,546 | 1,155,297 | | (121,065) | 1,034,232 | 5.1% |
| Jennie-O Turkey Store | 369,078 | | 369,078 | 403,953 | | | 403,953 | (8.6%) |
| Specialty Foods | 196,873 | | 196,873 | 212,197 | (13,171) | | 199,026 | (1.1%) |
| International & Other | 132,892 | | 132,892 | 131,587 | | | 131,587 | 1.0% |
| Total Net Sales | \$2,207,375 | (8,679)\$ | 2,198,696 | \$ 2,302,376 | (13,171)\$ | (121,065)\$ | 2,168,140 | 1.4% |

Year to Date

Tonnage (lbs.)

| (in thousands) | 2017 Tonnage | Justin's Acquisition (Period 7, 2017 YTD) | Farmer John Divestiture | 2017 Non-GAAP Tonnage | 2016 Tonnage | DCB Divestiture (Pd 7, 2016 YTD) | Farmer John Divestiture | 2016 Non-GAAP Tonnage | Non-GAAP % Change |
|----------------|-----------------|---|----------------------------|-----------------------------|-----------------|--|----------------------------|-----------------------------|----------------------|
|----------------|-----------------|---|----------------------------|-----------------------------|-----------------|--|----------------------------|-----------------------------|----------------------|

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| | | | | | | | | |
|-----------------------|------------------|----------------|-----------------|------------------|------------------|------------------|------------------|-------------|
| Grocery Products | 667,502 | (6,430) | | 661,072 | 647,816 | | 647,816 | 2.0% |
| Refrigerated Foods | 1,633,211 | | (80,454) | 1,552,757 | 1,834,852 | (279,771) | 1,555,081 | (0.1%) |
| Jennie-O Turkey Store | 620,343 | | | 620,343 | 610,486 | | 610,486 | 1.6% |
| Specialty Foods | 340,678 | | | 340,678 | 456,214 | (133,733) | 322,481 | 5.6% |
| International & Other | 233,481 | | | 233,481 | 221,673 | | 221,673 | 5.3% |
| Total Tonnage | 3,495,215 | (6,430) | (80,454) | 3,408,331 | 3,771,041 | (133,733) | 3,357,537 | 1.5% |

Net Sales

| | 2017 | Justin's Acquisition (Period 7, 2017 YTD) | Farmer John Divestiture | 2017 Non-GAAP Net Sales | 2016 Net Sales | DCB Divestiture (Pd 7, 2016 YTD) | Farmer John Divestiture | 2016 Non-GAAP Net Sales | Non-GAAP % Change |
|------------------------|---------------------|--|----------------------------|-------------------------------|---------------------|---|----------------------------|-------------------------------|----------------------|
| (in thousands) | Net Sales | | | | | | | | |
| Grocery Products | \$ 1,271,936 | \$ (43,146) | \$ - | \$ 1,228,790 | \$ 1,193,032 | \$ - | \$ - | \$ 1,193,032 | 3.0% |
| Refrigerated Foods | 3,237,071 | | (100,231) | 3,136,840 | 3,409,897 | | (370,362) | 3,039,535 | 3.2% |
| Jennie-O Turkey Store | 1,178,304 | | | 1,178,304 | 1,199,559 | | | 1,199,559 | (1.8%) |
| Specialty Foods | 597,716 | | | 597,716 | 722,460 | (140,084) | | 582,376 | 2.6% |
| International & Other | 389,884 | | | 389,884 | 370,335 | | | 370,335 | 5.3% |
| Total Net Sales | \$ 6,674,911 | \$ (43,146) | \$ (100,231) | \$ 6,531,534 | \$ 6,895,283 | \$ (140,084) | \$ (370,362) | \$ 6,384,837 | 2.3% |

Table of Contents

The decline in net sales for the third quarter and first nine months of fiscal 2017 was primarily related to the divestitures of the DCB business on May 9, 2016, and the Farmer John business on January 3, 2017.

Cost of Products Sold

| (in thousands) | Three Months Ended | | | Nine Months Ended | | |
|-----------------------|--------------------|------------------|-------------|-------------------|------------------|-------------|
| | July 30, 2017 | July 24, 2016 | % Change | July 30, 2017 | July 24, 2016 | % Change |
| Cost of products sold | \$ 1,754,966 | \$ 1,827,091 | (3.9) | \$ 5,183,302 | \$ 5,335,628 | (2.9) |

Cost of products sold was down for both the third quarter and first nine months of fiscal 2017 compared to the prior year. In the third quarter, the Company faced record-high input costs for pork bellies and beef trim, two of the Company's primary raw materials. The loss of the Farmer John business more than offset the higher costs and was the primary contributor to the lower cost for both the third quarter and first nine months of fiscal 2017.

Gross Profit

| (in thousands) | Three Months Ended | | | Nine Months Ended | | |
|-------------------------|--------------------|------------------|-------------|-------------------|------------------|-------------|
| | July 30, 2017 | July 24, 2016 | % Change | July 30, 2017 | July 24, 2016 | % Change |
| Gross profit | \$ 452,409 | \$ 475,285 | (4.8) | \$ 1,491,609 | \$ 1,559,655 | (4.4) |
| Percentage of net sales | 20.5% | 20.6% | | 22.3% | 22.6% | |

Lower margin results in the JOTS, Specialty Foods, and International & Other segments drove the overall decline in the third quarter of fiscal 2017 compared to the prior year. The depressed commodity markets for JOTS were relatively unchanged from the second quarter and contributed to the lower margin percentage result for both the third quarter and first nine months.

Looking ahead to the fourth quarter, the Company's price increases are not expected to fully offset the high raw material prices until late in the quarter. While *Jennie-O* branded products continue to show positive demand trends, JOTS expects to see sustained pressure from the commodity markets and competitive price compression. Specialty Foods anticipates lower sales trends for *Muscle Milk* protein products to continue. Refrigerated Foods is expected to be impacted by rising input costs. Grocery Products anticipates a solid quarter, aided by value-added product growth while working to overcome higher commodity markets. The International & Other segment is expected to have lower results in China due to high raw material costs.

Selling, General and Administrative (SG&A)

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| <u>(in thousands)</u> | Three Months Ended | | | Nine Months Ended | | |
|-------------------------|--------------------|------------------|-------------|-------------------|------------------|-------------|
| | July 30, 2017 | July 24, 2016 | % Change | July 30, 2017 | July 24, 2016 | % Change |
| SG&A | \$ 176,660 | \$ 206,876 | (14.6) | \$ 567,886 | \$ 627,968 | (9.6) |
| Percentage of net sales | 8.0% | 9.0% | | 8.5% | 9.1% | |

For the third quarter of fiscal 2017, SG&A expenses declined primarily on reductions to advertising and marketing expenses. The lower expense for the first nine months is driven by the DCB and Farmer John divestitures.

Equity in Earnings of Affiliates

| <u>(in thousands)</u> | Three Months Ended | | | Nine Months Ended | | |
|----------------------------------|--------------------|------------------|-------------|-------------------|------------------|-------------|
| | July 30, 2017 | July 24, 2016 | % Change | July 30, 2017 | July 24, 2016 | % Change |
| Equity in earnings of affiliates | \$ 3,956 | \$ 6,381 | (38.0) | \$ 27,376 | \$ 27,449 | (0.3) |

Results for the third quarter of fiscal 2017 were negatively impacted by high avocado costs for the Company's MegaMex Foods, LLC joint venture, offsetting strong results earlier in the year.

Table of Contents**Effective Tax Rate**

| | Three Months Ended | | Nine Months Ended | |
|--------------------|---------------------------|--------------------------|--------------------------|--------------------------|
| | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 |
| Effective tax rate | 34.3% | 28.6% | 33.7% | 32.1% |

The higher rate in the third quarter of fiscal 2017 is due to the benefit from the one-time foreign restructuring that occurred in the third quarter of fiscal 2016. The Company expects a full-year effective tax rate between 33.25 and 33.75 percent for fiscal 2017.

Segment Results

Net sales and operating profits for each of the Company's reportable segments are set forth below. The Company is an integrated enterprise, characterized by substantial intersegment cooperation, cost allocations, and sharing of assets. Therefore, the Company does not represent these segments, if operated independently, would report the operating profit and other financial information shown below. Additional segment financial information can be found in Note N of the Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

| <u>(in thousands)</u> | Three Months Ended | | | Nine Months Ended | | |
|-------------------------------------|---------------------------|--------------------------|---------------------|--------------------------|--------------------------|---------------------|
| | July 30, 2017 | July 24, 2016 | % Change | July 30, 2017 | July 24, 2016 | % Change |
| Net Sales | | | | | | |
| Grocery Products | \$ 421,986 | \$ 399,342 | 5.7 | \$ 1,271,936 | \$ 1,193,032 | 6.6 |
| Refrigerated Foods | 1,086,546 | 1,155,297 | (6.0) | 3,237,071 | 3,409,897 | (5.1) |
| Jennie-O Turkey Store | 369,078 | 403,953 | (8.6) | 1,178,304 | 1,199,559 | (1.8) |
| Specialty Foods | 196,873 | 212,197 | (7.2) | 597,716 | 722,460 | (17.3) |
| International & Other | 132,892 | 131,587 | 1.0 | 389,884 | 370,335 | 5.3 |
| Total | \$ 2,207,375 | \$ 2,302,376 | (4.1) | \$ 6,674,911 | \$ 6,895,283 | (3.2) |
| Segment Operating Profit | | | | | | |
| Grocery Products | \$ 58,780 | \$ 53,344 | 10.2 | \$ 201,894 | \$ 185,727 | 8.7 |
| Refrigerated Foods | 138,314 | 120,702 | 14.6 | 442,316 | 417,612 | 5.9 |
| Jennie-O Turkey Store | 44,986 | 56,147 | (19.9) | 176,952 | 237,128 | (25.4) |
| Specialty Foods | 23,336 | 27,089 | (13.9) | 80,895 | 90,735 | (10.8) |
| International & Other | 17,111 | 20,308 | (15.7) | 62,191 | 58,839 | 5.7 |
| Total segment operating profit | \$ 282,527 | \$ 277,590 | 1.8 | \$ 964,248 | \$ 990,041 | (2.6) |
| Net interest and investment expense | 1,681 | 673 | 149.8 | 2,463 | 5,663 | (56.5) |
| General corporate expense | 2,865 | 2,922 | (2.0) | 13,308 | 32,111 | (58.6) |
| Less: Noncontrolling interest | 43 | 122 | (64.8) | 159 | 215 | (26.0) |
| Earnings before income taxes | \$ 278,024 | \$ 274,117 | 1.4 | \$ 948,636 | \$ 952,482 | (0.4) |

Grocery Products

Results for the Grocery Products segment compared to the prior year are as follows:

| <u>(in thousands)</u> | Three Months Ended | | | Nine Months Ended | | |
|-----------------------|--------------------|------------------|-------------|-------------------|------------------|-------------|
| | July 30, 2017 | July 24, 2016 | % Change | July 30, 2017 | July 24, 2016 | % Change |
| Tonnage (lbs.) | 219,088 | 210,877 | 3.9 | 667,502 | 647,816 | 3.0 |
| Net sales | \$ 421,986 | \$ 399,342 | 5.7 | \$ 1,271,936 | \$ 1,193,032 | 6.6 |
| Segment profit | 58,780 | 53,344 | 10.2 | 201,894 | 185,727 | 8.7 |

Table of Contents

Net sales for the third quarter of fiscal 2017 increased on strong sales of *Wholly Guacamole* dips, an additional period of *Justin's* specialty nut butters, and higher sales of *SKIPPY* peanut butter products. *Herdez* salsas and foods and *SPAM* luncheon meat also contributed to improved sales results for the first nine months of fiscal 2017.

For the third quarter of fiscal 2017, segment profit results increased as higher input costs for beef trim, pork trim, and avocados were offset by advertising reductions and incremental earnings from an additional period of *Justin's* specialty nut butters. For the first nine months of fiscal 2017, segment profit results benefitted from incremental profits from *Justin's* specialty nut butters and from the increased sales of many value-added products, including those categories listed above.

The Company anticipates sales growth in the fourth quarter, with margins impacted by increased raw material markets.

Refrigerated Foods

Results for the Refrigerated Foods segment compared to the prior year are as follows:

| (in thousands) | Three Months Ended | | | Nine Months Ended | | |
|----------------|--------------------|------------------|-------------|-------------------|------------------|-------------|
| | July 30, 2017 | July 24, 2016 | % Change | July 30, 2017 | July 24, 2016 | % Change |
| Tonnage (lbs.) | 503,296 | 596,389 | (15.6) | 1,633,211 | 1,834,852 | (11.0) |
| Net sales | \$ 1,086,546 | \$ 1,155,297 | (6.0) | \$ 3,237,071 | \$ 3,409,897 | (5.1) |
| Segment profit | 138,314 | 120,702 | 14.6 | 442,316 | 417,612 | 5.9 |

The divestiture of Farmer John during the first quarter was the primary contributor to the lower net sales in fiscal 2017. Many of the Company's value-added products enjoyed strong sales growth during the third quarter. On the retail side, sales gains were led by *Hormel Black Label* bacon, *Hormel* pepperoni, and *Hormel Gatherings* party trays. Within foodservice, sales of *Hormel Bacon 1* fully cooked bacon and *Hormel* pepperoni experienced gains for the quarter.

Refrigerated Foods segment profit for the third quarter finished above last year as strong demand for pork and operational improvements offset higher input costs related to bellies, pork trim, and beef trim, along with the divestiture of Farmer John. Solid value-added profit growth of both retail and foodservice products also contributed to the profit increases for both the third quarter and first nine months of fiscal 2017.

Looking forward, the Company expects sales growth to be muted by the divestiture of the Farmer John business. Input costs are expected to trend higher than fiscal 2016 levels. Continued strong sales growth is expected in the Company's value-added businesses.

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Subsequent to the end of the third quarter, the Company completed the acquisition of Fontanini Italian Meats and Sausages, a branded foodservice business, from Capitol Wholesale Meats, Inc. Due to the timing within the fiscal year and the related acquisition and integration costs, the Company does not expect an incremental benefit from this business in 2017. The benefits of this acquisition are expected to be realized in fiscal 2018.

Jennie-O Turkey Store

Results for the JOTS segment compared to the prior year are as follows:

| (in thousands) | Three Months Ended | | | Nine Months Ended | | |
|----------------|--------------------|------------------|-------------|-------------------|------------------|-------------|
| | July 30, 2017 | July 24, 2016 | % Change | July 30, 2017 | July 24, 2016 | % Change |
| Tonnage (lbs.) | 200,143 | 215,447 | (7.1) | 620,343 | 610,486 | 1.6 |
| Net sales | \$ 369,078 | \$ 403,953 | (8.6) | \$ 1,178,304 | \$ 1,199,559 | (1.8) |
| Segment profit | 44,986 | 56,147 | (19.9) | 176,952 | 237,128 | (25.4) |

The majority of the decline in net sales and tonnage for the third quarter of fiscal 2017 is linked to continued lower commodity along with reduced harvest tonnage levels. *Jennie-O* lean ground turkey sales grew despite the market conditions and operating challenges. Increases in both net sales and tonnage in the first quarter aided the

Table of Contents

comparison for the first nine months of fiscal 2017 as fiscal 2016 was still recovering from Highly Pathogenic Avian Influenza (HPAI).

Segment profit for both the third quarter and first nine months of fiscal 2017 were impacted by lower turkey commodity prices, pricing pressure from competing proteins, and increased operating expenses.

Looking forward, challenging commodity turkey prices, along with competitive pressures from other proteins, are expected to continue impacting year-over-year comparisons for the fourth quarter in tonnage, net sales, and segment profit.

Specialty Foods

Results for the Specialty Foods segment compared to the prior year are as follows:

| (in thousands) | Three Months Ended | | | Nine Months Ended | | |
|----------------|--------------------|------------------|-------------|-------------------|------------------|-------------|
| | July 30, 2017 | July 24, 2016 | % Change | July 30, 2017 | July 24, 2016 | % Change |
| Tonnage (lbs.) | 111,417 | 120,487 | (7.5) | 340,678 | 456,214 | (25.3) |
| Net sales | \$ 196,873 | \$ 212,197 | (7.2) | \$ 597,716 | \$ 722,460 | (17.3) |
| Segment profit | 23,336 | 27,089 | (13.9) | 80,895 | 90,735 | (10.8) |

Net sales declines in the third quarter primarily relate to one extra period of DCB in fiscal 2016 and lower sales of *Muscle Milk* protein products. The comparative results for the first nine months of fiscal 2017 reflect the divestiture of the DCB business, which was the main contributor to sales and profit declines.

Segment profit declined for the third quarter of fiscal 2017 as pricing of contract packaging sales did not keep pace with input cost increases. Lower sales of *Muscle Milk* ready-to-drink protein products also contributed to the decline.

The Company expects flat earnings in the fourth quarter for Specialty Foods.

International & Other

Results for the International & Other segment compared to the prior year are as follows:

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| (in thousands) | Three Months Ended | | | Nine Months Ended | | |
|----------------|--------------------|------------------|-------------|-------------------|------------------|-------------|
| | July 30, 2017 | July 24, 2016 | % Change | July 30, 2017 | July 24, 2016 | % Change |
| Tonnage (lbs.) | 78,120 | 77,235 | 1.1 | 233,481 | 221,673 | 5.3 |
| Net sales | \$ 132,892 | \$ 131,587 | 1.0 | \$ 389,884 | \$ 370,335 | 5.3 |
| Segment profit | 17,111 | 20,308 | (15.7) | 62,191 | 58,839 | 5.7 |

Pork export markets remained favorable throughout the third quarter, driving the overall tonnage and net sales gains versus last year for both the third quarter and first nine months of fiscal 2017.

Segment profit declines for the third quarter of fiscal 2017 were primarily driven by lower results in China, reflecting high pork raw material costs, startup costs for the Jiaying production facility and the closing of the Company's Shanghai facility. Segment profit results for the first nine months of fiscal 2017 were aided by strong export sales, with margins well above the prior year.

Entering the fourth quarter, the Company expects high raw material costs to continue to impact results in China.

Subsequent to the end of the third quarter, the Company completed the acquisition of Ceratti, a growing, branded, value-added meats company in Brazil. Due to the timing within the fiscal year and the related acquisition and integration costs, the Company does not expect an incremental benefit from this business in 2017.

The benefits of this acquisition are expected to be realized in fiscal 2018.

Table of Contents**Unallocated Income and Expenses**

The Company does not allocate investment income, interest expense, or interest income to its segments when measuring performance. The Company also retains various other income and unallocated expenses at corporate. Equity in earnings of affiliates is included in segment operating profit; however, earnings attributable to the Company's noncontrolling interests are excluded. These items are included in the segment table for the purpose of reconciling segment results to earnings before income taxes.

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|--------------------|------------------|-------------------|------------------|
| | July 30, 2017 | July 24, 2016 | July 30, 2017 | July 24, 2016 |
| Net interest and investment expense | \$ 1,681 | \$ 673 | \$ 2,463 | \$ 5,663 |
| Interest expense | 3,057 | 3,147 | 9,106 | 9,583 |
| General corporate expense | 2,865 | 2,922 | 13,308 | 32,111 |
| Noncontrolling interest earnings | 43 | 122 | 159 | 215 |

General corporate expense was lower for the third quarter due primarily to the continued focus on strategic cost management. Lower salary and legal expenses also contributed to the lower expense for the first nine months compared to the prior year.

Related Party Transactions

There has been no material change in the information regarding Related Party Transactions as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended October 30, 2016.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$633.3 million at the end of the third quarter of fiscal year 2017 compared to \$379.6 million at the end of the comparable fiscal 2016 period.

Cash provided by operating activities was \$511.5 million in the first nine months of fiscal 2017 compared to \$621.7 million in the same period of fiscal 2016. Higher working capital in the first half of the year led to the decrease.

Cash provided by investing activities was \$18.8 million in the first nine months of fiscal 2017 compared to cash used in investing activities of \$327.9 million in the comparable quarter of fiscal 2016. In the first quarter of fiscal 2017, the Company received \$135.9 million for the sale of Farmer John. The first nine months of fiscal 2016 include \$281.7 million used to purchase Justin's, partially offset by \$110.1 million provided by the divestiture of DCB. Capital expenditures in the first nine months of fiscal 2017 have decreased to \$118.5 million from \$165.8 million in the comparable nine months of fiscal 2016. The Company currently estimates its fiscal 2017 capital expenditures will be approximately \$190.0

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million. Projects include completion of the Company's plant in Jiaying, China, the replacement of the JOTS whole bird production facility in Melrose, Minnesota, the bacon expansion in Wichita, Kansas, and ongoing investments for food and employee safety.

Cash used in financing activities was \$311.6 million in the first nine months of fiscal 2017 compared to \$256.3 million in the same period of fiscal 2016. The outstanding \$185.0 million of debt was paid down in the first quarter of fiscal 2016. The Company repurchased \$94.5 million of its common stock in the first nine months of fiscal 2017 compared to \$45.0 purchased in the first nine months of the prior year. For additional information pertaining to the Company's share repurchase plans or programs, see Part II, Item 2 Unregistered Sales of Equity Securities and Use of Proceeds.

Cash dividends paid to the Company's shareholders continue to be an ongoing financing activity for the Company. Dividends paid in the first nine months of fiscal 2017 were \$256.3 million compared to \$219.7 million in the comparable period of fiscal 2016. For fiscal 2017, the annual dividend rate was increased to \$0.68 per share, representing the 51st consecutive annual dividend increase. The Company has paid dividends for 356 consecutive quarters and expects to continue doing so.

Table of Contents

The Company is required, by certain covenants in its debt agreements, to maintain specified levels of financial ratios and financial position. At the end of the third quarter of fiscal 2017, the Company was in compliance with all of these debt covenants.

Cash flows from operating activities continue to provide the Company with its principal source of liquidity. The Company does not anticipate a significant risk to cash flows from this source in the foreseeable future because the Company operates in a relatively stable industry and has strong brands across many product lines.

The Company is dedicated to returning excess cash flow to shareholders through dividend payments. Growing the business through innovation and evaluating opportunities for strategic acquisitions remains a focus for the Company. Reinvestments in the business to ensure employee and food safety are a top priority for the Company. Capital spending to enhance and expand current operations will also be a significant cash outflow for fiscal 2017.

Contractual Obligations and Commercial Commitments

The Company records income taxes in accordance with the provisions of ASC 740, *Income Taxes*. The Company is unable to determine its contractual obligations by year related to this pronouncement, as the ultimate amount or timing of settlement of its reserves for income taxes cannot be reasonably estimated. The total liability for unrecognized tax benefits, including interest and penalties, at July 30, 2017, was \$20.3 million.

There have been no other material changes to the information regarding the Company's future contractual financial obligations that was disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended October 30, 2016.

Off-Balance Sheet Arrangements

As of July 30, 2017, and October 30, 2016, the Company had \$48.0 million and \$44.4 million, respectively, of standby letters of credit issued on its behalf. The standby letters of credit are primarily related to the Company's self-insured workers compensation programs. However, that amount also includes \$4.0 million of revocable standby letters of credit for obligations of an affiliated party that may arise under workers compensation claims. Letters of credit are not reflected in the Company's Consolidated Statements of Financial Position.

Trademarks

References to the Company's brands or products in italics within this report represent valuable trademarks owned or licensed by Hormel Foods, LLC or other subsidiaries of Hormel Foods Corporation.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking information within the meaning of the federal securities laws. The forward-looking information may include statements concerning the Company's outlook for the future as well as other statements of beliefs, future plans, strategies, or anticipated events and similar expressions concerning matters that are not historical facts.

The Private Securities Litigation Reform Act of 1995 (the Reform Act) provides a safe harbor for forward-looking statements to encourage companies to provide prospective information. The Company is filing this cautionary statement in connection with the Reform Act. When used in this Quarterly Report on Form 10-Q, the Company's Annual Report to Stockholders, other filings by the Company with the Securities and Exchange Commission (the Commission), the Company's press releases, and oral statements made by the Company's representatives, the words or phrases should result, believe, intend, plan, are expected to, targeted, will continue, will approximate, is anticipated, estimate, similar expressions are intended to identify forward-looking statements within the meaning of the Reform Act. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those anticipated or projected.

Table of Contents

In connection with the safe harbor provisions of the Reform Act, the Company is identifying risk factors that could affect financial performance and cause the Company's actual results to differ materially from opinions or statements expressed with respect to future periods. The discussion of risk factors in Part II, Item 1A of this Quarterly Report on Form 10-Q contains certain cautionary statements regarding the Company's business, which should be considered by investors and others. Such risk factors should be considered in conjunction with any discussions of operations or results by the Company or its representatives, including any forward-looking discussion, as well as comments contained in press releases, presentations to securities analysts or investors, or other communications by the Company.

In making these statements, the Company is not undertaking, and specifically declines to undertake, any obligation to address or update each or any factor in future filings or communications regarding the Company's business or results, and is not undertaking to address how any of these factors may have caused changes to discussions or information contained in previous filings or communications. Though the Company has attempted to list comprehensively these important cautionary risk factors, the Company wishes to caution investors and others that other factors may in the future prove to be important in affecting the Company's business or results of operations.

The Company cautions readers not to place undue reliance on forward-looking statements, which represent current views as of the date made. Forward-looking statements are inherently at risk to any changes in the national and worldwide economic environment, which could include, among other things, economic conditions, political developments, currency exchange rates, interest and inflation rates, accounting standards, taxes, and laws and regulations affecting the Company and its markets.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Hog Markets: The Company's earnings are affected by fluctuations in the live hog market. To minimize the impact on earnings, and to ensure a steady supply of quality hogs, the Company has entered into contracts with producers for the purchase of hogs at formula-based prices over periods of up to 10 years. Purchased hogs under contract accounted for 95 percent and 93 percent of the total hogs purchased by the Company during the first nine months of fiscal 2017 and 2016, respectively. The majority of these contracts use market-based formulas based on hog futures, hog primal values, or industry reported hog markets. Other contracts use a formula based on the cost of production, which can fluctuate independently from hog markets. The Company's value-added branded portfolio helps mitigate changes in hog and pork market prices. Therefore, a hypothetical 10 percent change in the cash hog market would have had an immaterial effect on the Company's results of operations.

In the second quarter of 2017, the Company initiated a hedge program to offset the fluctuation in the Company's future direct hog purchases. This program currently utilizes lean hog futures, and these contracts are accounted for under cash flow hedge accounting. The fair value of the Company's open futures contracts in this hedging program as of July 30, 2017, was \$0.2 million, before tax. The Company measures its market risk exposure on its lean hog futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in the market prices for grain. A 10 percent decrease in the market price for lean hogs would have negatively impacted the fair value of the Company's July 30, 2017, open lean hog contracts by \$0.5 million, which in turn would lower the Company's future cost on purchased hogs by a similar amount.

Certain procurement contracts allow for future hog deliveries (firm commitments) to be forward priced. The Company generally hedges these firm commitments by using hog futures contracts. These futures contracts are designated and accounted for as fair value hedges. The change in the market value of such futures contracts is highly effective at offsetting changes in price movements of the hedged item, and the Company evaluates the effectiveness of the contracts at least quarterly. Changes in the fair value of the futures contracts, along with the gain or loss on the firm commitment, are marked-to-market through earnings and are recorded on the Consolidated Statements of Financial Position as a current asset and liability, respectively. The fair value of the Company's open futures contracts as of July 30, 2017, was \$0.5 million compared to \$1.4 million as of October 30, 2016. The Company measures its market risk exposure on its hog futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in market prices. A 10 percent increase in market prices would have negatively impacted the fair value of the Company's July 30, 2017, open contracts by \$2.6 million, which in turn would lower the Company's future cost of purchased hogs by a similar amount.

Table of Contents

Turkey Production Costs: The Company raises or contracts for live turkeys to meet some of its raw material supply requirements. Production costs in raising turkeys are subject primarily to fluctuations in feed prices, and to a lesser extent, fuel costs. Under normal, long-term market conditions, changes in the cost to produce turkeys are offset by proportional changes in the turkey market.

To reduce the Company's exposure to changes in grain prices, the Company utilizes a hedge program to offset the fluctuation in the Company's future direct grain purchases. This program currently utilizes corn futures for JOTS, and these contracts are accounted for under cash flow hedge accounting. The fair value of the Company's open futures contracts as of July 30, 2017, was \$0.0 million compared to \$(3.2) million, before tax, as of October 30, 2016. The Company measures its market risk exposure on its grain futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in the market prices for grain. A 10 percent decrease in the market price for grain would have negatively impacted the fair value of the Company's July 30, 2017, open grain contracts by \$4.8 million, which in turn would lower the Company's future cost on purchased grain by a similar amount.

Long-Term Debt: A principal market risk affecting the Company is the exposure to changes in interest rates on the Company's fixed-rate, long-term debt. Market risk for fixed-rate, long-term debt is estimated as the potential increase in fair value, resulting from a hypothetical 10 percent decrease in interest rates, and amounts to approximately \$1.8 million. The fair value of the Company's long-term debt was estimated using discounted future cash flows based on the Company's incremental borrowing rate for similar types of borrowing arrangements.

Investments: The Company has corporate-owned life insurance policies classified as trading securities as part of a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans. As of July 30, 2017, the balance of these securities totaled \$127.1 million compared to \$122.3 million as of October 30, 2016. A majority of these securities represent fixed income funds. The Company is subject to market risk due to fluctuations in the value of the remaining investments, as unrealized gains and losses associated with these securities are included in the Company's net earnings on a mark-to-market basis. A 10 percent decline in the value of the investments not held in fixed income funds would have a direct negative impact to the Company's pretax earnings of approximately \$4.3 million, while a 10 percent increase in value would have a positive impact of the same amount.

International: While the Company does have international operations and operates in international markets, it considers its market risk in such activities to be immaterial.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures.

As of the end of the period covered by this report (the Evaluation Date), the Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information the Company is required to disclose in reports it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Commission rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Table of Contents

(b) Internal Controls.

During the first nine months of fiscal year 2017, there has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is a party to various legal proceedings related to the on-going operation of its business, including claims both by and against the Company. At any time, such proceedings typically involve claims related to product liability, contract disputes, wage and hour laws, employment practices, or other actions brought by employees, consumers, competitors, or suppliers. The Company establishes accruals for its potential exposure, as appropriate, for claims against the Company when losses become probable and reasonably estimable. However, future developments or settlements are uncertain and may require the Company to change such accruals as proceedings progress. Resolution of any currently known matters, either individually or in the aggregate, is not expected to have a material effect on the Company's financial condition, results of operations, or liquidity.

Item 1A. Risk Factors

The Company's operations are subject to the general risks of the food industry.

The food products manufacturing industry is subject to the risks posed by:

§ food spoilage;

§ food contamination caused by disease-producing organisms or pathogens, such as *Listeria monocytogenes*, *Salmonella*, and pathogenic *E coli*.;

§ food allergens;

- § nutritional and health-related concerns;
- § federal, state, and local food processing controls;
- § consumer product liability claims;
- § product tampering; and
- § the possible unavailability and/or expense of liability insurance.

The pathogens which may cause food contamination are found generally in livestock and in the environment and thus may be present in our products as a result of food processing. These pathogens can be introduced to our products as a result of improper handling by customers or consumers. We do not have control over handling procedures once our products have been shipped for distribution. If one or more of these risks were to materialize, the Company's brand and business reputation could be negatively impacted. In addition, revenues could decrease, costs of doing business could increase, and the Company's operating results could be adversely affected.

Deterioration of economic conditions could harm the Company's business.

The Company's business may be adversely affected by changes in national or global economic conditions, including inflation, interest rates, availability of capital, energy availability and costs (including fuel surcharges), and the effects of governmental initiatives to manage economic conditions. Decreases in consumer spending rates and shifts in consumer product preferences could also negatively impact the Company.

Volatility in financial markets and the deterioration of national and global economic conditions could impact the Company's operations as follows:

- § The financial stability of our customers and suppliers may be compromised, which could result in additional bad debts for the Company or non-performance by suppliers; and

Table of Contents

§ The value of our investments in debt and equity securities may decline, including most significantly the Company's trading securities held as part of a rabbi trust to fund supplemental executive retirement plans and deferred income plans, and the Company's assets held in pension plans.

The Company utilizes hedging programs to manage its exposure to various commodity market risks, which qualify for hedge accounting for financial reporting purposes. Volatile fluctuations in market conditions could cause these instruments to become ineffective, which could require any gains or losses associated with these instruments to be reported in the Company's earnings each period. These instruments may limit the Company's ability to benefit from market gains if commodity prices become more favorable than those secured under the Company's hedging programs. Most recently, due to market volatility the Company temporarily suspended the use of the special hedge accounting exemption for its JOTS corn futures contracts in the third quarter of fiscal 2016 due to ineffectiveness. During the time of suspension, all gains or losses related to these contracts were recorded in earnings as incurred.

Additionally, if a highly pathogenic disease outbreak developed in the United States, it may negatively impact the national economy, demand for Company products, and/or the Company's workforce availability, and the Company's financial results could suffer. The Company has developed contingency plans to address infectious disease scenarios and the potential impact on its operations, and will continue to update these plans as necessary. There can be no assurance given, however, these plans will be effective in eliminating the negative effects of any such diseases on the Company's operating results.

Fluctuations in commodity prices and availability of pork, poultry, beef, feed grains, avocados, peanuts, energy, and whey could harm the Company's earnings.

The Company's results of operations and financial condition are largely dependent upon the cost and supply of pork, poultry, beef, feed grains, avocados, peanuts, and whey as well as energy costs and the selling prices for many of our products, which are determined by constantly changing market forces of supply and demand.

The live hog industry has evolved to large, vertically-integrated operations using long-term supply agreements. This has resulted in fewer hogs being available on the cash spot market. Consequently, the Company uses long-term supply contracts based on market-based formulas or the cost of production to ensure a stable supply of raw materials while minimizing extreme fluctuations in costs over the long-term. This may result, in the short-term, in costs for live hogs that are higher than the cash spot market depending on the relationship of the cash spot market to contract prices. Market-based pricing on certain product lines, and lead time required to implement pricing adjustments, may prevent all or part of these cost increases from being recovered, and these higher costs could adversely affect our short-term financial results.

JOTS raises turkeys and contracts with turkey growers to meet its raw material requirements for whole birds and processed turkey products. Results in these operations are affected by the cost and supply of feed grains, which fluctuate due to climate conditions, production forecasts, and supply and demand conditions at local, regional, national, and worldwide levels. The Company attempts to manage some of its short-term exposure to fluctuations in feed prices by forward buying, using futures contracts, and pursuing pricing advances. However, these strategies may not be adequate to overcome sustained increases in market prices due to alternate uses for feed grains or other changes in these market conditions.

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The supply of natural and organic proteins may impact the Company's ability to ensure a continuing supply of these products. To mitigate this risk, the Company partners with multiple long-term suppliers.

International trade barriers and other restrictions could result in less foreign demand and increased domestic supply of proteins which could lower prices. The Company occasionally utilizes in-country production to limit this exposure.

Outbreaks of disease among livestock and poultry flocks could harm the Company's revenues and operating margins.

The Company is subject to risks associated with the outbreak of disease in pork and beef livestock, and poultry flocks, including Bovine Spongiform Encephalopathy (BSE), pneumo-virus, Porcine Circovirus 2 (PCV2), Porcine Reproduction & Respiratory Syndrome (PRRS), Foot-and-Mouth Disease (FMD), Porcine Epidemic Diarrhea Virus

Table of Contents

(PEDv), and HPAI. The outbreak of disease could adversely affect the Company's supply of raw materials, increase the cost of production, reduce utilization of the Company's harvest facilities, and reduce operating margins. Additionally, the outbreak of disease may hinder the Company's ability to market and sell products both domestically and internationally. Most recently, HPAI impacted the Company's operations and several of the Company's independent turkey suppliers. The impact of HPAI in the industry reduced volume through the Company's turkey facilities through the first part of fiscal 2016. The Company has developed business continuity plans for various disease scenarios and will continue to update these plans as necessary. There can be no assurance given, however, these plans will be effective in eliminating the negative effects of any such diseases on the Company's operating results.

Market demand for the Company's products may fluctuate.

The Company faces competition from producers of alternative meats and protein sources, including pork, beef, turkey, chicken, fish, peanut butter, and whey. The bases on which the Company competes include:

- § price;
- § product quality and attributes;
- § brand identification;
- § breadth of product line; and
- § customer service.

Demand for the Company's products is also affected by competitors' promotional spending and the effectiveness of the Company's advertising and marketing programs, and consumer perceptions. Failure to identify and react to changes in food trends such as sustainability of product sources and animal welfare could lead to, among other things, reduced demand for the Company's brands and products. The Company may be unable to compete successfully on any or all of these bases in the future.

The Company's operations are subject to the general risks associated with acquisitions.

The Company has made several acquisitions in recent years, most recently the acquisitions of Fontanini and Ceratti, and regularly reviews opportunities for strategic growth through acquisitions. Potential risks associated with acquisitions include the inability to integrate new operations successfully, the diversion of management's attention from other business concerns, the potential loss of key employees and customers of the acquired companies, the possible assumption of unknown liabilities, potential disputes with the sellers, potential impairment charges if purchase assumptions are not achieved or market conditions decline, and the inherent risks in entering markets or lines of business in which the Company has limited or no prior experience. Any or all of these risks could impact the Company's financial results and business reputation. In addition, acquisitions outside the United States may present unique challenges and increase the Company's exposure to the risks associated with foreign operations.

The Company is subject to disruption of operations at co-packers or other suppliers.

Disruption of operations at co-packers or other suppliers may impact the Company's product or raw material supply, which could have an adverse effect on the Company's financial results. Additionally, actions taken to mitigate the impact of any potential disruption, including increasing inventory in anticipation of a potential production or supply interruption, may adversely affect the Company's financial results.

The Company's operations are subject to the general risks of litigation.

The Company is involved on an ongoing basis in litigation arising in the ordinary course of business. Trends in litigation may include class actions involving employees, consumers, competitors, suppliers, shareholders, or injured persons, and claims relating to product liability, contract disputes, intellectual property, advertising, labeling, wage and hour laws, employment practices, or environmental matters. Litigation trends and the outcome of litigation cannot be predicted with certainty and adverse litigation trends and outcomes could adversely affect the Company's financial results.

Table of Contents

The Company is subject to the loss of a material contract.

The Company is a party to several supply, distribution, contract packaging, and other material contracts. The loss of a material contract could adversely affect the Company's financial results.

Government regulation, present and future, exposes the Company to potential sanctions and compliance costs that could adversely affect the Company's business.

The Company's operations are subject to extensive regulation by the U.S. Department of Homeland Security, the U.S. Department of Agriculture, the U.S. Food and Drug Administration, federal and state taxing authorities, and other federal, state, and local authorities who oversee workforce immigration laws, tax regulations, animal welfare, food safety standards, and the processing, packaging, storage, distribution, advertising, and labeling of the Company's products. The Company's manufacturing facilities and products are subject to continuous inspection by federal, state, and local authorities. Claims or enforcement proceedings could be brought against the Company in the future. The availability of government inspectors due to a government furlough could also cause disruption to the Company's manufacturing facilities. Additionally, the Company is subject to new or modified laws, regulations, and accounting standards. The Company's failure or inability to comply with such requirements could subject the Company to civil remedies, including fines, injunctions, recalls, or seizures, as well as potential criminal sanctions.

The Company is subject to stringent environmental regulation and potentially subject to environmental litigation, proceedings, and investigations.

The Company's past and present business operations and ownership and operation of real property are subject to stringent federal, state, and local environmental laws and regulations pertaining to the discharge of materials into the environment and the handling and disposition of wastes (including solid and hazardous wastes) or otherwise relating to protection of the environment. Compliance with these laws and regulations, and the ability to comply with any modifications to these laws and regulations, is material to the Company's business. New matters or sites may be identified in the future requiring additional investigation, assessment, or expenditures. In addition, some of the Company's facilities have been in operation for many years and, over time, the Company and other prior operators of these facilities may have generated and disposed of wastes that now may be considered hazardous. Future discovery of contamination of property underlying or in the vicinity of the Company's present or former properties or manufacturing facilities and/or waste disposal sites could require the Company to incur additional expenses. The occurrence of any of these events, the implementation of new laws and regulations, or stricter interpretation of existing laws or regulations could adversely affect the Company's financial results.

The Company's foreign operations pose additional risks to the Company's business.

The Company operates its business and markets its products internationally. The Company's foreign operations are subject to the risks described above, as well as risks related to fluctuations in currency values, foreign currency exchange controls, compliance with foreign laws, compliance with applicable U.S. laws, including the Foreign Corrupt Practices Act, and other economic or political uncertainties. International sales are subject to risks related to general economic conditions, imposition of tariffs, quotas, trade barriers and other restrictions, enforcement of remedies in foreign jurisdictions and compliance with applicable foreign laws, and other economic and political uncertainties. All of these risks

could result in increased costs or decreased revenues, which could adversely affect the Company's financial results.

The Company may be adversely impacted if the Company is unable to protect information technology systems against, or effectively respond to, cyber-attacks or security breaches.

Information technology systems are an important part of the Company's business operations. Attempted cyber-attacks and other cyber incidents are occurring more frequently and are being made by groups and individuals with a wide range of motives and expertise. In an attempt to mitigate this risk, the Company has implemented and continues to evaluate security initiatives and business continuity plans.

Table of Contents

Deterioration of labor relations or increases in labor costs could harm the Company's business.

As of July 30, 2017, the Company had approximately 19,500 employees worldwide, of which approximately 4,500 were represented by labor unions, principally the United Food and Commercial Workers Union. A significant increase in labor costs or a deterioration of labor relations at any of the Company's facilities or contracted hog processing facilities resulting in work slowdowns or stoppages could harm the Company's financial results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities in the Third Quarter of Fiscal 2017**

| Period | Total Number of Shares Purchased¹ | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs¹ | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs¹ |
|---------------|---|---|---|---|
| May 1, 2017 | | | | |
| June 4, 2017 | - | \$ - | - | 11,773,637 |
| June 5, 2017 | | | | |
| July 2, 2017 | 721,300 | 34.47 | 721,300 | 11,052,337 |
| July 3, 2017 | | | | |
| July 30, 2017 | 600,000 | 33.40 | 600,000 | 10,452,337 |
| Total | 1,321,300 | \$ 33.99 | 1,321,300 | |

¹On January 31, 2013, the Company announced its Board of Directors had authorized the repurchase of 10,000,000 shares of its common stock with no expiration date. The repurchase program was authorized at a meeting of the Company's Board of Directors on January 29, 2013. On November 23, 2015, the Board of Directors authorized a two-for-one split of the Company's common stock. As part of the resolution to approve the stock split, the number of shares remaining to be repurchased was adjusted proportionately. The stock split was subsequently approved by shareholders at the Company's Annual Meeting on January 26, 2016, and effected January 27, 2016. All numbers in the table above reflect the impact of this stock split.

Item 6. Exhibits

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| | |
|---------|--|
| 31.1 | <u>Certification Required Under Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| 31.2 | <u>Certification Required Under Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| 32.1 | <u>Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HORMEL FOODS CORPORATION

(Registrant)

Date: September 8, 2017

By /s/ JAMES N. SHEEHAN
JAMES N. SHEEHAN
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: September 8, 2017

By /s/ JANA L. HAYNES
JANA L. HAYNES
Vice President and Controller
(Principal Accounting Officer)