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HORMEL FOODS CORP /DE/

Form 10-Q

March 05, 2019

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xbrli:shares iso4217:USD hrl:division hrl:cwt xbrli:pure

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 27, 2019

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

41-0319970

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1 Hormel Place

55912-3680

Austin, Minnesota
(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

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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 every Interactive Data File required to be submitted 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 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 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 March 3, 2019 | |
|-------------------------|-------------------------------------|-------------|
| Common Stock | \$.01465 par value | 535,675,778 |
| Common Stock Non-Voting | \$.01 par value | -0- |

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HORMEL FOODS CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands, except share and per share amounts)

| | January 27, | October 28, |
|---|---------------------|---------------------|
| | 2019 | 2018 |
| | (Unaudited) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 512,689 | \$ 459,136 |
| Accounts receivable | 565,060 | 600,438 |
| Inventories | 994,428 | 963,527 |
| Income taxes receivable | 147 | 3,995 |
| Prepaid expenses | 23,601 | 16,342 |
| Other current assets | 4,761 | 6,662 |
| TOTAL CURRENT ASSETS | 2,100,686 | 2,050,100 |
| | | |
| GOODWILL | 2,716,750 | 2,714,116 |
| | | |
| OTHER INTANGIBLES | 1,204,991 | 1,207,219 |
| | | |
| PENSION ASSETS | 200,448 | 195,153 |
| | | |
| INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES | 277,837 | 273,153 |
| | | |
| OTHER ASSETS | 171,005 | 189,951 |
| | | |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land | 49,162 | 50,332 |
| Buildings | 958,884 | 956,260 |
| Equipment | 1,819,284 | 1,863,020 |
| Construction in progress | 302,929 | 332,205 |
| Less: Allowance for depreciation | (1,646,578) | (1,689,217) |
| Net property, plant and equipment | 1,483,681 | 1,512,600 |
| | | |
| TOTAL ASSETS | \$ 8,155,398 | \$ 8,142,292 |

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands, except share and per share amounts)

| | January 27, 2019 | October 28, 2018 |
|---|-----------------------------|-----------------------------|
| | (Unaudited) | |
| LIABILITIES AND SHAREHOLDERS' INVESTMENT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 505,617 | \$ 618,830 |
| Accrued expenses | 50,361 | 48,298 |
| Accrued workers compensation | 25,215 | 24,594 |
| Accrued marketing expenses | 139,338 | 118,887 |
| Employee related expenses | 160,242 | 224,736 |
| Taxes payable | 63,791 | 2,490 |
| Interest and dividends payable | 116,370 | 101,079 |
| Current maturities of long-term debt | 374,878 | — |
| TOTAL CURRENT LIABILITIES | 1,435,812 | 1,138,914 |
| | | |
| LONG-TERM DEBT—less current maturities | 250,000 | 624,840 |
| | | |
| PENSION AND POST-RETIREMENT BENEFITS | 484,004 | 477,557 |
| | | |
| OTHER LONG-TERM LIABILITIES | 100,134 | 99,070 |
| | | |
| DEFERRED INCOME TAXES | 179,669 | 197,093 |
| | | |
| 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 534,169,855 shares January 27, 2019 issued 534,135,484 shares October 28, 2018 | 7,826 | 7,825 |
| Additional paid-in capital | 130,196 | 106,528 |
| Accumulated other comprehensive loss | (292,342) | (243,498) |
| Retained earnings | 5,856,029 | 5,729,956 |
| HORMEL FOODS CORPORATION SHAREHOLDERS' INVESTMENT | 5,701,709 | 5,600,811 |
| NONCONTROLLING INTEREST | 4,070 | 4,007 |
| TOTAL SHAREHOLDERS' INVESTMENT | 5,705,779 | 5,604,818 |
| | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT | \$ 8,155,398 | \$ 8,142,292 |

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

| | Three Months Ended | |
|--|---------------------------|--------------------|
| | January 27, | January 28, |
| | 2019 | 2018 * |
| Net sales | \$2,360,355 | \$2,331,293 |
| Cost of products sold | 1,872,021 | 1,832,997 |
| GROSS PROFIT | 488,334 | 498,296 |
| Selling, general and administrative | 193,544 | 219,872 |
| Equity in earnings of affiliates | 11,458 | 23,531 |
| OPERATING INCOME | 306,248 | 301,955 |
| Other income and expense: | | |
| Interest and investment income | 6,874 | 7,939 |
| Interest expense | (6,147) | (4,729) |
| EARNINGS BEFORE INCOME TAXES | 306,975 | 305,165 |
| Provision for income taxes | 65,456 | 1,954 |
| NET EARNINGS | 241,519 | 303,211 |
| Less: Net earnings attributable to noncontrolling interest | 94 | 104 |
| NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION | \$241,425 | \$303,107 |
| NET EARNINGS PER SHARE: | | |
| BASIC | \$0.45 | \$0.57 |
| DILUTED | \$0.44 | \$0.56 |
| WEIGHTED-AVERAGE SHARES OUTSTANDING: | | |
| BASIC | 534,495 | 529,453 |
| DILUTED | 547,118 | 543,482 |

*Adjusted due to the adoption of Accounting Standards Update (ASU) 2017-07, *Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715)*. See Note A - General.

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(Unaudited)

| | Three Months Ended | |
|--|---------------------------|--------------------|
| | January 27, | January 28, |
| | 2019 | 2018 |
| NET EARNINGS | \$241,519 | \$ 303,211 |
| Other comprehensive income, net of tax: | | |
| Foreign currency translation | 1,846 | 4,212 |
| Pension and other benefits | 3,439 | 2,486 |
| Deferred hedging | (361) | (650) |
| TOTAL OTHER COMPREHENSIVE INCOME | 4,924 | 6,048 |
| COMPREHENSIVE INCOME | 246,443 | 309,259 |
| Less: Comprehensive income attributable to noncontrolling interest | 63 | 253 |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO HORMEL FOODS CORPORATION | \$246,380 | \$ 309,006 |

See Notes to Consolidated Financial Statements

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

Three Months Ended January 28, 2018

| | Hormel Foods Corporation Shareholders | | | | | | | Non-controlling Interest | Total Shareholders' Investment |
|--|---------------------------------------|----------|----------------|-----------|----------------------------|-------------------|---|--------------------------|--------------------------------|
| | Common Stock | | Treasury Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | | |
| | Shares | Amount | Shares | Amount | | | | | |
| Balance at October 29, 2017 | 528,424 | \$ 7,741 | — | \$ — | \$ 13,670 | \$ 5,162,571 | \$ (248,075) | \$ 3,790 | \$ 4,939,697 |
| Net earnings | | | | | | 303,107 | | 104 | 303,211 |
| Other comprehensive income (loss) | | | | | | | 5,899 | 149 | 6,048 |
| Purchases of common stock | | | (738) | (25,199) | | | | | (25,199) |
| Stock-based compensation expense | | | | | 7,339 | | | | 7,339 |
| Exercise of stock options/restricted shares | 2,302 | 34 | | | 23,421 | | | | 23,455 |
| Shares retired | (738) | (11) | 738 | 25,199 | (25,188) | | | | — |
| Declared cash dividends – \$0.1875 per share | | | | | | (99,177) | | | (99,177) |
| Balance at January 28, 2018 | 529,988 | \$ 7,764 | — | \$ — | \$ 19,242 | \$ 5,366,501 | \$ (242,176) | \$ 4,043 | \$ 5,155,374 |

Three Months Ended January 27, 2019

| | Hormel Foods Corporation Shareholders | | | | | | | Non-controlling Interest | Total Shareholders' Investment |
|--|---------------------------------------|----------|----------------|-----------|----------------------------|-------------------|---|--------------------------|--------------------------------|
| | Common Stock | | Treasury Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | | |
| | Shares | Amount | Shares | Amount | | | | | |
| Balance at October 28, 2018 | 534,135 | \$ 7,825 | — | \$ — | \$ 106,528 | \$ 5,729,956 | \$ (243,498) | \$ 4,007 | \$ 5,604,818 |
| Net earnings | | | | | | 241,425 | | 94 | 241,519 |
| Other comprehensive income (loss) | | | | | | | 4,955 | (31) | 4,924 |
| Purchases of common stock | | | (1,065) | (44,809) | | | | | (44,809) |
| Stock-based compensation expense | | | | | 7,946 | | | | 7,946 |
| Exercise of stock options/restricted shares | 1,100 | 17 | | | 15,981 | | | | 15,998 |
| Shares retired | (1,065) | (16) | 1,065 | 44,809 | (259) | (44,534) | | | — |
| Cumulative effect adjustment from adoption of: | | | | | | | | | |
| ASU 2016-16 | | | | | | (10,475) | | | (10,475) |
| ASU 2017-12 | | | | | | 21 | (21) | | — |
| ASU 2018-02 | | | | | | 52,342 | (53,778) | | (1,436) |
| Declared cash dividends – \$0.21 per share | | | | | | (112,706) | | | (112,706) |
| Balance at January 27, 2019 | 534,170 | \$ 7,826 | — | \$ — | \$ 130,196 | \$ 5,856,029 | \$ (292,342) | \$ 4,070 | \$ 5,705,779 |

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

| | Three Months Ended | |
|--|---------------------------|--------------------|
| | January 27, | January 28, |
| | 2019 | 2018 |
| OPERATING ACTIVITIES | | |
| Net earnings | \$241,519 | \$ 303,211 |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Depreciation | 36,848 | 35,867 |
| Amortization of intangibles | 3,170 | 3,256 |
| Equity in earnings of affiliates | (11,458) | (23,531) |
| Distribution from equity method investees | — | 23 |
| Provision (benefit) for deferred income taxes | 125 | (68,856) |
| Loss (gain) on property/equipment sales and plant facilities | 450 | (1,131) |
| Non-cash investment activities | (9,516) | (10,880) |
| Stock-based compensation expense | 7,946 | 7,339 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Decrease (increase) in accounts receivable | 36,262 | 69,629 |
| (Increase) decrease in inventories | (30,901) | (21,255) |
| (Increase) decrease in prepaid expenses and other current assets | (5,625) | 569 |
| Increase (decrease) in pension and post-retirement benefits | 4,237 | 2,132 |
| (Decrease) increase in accounts payable and accrued expenses | (147,318) | (58,077) |
| Increase (decrease) in net income taxes payable | 61,686 | 65,881 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 187,425 | 304,177 |
| INVESTING ACTIVITIES | | |
| Acquisitions of businesses/intangibles | — | (858,102) |
| Purchases of property/equipment | (39,430) | (53,694) |
| Proceeds from sales of property/equipment | 30,305 | 751 |
| Decrease (increase) in investments, equity in affiliates, and other assets | 7,302 | 2,718 |
| Proceeds from company-owned life insurance | 144 | 3,028 |
| NET CASH USED IN INVESTING ACTIVITIES | (1,679) | (905,299) |
| FINANCING ACTIVITIES | | |
| Net proceeds from short-term debt | — | 255,000 |
| Proceeds from long-term debt | — | 375,000 |
| Repayments of long-term debt | 38 | (274) |
| Dividends paid on common stock | (100,125) | (89,814) |
| Share repurchase | (44,809) | (25,199) |
| Proceeds from exercise of stock options | 15,997 | 23,455 |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (128,899) | 538,168 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | (3,294) | 4,607 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 53,553 | (58,347) |
| Cash and cash equivalents at beginning of year | 459,136 | 444,122 |
| CASH AND CASH EQUIVALENTS AT END OF QUARTER | \$512,689 | \$ 385,775 |

See Notes to Consolidated Financial Statements

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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 28, 2018, 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 28, 2018.

Investments: 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 \$1.4 million for the three months ended January 27, 2019, compared to gains of \$3.4 million for the three months ended January 28, 2018.

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.

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 \$2.4 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.

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 income, other than those related to the adoption of ASU 2017-07 as described within the new accounting pronouncements adopted in the current fiscal year.

Accounting Changes and Recent Accounting Pronouncements:
New Accounting Pronouncements Adopted in Current Fiscal Year

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This topic converges the guidance within U.S. 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. The new guidance is effective for annual reporting periods beginning after December 15, 2017. The updated guidance is to be applied either retrospectively or by using a cumulative effect adjustment. The Company adopted the provisions of the new standard using the full retrospective method at the beginning of fiscal 2019. The Company made the following policy elections upon adoption: to account for shipping and handling costs as contract fulfillment costs and to exclude taxes imposed on and collected from customers in revenue producing transactions (e.g., sales, use, and value added taxes) from the transaction price. The Company will account for variable consideration using the expected value method. The Company also applied the practical expedient to not capitalize contract costs to obtain contracts with a duration of one year or less, which are expensed and included in the Consolidated Statements of Operations. The Company did not have a cumulative effect adjustment as a result of adoption. Adoption of the

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new standard did not have a material impact on the Company's results of operations. Additional qualitative disclosures have been provided in Note B - Revenue Recognition and further disaggregation of revenues provided in Note N - Segment Reporting.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory (Topic 740)*. 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 adopted the updated provisions at the beginning of fiscal 2019, resulting in a reclassification from prepaid tax assets to deferred tax assets. In addition, due to impact of the lower tax rate on deferred tax balances resulting from the Tax Cuts and Jobs Act (Tax Act), the Company recognized a cumulative effect adjustment to retained earnings of \$10.5 million.

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715)*. The updated guidance requires an employer to report the service cost component of net periodic pension cost and net periodic post-retirement benefit cost in the same line item as other compensation costs. Other components of net periodic pension cost and net periodic post-retirement benefit cost must 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. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The updated guidance should be applied retrospectively for the presentation of components of net benefit cost and prospectively, for the capitalization of the service cost component of net benefit cost. The Company adopted the updated provisions at the beginning of fiscal 2019. The Company elected to utilize a practical expedient which allows the Company to use historical amounts disclosed in the Pension and Other Post-retirement Benefits footnote as an estimation basis for retrospectively applying the requirements to separately report the other components in the income statement. Due to the retrospective adoption, the Company reclassified \$4.6 million of non-service cost components of net periodic benefit costs out of operating income to interest and investment income on the Consolidated Statements of Operations for the three months ended January 28, 2018.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities (Topic 815)*. The updated guidance expands 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 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 early adopted the updated guidance at the beginning of fiscal 2019, therefore eliminating the requirement to separately measure and report hedge ineffectiveness. The Company applied the amendment to cash flow hedge relationships existing on the date of adoption using a modified retrospective approach. Presentation and disclosure requirements were applied on a prospective basis. The adoption resulted in an immaterial adjustment from retained earnings to accumulated other comprehensive income.

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220)*. The updated guidance allows entities to reclassify stranded income tax effects resulting from the Tax Act from

accumulated other comprehensive income to retained earnings in their consolidated financial statements. Under the Tax Act, deferred taxes were adjusted to reflect the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate, which left the tax effects on items within accumulated other comprehensive income stranded at an inappropriate tax rate. 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 period and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The Company early adopted the updated provisions at the beginning of fiscal 2019, resulting in a reclassification of \$53.8 million to accumulated other comprehensive loss.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (Topic 350)*. The amendments in the update align the requirements for capitalizing implementation costs incurred in a hosting arrangement

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that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The amendments are effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years and is to be applied either retrospectively or prospectively to all implementation costs incurred after the adoption date. Early adoption is permitted, including adoption in any interim period. The Company early adopted the updated provisions on a prospective basis at the beginning of fiscal 2019. The impact related to adoption was immaterial in the first quarter and the Company will continue to evaluate in future quarters.

New Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The updated guidance requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement, and presentation of expenses will depend on the classification as a finance or operating lease. The update also requires certain quantitative and qualitative disclosures. Accounting guidance for lessors is largely unchanged. In July 2018, the FASB issued ASU 2018-11, which provides an optional transition method in addition to the existing modified retrospective transition method allowing entities to recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. The requirements of the new standard are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company will adopt the provisions of this new accounting standard at the beginning of fiscal 2020 and is in the process of evaluating the impact of adoption on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 958)*. 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 amendment replaces the current incurred loss impairment methodology with a methodology to reflect 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 July 2018, the FASB issued ASU 2018-09, *Codification Improvements*. This amendment makes changes to a variety of topics to clarify, correct errors in, or make minor improvements to the Accounting Standards Codification (ASC). The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments do not require transition guidance and will be effective upon issuance of ASU 2018-09. However, many of the amendments do have transition guidance with effective dates for annual periods beginning after December 15, 2018. The Company is currently assessing the impact of adoption on its consolidated financial statements, results of operations, and cash flows.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement - Disclosure Framework (Topic 820)*. The updated guidance improves the disclosure requirements on fair value measurements. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for any removed or modified disclosures. The Company is currently assessing the timing and impact of adopting the updated provisions.

In August 2018, the FASB issued ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans (Topic 715)*. The updated guidance improves disclosure requirements for employers who sponsor defined benefit pension or other postretirement plans. The amendments are effective for fiscal years ending after December 15, 2020, with early adoption permitted. The Company is currently assessing the timing and impact of adopting the updated provisions.

Any other recently issued accounting standards or pronouncements not disclosed above have been excluded as they either are not relevant to the Company, or they are not expected to have a material effect on its business practices, financial condition, results of operations, or disclosures.

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NOTE B - REVENUE RECOGNITION

Revenue from Contracts with Customers: Effective October 29, 2018, the Company adopted ASC 606, *Revenue from Contracts with Customers* using the full retrospective adoption method. The impact of adopting this guidance was immaterial to the Company's financial statements and related disclosures. Under ASC 606, a contract with a customer is an agreement which both parties have approved, that creates enforceable rights and obligations, has commercial substance, where payment terms are identified, and collectability is probable. The Company's customer contracts predominantly contain a single performance obligation to fulfill customer orders for the purchase of specified products. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. Revenue from product sales is primarily identified by purchase orders ("contracts") which in some cases are governed by a master sales agreement. The purchase orders in combination with the invoice typically specify quantity and product(s) ordered, shipping terms, and certain aspects of the transaction price including discounts. Contracts are at standalone pricing or governed by pricing lists or brackets. Revenue is recognized as control of the promised good transfers to the customer in an amount reflective of the consideration the Company expects to receive in exchange for those goods. The Company's revenue is recognized at a point in time when obligations under the terms of the agreement are satisfied once the shipped product is received or picked up by the customer. Revenues are recognized at the net consideration the Company expects to receive in exchange for the goods. The amount of net consideration recognized includes estimates of variable consideration, including costs for trade promotion programs, consumer incentives, and allowances and discounts associated with distressed or potentially unsaleable products.

A majority of the Company's revenue is short-term in nature with shipments within one year from order date. The Company's payment terms generally range between 7 to 45 days and vary by sales channel and other factors.

The Company promotes products through advertising, consumer incentives, and trade promotions. These programs include discounts, slotting fees, coupons, rebates, and in-store display incentives. Customer trade promotion and consumer incentive activities are recorded as a reduction to the sale price based on amounts estimated as variable consideration. The Company estimates variable consideration at the expected value method to determine the total consideration which the Company expects to be entitled. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Company's estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of anticipated performance and all information (historical, current and forecasted) that is reasonably available.

The Company elected to account for shipping and handling costs as contract fulfillment costs, and exclude taxes imposed on and collected from customers in revenue producing transactions (e.g., sales, use, and value added taxes) from the transaction price.

Disaggregation of Revenue: The Company discloses revenue by reportable segment. A reconciliation of these disaggregated revenues is provided in Note N - Segment Reporting.

Contract Balances: The Company does not have significant deferred revenue or unbilled receivable balances as a result of transactions with customers.

Contract Costs: The Company elected to apply the practical expedient to not capitalize contract costs to obtain contracts with duration of one year or less, which are expensed and included in the Consolidated Statements of Operations.

Table of Contents**NOTE C - ACQUISITIONS**

On November 27, 2017, the Company acquired Columbus Manufacturing, Inc. (Columbus), an authentic premium deli meat and salami company, from Chicago-based Arbor Investments for a final purchase price of \$857.4 million. The transaction was funded with cash on hand and by borrowing \$375.0 million under a term loan facility and \$375.0 million under a revolving credit facility.

Columbus specializes in authentic premium deli meat and salami. This acquisition allows the Company to enhance its scale in the deli by broadening its portfolio of products, customers, and consumers.

The acquisition was accounted for as a business combination using the acquisition method. The Company obtained an independent appraisal and completed purchase accounting for the acquisition in the fourth quarter of fiscal 2018. A final allocation of the purchase price to the acquired assets, liabilities, and goodwill is presented in the table below.

(in thousands)

| | |
|-------------------------------|-----------|
| Accounts receivable | \$21,199 |
| Inventory | 32,817 |
| Prepaid and other assets | 881 |
| Other assets | 936 |
| Property, plant and equipment | 83,662 |
| Intangible assets | 223,704 |
| Goodwill | 610,602 |
| Current liabilities | (21,366) |
| Deferred taxes | (95,077) |
| Purchase price | \$857,358 |

Goodwill is calculated as the excess of the purchase price over the fair value of the net assets recognized. The goodwill recorded as part of the acquisition primarily reflects the value of the potential to expand presence in the deli channel and serve as the catalyst for uniting all of the Company's deli businesses into one customer-facing organization. The goodwill balance is not expected to be deductible for income tax purposes. The goodwill and intangible assets have been allocated to the Refrigerated Foods segment.

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

NOTE D - INVENTORIES

Principal components of inventories are:

| <u>(in thousands)</u> | January 27, 2019 | October 28, 2018 |
|-----------------------------------|-----------------------------|-----------------------------|
| Finished products | \$ 551,487 | \$ 525,628 |
| Raw materials and work-in-process | 245,422 | 247,495 |
| Operating supplies | 134,912 | 126,644 |
| Maintenance materials and parts | 62,607 | 63,760 |
| Total | \$ 994,428 | \$ 963,527 |

Table of Contents**NOTE E - GOODWILL AND INTANGIBLE ASSETS**

The changes in the carrying amounts of goodwill for the three months ended January 27, 2019, are presented in the table below. Beginning balances have been reclassified to conform to the current year presentation between segments. See Note N - Segment Reporting for additional information.

| <u>(in thousands)</u> | Grocery Products | Refrigerated Foods | JOTS | International & Other | Total |
|--------------------------------------|-----------------------------|-------------------------------|-------------|--------------------------------------|--------------|
| Reported balance at October 28, 2018 | \$882,582 | \$1,406,897 | \$203,214 | \$221,423 | \$2,714,116 |
| Segment reclassification | (25,209) | 51,795 | (26,586) | — | — |
| Adjusted balance at October 28, 2018 | 857,373 | 1,458,692 | 176,628 | 221,423 | 2,714,116 |
| Foreign currency translation | — | — | — | 2,634 | 2,634 |
| Balance at January 27, 2019 | \$857,373 | \$1,458,692 | \$176,628 | \$224,057 | \$2,716,750 |

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

| <u>(in thousands)</u> | January 27, 2019 | | October 28, 2018 | |
|------------------------------|-------------------------|-------------|-------------------------|--|
| Brands/tradenames/trademarks | \$1,107,651 | \$1,108,122 | | |
| Other intangibles | 184 | 184 | | |
| Foreign currency translation | (2,937) | (3,484) | | |
| Total | \$1,104,898 | \$1,104,822 | | |

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

| <u>(in thousands)</u> | January 27, 2019 | | October 28, 2018 | |
|------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer lists/relationships | \$137,039 | \$ (39,236) | \$137,039 | \$ (36,367) |
| Other intangibles | 6,626 | (1,848) | 6,155 | (1,547) |
| Foreign currency translation | — | (2,488) | — | (2,883) |
| Total | \$143,665 | \$ (43,572) | \$143,194 | \$ (40,797) |

Amortization expense was \$3.2 million and \$3.3 million for the quarters ended January 27, 2019 and January 28, 2018, respectively.

Estimated annual amortization expense for the five fiscal years after October 28, 2018, is as follows:

| <u>(in millions)</u> | |
|----------------------|--------|
| 2019 | \$12.7 |
| 2020 | 12.7 |
| 2021 | 12.8 |
| 2022 | 12.5 |
| 2023 | 11.6 |

Table of Contents**NOTE F - PENSION AND OTHER POST-RETIREMENT BENEFITS**

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

| <u>(in thousands)</u> | Pension Benefits | | Post-retirement Benefits | |
|------------------------------------|---------------------------|-------------------------|---------------------------------|-------------------------|
| | Three Months Ended | | Three Months Ended | |
| | January 28, 2019 | January 28, 2018 | January 28, 2019 | January 28, 2018 |
| Service cost | \$6,510 | \$ 7,903 | \$174 | \$ 320 |
| Interest cost | 15,097 | 14,049 | 3,165 | 2,832 |
| Expected return on plan assets | (23,125) | (24,770) | — | — |
| Amortization of prior service cost | (698) | (617) | (669) | (710) |
| Recognized actuarial loss | 3,701 | 4,539 | — | 44 |
| Curtailment loss (gain) | 2,825 | — | (620) | — |
| Net periodic cost | \$4,310 | \$ 1,104 | \$2,050 | \$ 2,486 |

Non-service cost components of net pension and postretirement benefit cost are presented within interest and investment income on the Consolidated Statements of Operations.

Curtailments were recognized in the first quarter of fiscal 2019 due to the sale of the Fremont facility.

NOTE G - DERIVATIVES AND HEDGING

The Company uses hedging programs to manage price risk associated with commodity purchases. These programs utilize futures and options contracts to manage the Company's exposure to price fluctuations in the commodities markets. The Company has determined its designated hedging programs to be highly effective in offsetting the changes in fair value or cash flows generated by the items hedged. Effectiveness testing is performed on a quarterly basis to ascertain a high level of effectiveness for cash flow and fair value hedging programs.

Cash Flow Hedges: The Company designates corn and lean hog futures and options used to offset price fluctuations in the Company's future direct grain and hog purchases as cash flow hedges. 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. 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.

Fair Value Hedges: The Company designates the futures it uses to minimize the price risk assumed when fixed forward priced contracts are offered to the Company's commodity suppliers as fair value hedges. 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. 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.

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. Activity related to derivatives not designated as hedges is immaterial to the

consolidated financial statements.

Volume: As of January 27, 2019, and October 28, 2018, the Company had the following outstanding commodity futures and options contracts related to its hedging programs:

| | Volume | |
|----------------------------|-------------------------|-------------------------|
| Commodity Contracts | January 27, 2019 | October 28, 2018 |
| Corn | 20.8 million bushels | 23.0 million bushels |
| Lean hogs | 4.0 million cwt | 0.6 million cwt |

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Fair Value of Derivatives: The fair values of the Company's derivative instruments (in thousands) as of January 27, 2019, and October 28, 2018, were as follows:

| Derivatives Designated as Hedges: | Location on Consolidated Statements of Financial Position | Fair Value (1) | |
|--|--|-------------------------|-------------------------|
| | | January 27, 2019 | October 28, 2018 |
| Commodity contracts | Other current assets | \$1,730 | \$ (30) |

(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.

Fair Value Hedge - Assets(Liabilities): The carrying amount of the Company's fair value hedge liabilities (in thousands) as of January 27, 2019, and October 28, 2018, were as follows:

| Location on Consolidated Statements of Financial Position | Carrying Amount of the Hedged Assets/(Liabilities) | |
|--|---|-------------------------|
| | January 27, 2019 | October 28, 2018 |
| Accounts Payable | (1,362) | (594) |

AOCL Impact: In fiscal 2019, the Company adopted the amended guidance of Topic 815. As a result, hedge ineffectiveness related to effective relationships is now deferred in AOCL until the hedged item impacts earnings. Prior to fiscal 2019, gains or losses on the derivative instrument in excess of the cumulative change in the cash flows of the hedged item, if any (i.e, the ineffective portion) were recognized in the Consolidated Statements of Operations during the current period. As of January 27, 2019, the Company has included in AOCL, hedging losses of \$1.0 million (before tax) relating to its positions. The Company expects to recognize the majority of these losses over the next 12 months.

The effect of AOCL for gains or losses (before tax, in thousands) related to the Company's derivative instruments for the three months ended January 27, 2019, and January 28, 2018, were as follows:

| | Gain/(Loss) Recognized in AOCL (1) | | Location on Consolidated Statements of Operations | Gain/(Loss) Reclassified from AOCL into Earnings (1) | | Gain/(Loss) Recognized in Earnings (Ineffective Portion) |
|--------------------------|--|-------------------------|--|---|-------------------------|---|
| | Three Months Ended January 27, 2019 | January 28, 2018 | | Three Months Ended January 27, 2019 | January 28, 2018 | Three Months Ended January 27, 2019 |
| Cash Flow Hedges: | | | | | | |
| Commodity Contracts (2) | \$ (843) | \$ (387) | Cost of products sold | \$(1,243) | \$ 608 | \$ —\$ (90) |
| Excluded Component (3) | \$ (687) | | | | | |

(1) See Note I - Accumulated Other Comprehensive Loss for the after-tax impact of these gains or losses on net earnings.

(2) Loss recognized in AOCL for three month ended January 27, 2019, includes an immaterial adjustment due to early adoption of ASU 2017-12.

(3) Represents the time value amount of lean hog options excluded from the assessment of effectiveness for which the difference between changes in fair value and periodic amortization is recorded in AOCL.

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Consolidated Statement of Operations Impact: The effect on the Consolidated Statements of Operations for gains or losses (before tax, in thousands) related to the Company's derivative instruments for the three months ended January 27, 2019, and January 28, 2018, were as follows:

| | Cost of Products Sold | |
|---|--------------------------------|----------------|
| | Three Months Ended | |
| | January 27, January 28, | |
| | 2019 | 2018 |
| Consolidated Statements of Operations | \$1,872,021 | \$1,832,997 |
| Cash Flow Hedges - Commodity Contracts | | |
| Gain (loss) reclassified from AOCL | \$(1,243 |) \$608 |
| Amortization of excluded component from options | (1,358 |) — |
| Gain (loss) due to ineffectiveness | — | (90) |
| Fair Value Hedges - Commodity Contracts | | |
| Gain (loss) on commodity futures (1) | 932 | 557 |
| Gain (loss) due to ineffectiveness | — | (249) |
| Total gain (loss) recognized in earnings | \$(1,669 |) \$826 |

(1) Amounts represent losses on commodity contracts designated as fair value hedges that were closed during the quarter, 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 contract, 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.

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 | January 27, October 28, | |
|--|------------------|------------|--------------------------------|-------------|
| | | | 2019 | 2018 |
| MegaMex Foods, LLC Grocery Products | 50% | \$ 207,589 | \$ 205,148 | |
| Foreign Joint Ventures International & Other | Various (26-40%) | 70,248 | 68,005 | |
| Total | | \$ 277,837 | \$ 273,153 | |

Equity in earnings of affiliates consists of the following:

| <u>(in thousands)</u> | Segment | Three Months | |
|--|---------|--------------------------------|-------------|
| | | Ended | |
| | | January 27, January 28, | |
| | | 2019 | 2018 |
| MegaMex Foods, LLC Grocery Products | | \$ 10,502 | \$ 19,588 |
| Foreign Joint Ventures International & Other | | 956 | 3,943 |

Total \$ 11,458 \$ 23,531

For the three months ended January 27, 2019, no dividends were received from affiliates, compared to \$0.023 million of dividends received for the three months ended January 28, 2018.

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The Company recognized a basis difference of \$21.3 million associated with the formation of MegaMex Foods, LLC, of which \$13.4 million is remaining as of January 27, 2019. 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:

| <u>(in thousands)</u> | Foreign Currency Translation | Pension & Other Benefits | Deferred Gain (Loss) - Hedging | Accumulated Other Comprehensive Loss |
|--------------------------------------|---|---|---|---|
| Reported balance at October 28, 2018 | \$(44,854) | \$(197,613) | \$(1,031) | \$ (243,498) |
| Impact of adoption of ASU | | | | |
| ASU 2017-12 | | | (21) ⁽¹⁾ | (21) |
| ASU 2018-02 | | (53,778) ⁽¹⁾ | | (53,778) |
| Adjusted balance at October 28, 2018 | (44,854) | (251,391) | (1,052) | (297,297) |
| Unrecognized gains (losses) | | | | |
| Gross | 1,877 | 2,203 | (1,509) | 2,571 |
| Tax effect | | (533) | 204 | (329) |
| Reclassification into net earnings | | | | |
| Gross | | 2,334 | (2) 1,243 | (3) 3,577 |
| Tax effect | | (565) | (299) | (864) |
| Net of tax amount | 1,877 | 3,439 | (361) | 4,955 |
| Balance at January 27, 2019 | \$(42,977) | \$(247,952) | \$(1,413) | \$ (292,342) |

(1) Cumulative effect from the adoption of Accounting Standards Update. See Note A - General for additional details.

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

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

NOTE J - INCOME TAXES

The Company's tax provision is determined using an estimated annual effective tax rate and adjusted for discrete taxable events that may occur during the quarter. The effects of tax legislation are recognized in the period in which the law is enacted. The deferred tax assets and liabilities are remeasured using enacted tax rates expected to apply to taxable income in the years the related temporary differences are anticipated to reverse.

On December 22, 2017, the United States (U.S.) enacted comprehensive tax legislation into law, H.R. 1, commonly referred to as the Tax Act. Except for certain provisions, the Tax Act is effective for tax years beginning on or after January 1, 2018. As a fiscal year U.S. taxpayer, the majority of the provisions, such as eliminating the domestic manufacturing deduction, creating new taxes on certain foreign sourced income, and introducing new limitations on certain business deductions, will now apply to the Company in fiscal 2019. In addition, for fiscal 2019 and effective in the first quarter, the U.S. federal corporate income tax rate was reduced from a blended rate of 23.4 percent for fiscal 2018, to 21.0 percent in fiscal 2019 and beyond.

The Company's effective tax rate for the first three months of fiscal 2019 was 21.3 percent compared to 0.6 percent for the respective period last year. The lower effective tax rate in the prior year is primarily related to deferred tax remeasurements in fiscal 2018 as a result of the Tax Act. The Company expects a full-year effective tax rate between 20.5 percent and 23.0 percent for fiscal 2019.

In March 2018, the FASB issued ASU 2018-05, which provides guidance for companies related to the Tax Act. ASU 2018-05 allows for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. Based on current interpretation of the Tax Act, the Company made reasonable estimates to record provisional adjustments during fiscal 2018, as described above. The Company continued to evaluate such amounts within the first quarter of fiscal 2019 and determined no adjustments were required within the remaining portion of the measurement period. As of January 27, 2019, the Company has completed the accounting for the tax effects of the Tax Act.

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During fiscal 2018, the Company provisionally recorded the transition tax on its foreign earnings. Those foreign earnings have been deemed repatriated for U.S. federal tax purposes. The Company maintains all earnings are permanently reinvested. Accordingly, no additional income taxes have been provided for withholding tax, state tax, or other taxes.

The amount of unrecognized tax benefits, including interest and penalties, is recorded in other long-term liabilities. If recognized as of January 27, 2019, and January 28, 2018, \$27.2 million and \$25.7 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 was immaterial for the first three months of fiscal 2019 and fiscal 2018. The amount of accrued interest and penalties at January 27, 2019, and January 28, 2018, associated with unrecognized tax benefits was \$6.5 million and \$7.3 million, respectively.

The Company is regularly audited by federal and state taxing authorities. The United States Internal Revenue Service (I.R.S.) is in the final stages of examination with respect to fiscal 2017. The Company has elected to participate in the Compliance Assurance Process (CAP) for fiscal years 2018 through 2020. 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 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 restricted 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 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.

During the third quarter of fiscal 2018, the Company made a one-time grant of 200 stock options to each active, full-time employee and 100 stock options to each active, part-time employee of the Company on April 30, 2018. The options vest in five years and expire ten years after the grant date.

A reconciliation of the number of options outstanding and exercisable (in thousands) as of January 27, 2019, and changes during the three months then ended, is as follows:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---------------------------------|--------|---------------------------------|---|---------------------------|
| Outstanding at October 28, 2018 | 29,536 | \$ 23.55 | | |
| Granted | 1,474 | 44.91 | | |
| Exercised | 1,097 | 14.60 | | |
| Forfeited | 383 | 36.17 | | |

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| | | | | |
|---------------------------------|--------|----------|-----|------------|
| Outstanding at January 27, 2019 | 29,530 | \$ 24.78 | 5.4 | \$ 497,495 |
| Exercisable at January 27, 2019 | 21,031 | \$ 19.69 | 4.0 | \$ 457,942 |

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The weighted-average grant date fair value of stock options granted and the total intrinsic value of options exercised (in thousands) during the first three months of fiscal years 2019 and 2018, are as follows:

| | Three Months Ended January 27, 2019 | | January 28, 2018 |
|--|--|--|-----------------------------|
| Weighted-average grant date fair value | \$9.48 | | \$ 6.93 |
| Intrinsic value of exercised options | \$32,241 | | \$ 56,302 |

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 January 27, 2019 | | | | January 28, 2018 | | | |
|-------------------------|--|---|---------|---|-----------------------------|---|---------|---|
| Risk-free interest rate | 2.9 | % | 2.3 | % | 2.9 | % | 2.3 | % |
| Dividend yield | 1.9 | % | 2.0 | % | 1.9 | % | 2.0 | % |
| Stock price volatility | 19.0 | % | 19.0 | % | 19.0 | % | 19.0 | % |
| Expected option life | 8 years | | 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.

Restricted shares awarded annually on February 1 are subject to a restricted period which expires the date of the Company's next annual stockholders meeting. Newly elected directors receive a prorated award of restricted shares of the Company's common stock, which expire on the date of the Company's second succeeding annual stockholders meeting. A reconciliation of the restricted shares (in thousands) as of January 27, 2019, and changes during the three months then ended, is as follows:

| | Weighted- Average Shares Grant Date Fair Value |
|--------------------------------|---|
| Restricted at October 28, 2018 | 52 \$ 34.08 |
| Granted | 1 45.36 |
| Restricted at January 27, 2019 | 53 \$ 34.33 |

The weighted-average grant date fair value of restricted shares granted, the total fair value (in thousands) of restricted shares granted, and the fair value (in thousands) of shares that have vested during the first three months of fiscal years 2019 and 2018, are as follows:

**Three Months
Ended
January 27, 2019
January 28, 2018**

| | | |
|---|---------|----------|
| Weighted-average grant date fair value | \$34.33 | \$ 35.62 |
| Fair value of restricted shares granted | 53 | — |
| Fair value of shares vested | — | 133 |

During the three months ended January 27, 2019, stock-based compensation expense was \$7.9 million, compared to \$7.3 million for the three months ended January 28, 2018, respectively.

At January 27, 2019, there was \$37.1 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

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approximately 3.2 years. During the three months ended January 27, 2019, cash received from stock option exercises was \$16.0 million, compared to \$23.5 million for the three months ended January 28, 2018.

Shares issued for option exercises and restricted 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. The Company classifies assets and liabilities 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 carried at fair value on a recurring basis as of January 27, 2019, and October 28, 2018, and their level within the fair value hierarchy, are presented in the tables below.

Fair Value Measurements at January 27, 2019

| <u>(in thousands)</u> | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|---------------------------------|---|--|--|
| Assets at Fair Value | | | | |
| Cash and cash equivalents (1) | \$512,689 | \$512,689 | \$ — | \$ — |
| Other trading securities (2) | 146,895 | — | 146,895 | — |
| Commodity derivatives (3) | 3,552 | 2,526 | 1,026 | — |
| Total Assets at Fair Value | \$663,136 | \$515,215 | \$ 147,921 | \$ — |
| Liabilities at Fair Value | | | | |
| Deferred compensation (2) | \$60,225 | \$— | \$ 60,225 | \$ — |
| Total Liabilities at Fair Value | \$60,225 | \$— | \$ 60,225 | \$ — |

Fair Value Measurements at October 28, 2018

| <u>(in thousands)</u> | Total Fair Value | Quoted Prices in Active | Significant Other Observable | Significant Unobservable Inputs |
|-----------------------|---------------------------------|--|---|--|
| | | | | |

| | | Markets | Inputs | (Level 3) | |
|--|------------------|------------------|-------------------|------------------|----------|
| | | for | (Level 2) | | |
| | | Identical | | | |
| | | Assets | | | |
| | | (Level 1) | | | |
| Assets at Fair Value | | | | | |
| Cash and cash equivalents (1) | \$459,136 | \$459,136 | \$ — | \$ | — |
| Other trading securities (2) | 137,311 | — | 137,311 | — | — |
| Commodity derivatives (3) | 4,611 | 4,611 | — | — | — |
| Total Assets at Fair Value | \$601,058 | \$463,747 | \$ 137,311 | \$ | — |
| Liabilities at Fair Value | | | | | |
| Deferred compensation (2) | \$60,181 | \$— | \$ 60,181 | \$ | — |
| Total Liabilities at Fair Value | \$60,181 | \$— | \$ 60,181 | \$ | — |

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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. 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
- (2) 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 I.R.S. applicable federal rates. These balances are classified as Level 2. The Company's commodity derivatives represent futures contracts and options 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. Over-the-counter (OTC) derivative instruments are valued using discounted cashflow models, observable market inputs, and other mathematical pricing models. The Company's lean hog option contracts are OTC instruments whose value is calculated using the Black-Scholes pricing model, lean hog future prices quoted from the Chicago
- (3) Mercantile Exchange, and other adjustments to inputs that are observable in active markets. As the value of these instruments is driven by observable prices in active markets they are classified as Level 2. 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 January 27, 2019, the Company has recognized the right to reclaim net cash collateral of \$1.8 million from various counterparties (including \$8.4 million of realized gains on closed positions offset by cash owed of \$6.6 million). As of October 28, 2018, the Company had recognized the right to reclaim net cash collateral of \$4.6 million from various counterparties (including cash of \$4.7 million less \$0.1 million of realized losses).

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 \$632.6 million as of January 27, 2019, and \$631.3 million as of October 28, 2018.

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 three months ended January 27, 2019, and January 28, 2018, 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 | |
|---|-------------------------------|-----------------------------|
| <u>(in thousands)</u> | January 27, 2019 | January 28, 2018 |
| Basic weighted-average shares outstanding | 534,495 | 529,453 |

| | | |
|---|---------|---------|
| Dilutive potential common shares | 12,623 | 14,029 |
| Diluted weighted-average shares outstanding | 547,118 | 543,482 |

For the three months ended January 27, 2019, a total of 1.1 million weighted-average stock options 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 5.4 million, for the three months ended January 28, 2018.

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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 four segments: Grocery Products, Refrigerated Foods, Jennie-O Turkey Store, and International & Other. At the beginning of fiscal 2019, the Hormel Deli Solutions division combined all deli businesses, including the Jennie-O Turkey Store deli division, into one division within the Refrigerated Foods segment. In addition, the ingredients business was realigned from the Grocery Products segment to the Refrigerated Foods segment. Fiscal 2018 segment results have been adjusted to reflect these changes.

The Grocery Products segment consists primarily of the processing, marketing, and sale of shelf-stable food products sold predominantly in the retail market, along with the sale of nutritional and private label shelf-stable products to retail, foodservice, and industrial customers. This segment also includes the results from the Company's MegaMex joint venture.

The Refrigerated Foods segment consists primarily of the processing, marketing, and sale of branded and unbranded pork, beef, and poultry products for retail, foodservice, deli, and commercial customers.

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

Intersegment sales are recorded at prices that 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 expenses at the corporate level. Equity in earnings of affiliates is included in segment profit; however, earnings attributable to the Company's noncontrolling interests are excluded. These items are included below as Net unallocated expense and Noncontrolling interest when reconciling to earnings before income taxes.

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

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| <u>(in thousands)</u> | Three Months Ended | |
|--|---------------------------|--------------------|
| | January 27, | January 28, |
| | 2019 | 2018 |
| Sales to Unaffiliated Customers | | |
| Grocery Products | \$606,825 | \$603,577 |
| Refrigerated Foods | 1,278,747 | 1,254,637 |
| Jennie-O Turkey Store | 321,234 | 322,760 |
| International & Other | 153,549 | 150,319 |
| Total | \$2,360,355 | \$2,331,293 |
| Intersegment Sales | | |
| Grocery Products | \$22 | \$4 |
| Refrigerated Foods | 2,178 | 2,164 |
| Jennie-O Turkey Store | 28,811 | 24,689 |
| International & Other | — | — |
| Total | 31,011 | 26,857 |
| Intersegment elimination | (31,011) | (26,857) |
| Total | \$— | \$— |
| Net Sales | | |
| Grocery Products | \$606,847 | \$603,581 |
| Refrigerated Foods | 1,280,925 | 1,256,801 |
| Jennie-O Turkey Store | 350,045 | 347,449 |
| International & Other | 153,549 | 150,319 |
| Intersegment elimination | (31,011) | (26,857) |
| Total | \$2,360,355 | \$2,331,293 |
| Segment Profit | | |
| Grocery Products | \$95,297 | \$97,545 |
| Refrigerated Foods | 162,593 | 157,531 |
| Jennie-O Turkey Store | 37,904 | 37,724 |
| International & Other | 24,978 | 24,655 |
| Total segment profit | 320,772 | 317,455 |
| Net unallocated expense | 13,891 | 12,394 |
| Noncontrolling interest | 94 | 104 |
| Earnings Before Income Taxes | \$306,975 | \$305,165 |

Revenue has been disaggregated into the categories below to show how sales channels affect the nature, amount, timing, and uncertainty of revenue and cash flows for the first three months of fiscal 2019 and 2018.

| <u>(in thousands)</u> | Three Months Ended | |
|-----------------------|---------------------------|--------------------|
| | January 27, | January 28, |
| | 2019 | 2018 |
| U.S. Retail | \$1,253,315 | \$1,299,672 |
| U.S. Foodservice | 689,905 | 657,103 |
| U.S. Deli | 251,276 | 210,997 |
| International | 165,859 | 163,521 |
| Total | \$2,360,355 | \$2,331,293 |

The Company's products primarily consist of meat and other food products. Perishable includes fresh meats, frozen items, refrigerated meal solutions, sausages, hams, guacamole, and bacon (excluding JOTS products). Shelf-stable includes canned luncheon meats, peanut butter, chilies, shelf-stable microwaveable meals, hash, stews, meat spreads, flour and corn tortillas,

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salsas, tortilla chips, and other items that do not require refrigeration. The Poultry category is composed primarily of JOTS products. The Miscellaneous category primarily consists of nutritional food products and supplements, dessert and drink mixes, and industrial gelatin products. The amount of total revenues contributed by classes of similar products for the first three months of fiscal 2019 and 2018 are as follows:

| (in thousands) | Three Months Ended | |
|----------------|---------------------------|-------------------------|
| | January 27, 2019 | January 28, 2018 |
| Perishable | \$1,341,152 | \$1,318,873 |
| Poultry | 441,392 | 443,442 |
| Shelf-stable | 436,897 | 424,593 |
| Miscellaneous | 140,914 | 144,385 |
| Total | \$2,360,355 | \$2,331,293 |

NOTE O - SUBSEQUENT EVENTS

Subsequent to the end of the quarter, the Company announced a definitive agreement to sell the CytoSport business to PepsiCo, Inc., for \$465 million. The transaction is subject to customary closing conditions and is expected to be completed during the second quarter of fiscal 2019.

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 28, 2018.

RESULTS OF OPERATIONS**Overview**

The Company is a global manufacturer and marketer of branded food products. It operates in four reportable segments as described in Note N - Segment Reporting in the Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

The Company reported net earnings per diluted share of \$0.44 for the first quarter of fiscal 2019, compared to \$0.56 per diluted share in the first quarter of fiscal 2018. Other significant factors impacting the quarter were:

The Company delivered net income before tax growth of 1 percent with three of its four segments generating earnings growth. Net earnings declined due to the impact of deferred tax remeasurements in fiscal 2018 as a result of the Tax Cuts and Jobs Act (Tax Act).

Refrigerated Foods segment profit increased as value-added profits more than offset a 70 percent decline in commodity profits, higher freight costs, and higher operational expenses.

Grocery Products segment profit declined due to the effect of a non-operating tax benefit in our MegaMex joint venture in fiscal 2018 which was partially offset by a legal settlement in fiscal 2019.

JOTS segment profit was flat as lower selling, general, and administrative expenses were offset by lower retail sales of lean ground turkey.

International & Other profit increased due to branded export growth and strong results from the China business. The increase was mostly offset by declines in fresh pork profitability due to the continued impact of tariffs in key markets. Subsequent to the end of the quarter, the Company announced a definitive agreement to sell the CytoSport business to PepsiCo, Inc., for \$465 million. The transaction is subject to customary closing conditions and is expected to be completed during the second quarter of fiscal 2019.

Table of Contents**Consolidated Results****Volume, Net Sales, Earnings, and Diluted Earnings per Share**

| <u>(in thousands, except per share amounts)</u> | Three Months Ended | | |
|---|---------------------------|-------------------------|-----------------|
| | January 27, 2019 | January 28, 2018 | % Change |
| Volume (lbs.) | 1,196,893 | 1,190,592 | 0.5 |
| Net sales | \$2,360,355 | \$2,331,293 | 1.2 |
| Net earnings | 241,425 | 303,107 | (20.3) |
| Diluted earnings per share | 0.44 | 0.56 | (21.4) |

The increase in net sales for the first quarter of fiscal 2019 was primarily related to increased sales of *Columbus*[®] branded items, the *SPAM*[®] family of products, *Jennie-O*[®] foodservice items, *Hormel*[®] pepperoni, and *Herdez*[®] salsas and sauces. Partially offsetting these gains were declines in fresh pork retail and export sales, the contract manufacturing business in Grocery Products, and lean ground turkey sales at JOTS.

Cost of Products Sold

| <u>(in thousands)</u> | Three Months Ended | | |
|-----------------------|---------------------------|-------------------------|-----------------|
| | January 27, 2019 | January 28, 2018 | % Change |
| Cost of products sold | \$1,872,021 | \$1,832,997 | 2.1 |

Cost of products sold for the first quarter of fiscal 2019 were higher as a result of increased per-unit freight expenses and higher operational expenses.

Gross Profit

| <u>(in thousands)</u> | Three Months Ended | | |
|-------------------------|---------------------------|-------------------------|-----------------|
| | January 27, 2019 | January 28, 2018 | % Change |
| Gross profit | \$488,334 | \$498,296 | (2.0) |
| Percentage of net sales | 20.7 | % 21.4 | % |

Gross profit as a percentage of net sales for International & Other increased marginally in the first quarter of fiscal 2019, while Refrigerated Foods and JOTS declined slightly compared to the prior year. Grocery Products was flat. Lower raw material costs in China positively impacted International & Other margins during the quarter. Margins in Refrigerated Foods were negatively impacted by lower commodity profits driven by higher grain-based hog contract costs. JOTS declined on lower retail sales of lean ground turkey.

Looking ahead to the second quarter, the Company expects the foodservice and deli businesses in Refrigerated Foods and favorable input costs in China to help offset lower lean ground turkey sales at JOTS and the impact of significantly weaker pork export margins.

Selling, General and Administrative (SG&A)

| <u>(in thousands)</u> | Three Months Ended | | |
|-------------------------|---------------------------|-------------------------|-----------------|
| | January 27, 2019 | January 28, 2018 | % Change |
| SG&A | \$193,544 | \$219,872 | (12.0) |
| Percentage of net sales | 8.2 | % 9.4 | % |

For the first quarter of fiscal 2019, SG&A expenses declined primarily due to a legal settlement and lapping Columbus acquisition costs from the prior year. Advertising investments were in line with the prior year in the first quarter of fiscal 2019 and are expected to be flat for the full year.

Table of Contents**Equity in Earnings of Affiliates**

| <u>(in thousands)</u> | Three Months Ended | | |
|----------------------------------|---------------------------------|-----------------------------|---------------------|
| | January 27, 2019 | January 28, 2018 | % Change |
| Equity in earnings of affiliates | \$11,458 | \$23,531 | (51.3) |

Results for the first quarter of fiscal 2019 were negatively impacted by the effect of a non-operating tax benefit in the Company's MegaMex joint venture in fiscal 2018 and lower international joint venture earnings.

Effective Tax Rate

| | Three Months Ended | |
|--------------------|---------------------------------|-----------------------------|
| | January 27, 2019 | January 28, 2018 |
| Effective tax rate | 21.3% | 0.6 % |

The increase in the effective tax rate for the first quarter of fiscal 2019 was primarily due to deferred tax remeasurements in fiscal 2018 as a result of the Tax Act. The Company expects a full-year effective tax rate between 20.5 and 23.0 percent for fiscal 2019. For further information refer to Note J - Income Taxes.

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. At the beginning of fiscal 2019, the Hormel Deli Solutions division combined all deli businesses, including the Jennie-O Turkey Store deli division, into one division within the Refrigerated Foods segment. In addition, the ingredients business was realigned from the Grocery Products segment to the Refrigerated Foods segment. Fiscal 2018 segment results have been adjusted to reflect these changes. Additional segment financial information can be found in Note N - Segment Reporting of the Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

| <u>(in thousands)</u> | Three Months Ended | | |
|-----------------------|-----------------------------|------------------------------|---------------------|
| | January 27, 2019 | January 28, 2018* | % Change |
| Net Sales | | | |
| Grocery Products | \$606,825 | \$603,577 | 0.5 |
| Refrigerated Foods | 1,278,747 | 1,254,637 | 1.9 |
| Jennie-O Turkey Store | 321,234 | 322,760 | (0.5) |
| International & Other | 153,549 | 150,319 | 2.1 |
| Total | \$2,360,355 | \$2,331,293 | 1.2 |
| Segment Profit | | | |
| Grocery Products | \$95,297 | \$97,545 | (2.3) |
| Refrigerated Foods | 162,593 | 157,531 | 3.2 |
| Jennie-O Turkey Store | 37,904 | 37,724 | 0.5 |
| International & Other | 24,978 | 24,655 | 1.3 |
| Total segment profit | 320,772 | 317,455 | 1.0 |

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| | | | |
|------------------------------|-----------|-----------|--------|
| Net unallocated expense | 13,891 | 12,394 | 12.1 |
| Noncontrolling interest | 94 | 104 | (9.6) |
| Earnings before income taxes | \$306,975 | \$305,165 | 0.6 |

* FY18 segment results have been adjusted to reflect the changes in the Grocery Products, Refrigerated Foods and Jennie-O Turkey Store segments.

Table of Contents**Grocery Products**

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

| | Three Months Ended | | |
|-----------------------|---------------------------|-----------------|---------------|
| <u>(in thousands)</u> | January | January | % |
| | 27, 2019 | 28, 2018 | Change |
| Volume (lbs.) | 338,743 | 329,307 | 2.9 |
| Net sales | \$606,825 | \$603,577 | 0.5 |
| Segment profit | 95,297 | 97,545 | (2.3) |

Net sales for the first quarter of fiscal 2019 increased on growth from *Herdez*[®] salsas and sauces, *Wholly Guacamole*[®] dips, *Muscle Milk*[®] protein products, and the *SPAM*[®] family of products. These sales increases were partially offset by declines in contract manufacturing.

For the first quarter, segment profit declined due to the effect of a non-operating tax benefit in the Company's MegaMex joint venture in fiscal 2018 which was partially offset by a legal settlement in fiscal 2019.

The Company anticipates sales growth in the second quarter led by the branded center store and Mexican foods portfolios. Growth in the branded center store portfolio is expected to be offset by lower margins in contract manufacturing and lower equity in earnings.

Refrigerated Foods

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

| | Three Months Ended | | |
|-----------------------|---------------------------|-----------------|---------------|
| <u>(in thousands)</u> | January | January | % |
| | 27, 2019 | 28, 2018 | Change |
| Volume (lbs.) | 589,356 | 592,776 | (0.6) |
| Net sales | \$1,278,747 | \$1,254,637 | 1.9 |
| Segment profit | 162,593 | 157,531 | 3.2 |

First quarter net sales increases were led by the new Hormel Deli Solutions division with strong gains coming from *Columbus*[®] branded items and *Jennie-O*[®] premium deli meats. Foodservice sales of *Old Smokehouse*[®] bacon and *Hormel*[®] *Fire Braised*[™] products and retail sales of *Hormel*[®] pepperoni, *Hormel*[®] *Natural Choice*[®] and *Applegate*[®] products also showed excellent growth.

Segment profit increased as value-added profits more than offset a 70 percent decline in commodity profits, higher freight costs, and higher operational expenses.

Looking ahead to the second quarter, Refrigerated Foods is expected to grow sales and earnings on strong demand for foodservice, deli, and retail value-added products.

Jennie-O Turkey Store

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

| | Three Months Ended | | |
|-----------------------|---------------------------|-----------------|---------------|
| <u>(in thousands)</u> | January | January | % |
| | 27, 2019 | 28, 2018 | Change |

| | | | |
|----------------|-----------|-----------|--------|
| Volume (lbs.) | 182,159 | 183,060 | (0.5) |
| Net sales | \$321,234 | \$322,760 | (0.5) |
| Segment profit | 37,904 | 37,724 | 0.5 |

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For the first quarter, volume and sales were flat as improved results in foodservice and commodity sales were offset by declines in retail. Volume and sales increases in foodservice were driven by many categories including *Jennie-O*[®] raw boneless breasts and *Jennie-O*[®] cooked breasts.

Segment profit for the first quarter of fiscal 2019 was flat as lower selling, general, and administrative expenses were offset by lower retail sales of lean ground turkey.

JOTS anticipates an earnings decline in the second quarter compared to last year driven by lower retail sales of lean ground turkey and higher input costs due to the impact of extremely cold weather on operations.

International & Other

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

| | Three Months Ended | | |
|-----------------------|-----------------------------|-----------------------------|---------------------|
| <u>(in thousands)</u> | January 27, 2019 | January 28, 2018 | % Change |
| Volume (lbs.) | 86,635 | 85,449 | 1.4 |
| Net sales | \$153,549 | \$150,319 | 2.1 |
| Segment profit | 24,978 | 24,655 | 1.3 |

Volume and net sales increases in the first quarter of fiscal 2019 were led by double-digit growth in exports of *SPAM*[®] luncheon meat along with strong sales of *Skippy*[®] branded products. Fresh pork volume and net sales declined sharply in the first quarter due to the impact of continued tariffs in key markets.

For the first quarter of fiscal 2019, segment profit increased as improved profitability in China due to lower input costs and strong branded exports more than offset lower fresh pork export profits.

The Company anticipates continued volume, sales, and earnings growth in the second quarter driven by strong business results in China. Pork exports remain a risk due to global trade uncertainty.

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 the corporate level. Equity in earnings of affiliates is included in segment 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.

| | Three Months Ended | |
|----------------------------------|-------------------------------|-----------------------------|
| <u>(in thousands)</u> | January 27, 2019 | January 28, 2018 |
| Net unallocated expense | 13,891 | 12,394 |
| Noncontrolling interest earnings | 94 | 104 |

For the first quarter of fiscal 2019, net unallocated expense increased slightly over last year as costs related to the sale of the Fremont facility were mostly offset by the benefit from a legal settlement.

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 28, 2018.

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LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$512.7 million at the end of the first quarter of fiscal 2019 compared to \$385.8 million at the end of the comparable fiscal 2018 period.

Cash provided by operating activities was \$187.4 million in the first three months of fiscal 2019 compared to \$304.2 million in the same period of fiscal 2018. Higher pre-tax net earnings were not able to offset the increase in working capital accounts in the first three months of the year due to lower deferred hog payments compared to the prior year.

Cash used in investing activities was \$1.7 million in the first three months of fiscal 2019 compared to cash used in investing activities of \$905.3 million in the same period of fiscal 2018. In the first quarter of fiscal 2018, the Company spent \$857.6 million on the acquisition of Columbus. Capital expenditures in the first three months of fiscal 2019 decreased to \$39.4 million from \$53.7 million in the comparable period of fiscal 2018. The Company currently estimates its fiscal 2019 capital expenditures to be approximately \$350.0 million. Key projects for the full year include capacity increases in the Company's Nevada, Iowa, pizza toppings facility, an expansion at the Fontanini facility in McCook, Ill, and multiple other projects designed to increase value-added capacity.

Cash used in financing activities was \$128.9 million in the first three months of fiscal 2019 compared to cash provided by financing activities of \$538.2 million in the same period of fiscal 2018. The higher cash provided in fiscal 2018 is related to the purchase of Columbus as the Company borrowed \$375.0 million under a term loan facility and \$375.0 million under a revolving credit facility to fund the purchase. The Company repurchased \$44.8 million of its common stock in the first three months of fiscal 2019 compared to \$25.2 million repurchased during the same period 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 three months of fiscal 2019 were \$100.1 million compared to \$89.8 million in the comparable period of fiscal 2018. For fiscal 2019, the annual dividend rate was increased to \$0.84 per share, representing the 53rd consecutive annual dividend increase. The Company has paid dividends for 90 years and expects to continue doing so.

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 first quarter of fiscal 2019, 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 2019. Along with these commitments, the Company will continue payments to reduce short-term debt borrowed in connection with the acquisition of Columbus.

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 January 27, 2019, was \$27.2 million.

There have been no other material changes to the information regarding the Company's future contractual financial obligations previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended October 28, 2018.

Off-Balance Sheet Arrangements

As of January 27, 2019, and October 28, 2018, the Company had \$46.5 million and \$45.5 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 includes \$2.4 million as of January 27, 2019, and \$2.4 million million as of

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October 28, 2018, 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," "project," or 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.

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. Hogs purchased under contract accounted for 96 percent and 95 percent of the total hogs purchased by the Company during the first three months of fiscal years 2019 and 2018, 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.

To reduce the Company's exposure to changes in lean hog markets, the Company utilizes a hedge program to offset the fluctuations in the Company's future direct hog purchases. The program 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 program as of January 27, 2019, and October 28, 2018, was immaterial. The Company measures its market risk exposure on its lean hog

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futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in the market prices for lean hogs. A 10 percent decrease in the market price for lean hogs would have negatively impacted the fair value of the Company's January 27, 2019, open lean hog contracts by \$0.7 million, which in turn would lower the Company's future cost on purchased hogs by a similar amount.

Turkey Production Costs: The Company raises or contracts for live turkeys to meet the majority 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 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 January 27, 2019, was \$(0.6) million, before tax, compared to \$(1.3) million, before tax, as of October 28, 2018. 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 January 27, 2019, open grain contracts by \$5.6 million, which in turn would lower the Company's future cost on purchased grain by a similar amount.

Other Input Costs: The costs of raw materials, packaging materials, freight, fuel, and energy may cause the Company's results to fluctuate significantly. To manage input cost volatility, the Company pursues cost saving measures, forward pricing, derivatives, and pricing actions when necessary.

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 January 27, 2019, the balance of these securities totaled \$146.9 million compared to \$137.3 million as of October 28, 2018. 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 negative impact to the Company's pretax earnings of approximately \$6.1 million, while a 10 percent increase in value would have a positive impact of the same amount.

International Assets: The fair values of certain Company assets are subject to fluctuations in foreign currencies. The Company's net asset position in foreign currencies as of January 27, 2019 was \$530.6 million, compared to \$687.7 million as of October 28, 2018, with most of the exposure existing in Chinese yuan and Brazilian real. Changes in currency exchange rates impact the fair values of the Company assets either currently through the Consolidated Statements of Operations as currency gains/losses or through the Consolidated Statements of Financial Position within other comprehensive loss.

The Company measures its foreign currency exchange risk by using a 10 percent sensitivity analysis on the Company's primary foreign net asset position, the Chinese yuan and Brazilian real, as of January 27, 2019. A 10 percent strengthening in the value of the yuan relative to the U.S. dollar would result in other comprehensive income of approximately \$32.3 million pretax. A 10 percent weakening in the value of the yuan relative to the U.S. dollar

would result in other comprehensive loss of approximately \$26.4 million pretax. A 10 percent strengthening in the value of the real relative to the U.S. dollar would result in other comprehensive income of approximately \$13.8 million pretax. A 10 percent weakening in the value of the real relative to the U.S. dollar would result in other comprehensive loss of approximately \$11.3 million pretax.

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

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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.

(b) Internal Controls.

During the first quarter of fiscal 2019, 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 ongoing 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, intellectual property, competition 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

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. These pathogens also 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

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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

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.

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, that 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 higher live hog costs compared to 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.

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 enters into long-term agreements with multiple suppliers.

International trade barriers and other restrictions could result in less foreign demand and increased domestic supply of proteins, thereby potentially lowering 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 African Swine Fever (ASF), Bovine Spongiform Encephalopathy (BSE), pneumo-virus, Porcine Circovirus 2 (PCV2), Porcine Reproduction & Respiratory Syndrome (PRRS), Foot-and-Mouth Disease (FMD), Porcine Epidemic Diarrhea Virus (PEDv), and Highly Pathogenic Avian Influenza (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

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operating margins. Additionally, the outbreak of disease may hinder the Company's ability to market and sell products both domestically and internationally. 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, that 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, nut butters, 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, 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 and divestitures.

The Company has made several acquisitions and divestitures in recent years that align with the Company's strategic initiative of delivering long-term value to shareholders. The Company regularly reviews strategic opportunities to grow through acquisitions and to divest non-strategic assets. Potential risks associated with these transactions include the inability to consummate a transaction on favorable terms, the diversion of management's attention from other business concerns, the potential loss of key employees and customers of current or acquired companies, the inability to integrate or divest operations successfully, the possible assumption of unknown liabilities, potential disputes with buyers or 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.

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

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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, security breaches, interruptions or other failures.

Information technology systems are an important part of the Company's business operations. Attempted cyber-attack 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 addition, the Company is in the initial planning stage for a process transformation project to achieve better analytics, customer service, and process efficiencies through the use of Oracle Cloud Solutions. This project is expected to improve the efficiency and effectiveness of certain financial and business transaction processes and the underlying systems environment. Implementation is expected to occur in phases over the next several years. Such an implementation is a major undertaking from a financial, management, and personnel perspective. The implementation of the enterprise resource planning system may prove to be more difficult, costly, or time consuming than expected, and there can be no assurance that this system will be beneficial to the extent anticipated.

In an attempt to mitigate these risks, the Company has implemented and continues to evaluate security initiatives and business continuity plans.

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

As of January 27, 2019, the Company had approximately 18,700 employees worldwide, of which approximately 3,210 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. Union contracts at the Company's facilities in Algona, Iowa; Atlanta, Georgia; Austin, Minnesota; and Beloit, Wisconsin will expire during fiscal 2019, covering approximately 2,300 employees. Negotiations have not yet been initiated.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities in the First Quarter of Fiscal 2019**

| 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 |
|--------------------------------------|---|-------------------------------------|---|---|
| October 29, 2018 – December 2, 2018 | — | — | — | 9,067,156 |
| December 3, 2018 – December 30, 2018 | 276,324 | \$ 41.93 | 276,324 | 8,790,832 |
| December 31, 2018 – January 27, 2019 | 788,303 | 42.15 | 788,303 | 8,002,529 |
| Total | 1,064,627 | \$ 42.09 | 1,064,627 | |

¹ On 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 stockholders 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

31.1 Certification Required Under Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification Required Under Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

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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: March 5, 2019 By /s/ JAMES N. SHEEHAN

JAMES N. SHEEHAN

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

Date: March 5, 2019 By /s/ JANA L. HAYNES

JANA L. HAYNES

Vice President and Controller

(Principal Accounting Officer)