

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-09-10** | Period of Report: **1999-07-31**  
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### FILER

#### **HORMEL FOODS CORP /DE/**

CIK: **48465** | IRS No.: **410319970** | State of Incorporation: **DE** | Fiscal Year End: **1031**  
Type: **10-Q** | Act: **34** | File No.: **001-02402** | Film No.: **99709815**  
SIC: **2011** Meat packing plants

Mailing Address  
*1 HORMEL PLACE  
AUSTIN MN 55912-3680*

Business Address  
*1 HORMEL PL  
AUSTIN MN 55912-3680  
5074375737*



Pages: This report contains eleven pages numbered sequentially from this cover page.

Page 1

FORM 10-Q

STATEMENTS OF FINANCIAL POSITION  
(In Thousands of Dollars)

HORMEL FOODS CORPORATION

	July 31, 1999 ----- (Unaudited)	October 31, 1998 -----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents .....	\$ 189,622	\$ 203,934
Short-term marketable securities-- at cost which approximates market .....	46,411	34,098
Accounts receivable .....	221,680	222,919
Inventories .....	262,182	239,548
Deferred income taxes .....	7,360	8,894
Prepaid expenses .....	7,091	7,972
	-----	-----
TOTAL CURRENT ASSETS .....	734,346	717,365
DEFERRED INCOME TAXES .....	63,158	65,606
INTANGIBLES .....	100,070	105,244
INVESTMENTS IN AFFILIATES .....	132,457	111,364
OTHER ASSETS .....	85,228	69,406
PROPERTY, PLANT AND EQUIPMENT		
Land .....	13,078	13,080
Buildings .....	279,587	275,445
Equipment .....	642,296	616,109
Construction in progress .....	46,912	33,947

	-----	-----
	981,873	938,581
Less allowance for depreciation .....	(485,992)	(451,674)
	-----	-----
	495,881	486,907
	-----	-----
	\$ 1,611,140	\$ 1,555,892
	=====	=====

See notes to financial statements.

Page 2

FORM 10-Q

STATEMENTS OF FINANCIAL POSITION  
(In Thousands of Dollars)

HORMEL FOODS CORPORATION

	July 31, 1999	October 31, 1998
	-----	-----
	(Unaudited)	
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Accounts payable .....	\$ 118,041	\$ 119,836
Accrued expenses .....	40,894	33,699
Accrued marketing .....	29,117	26,140
Employee compensation .....	60,826	54,314
Taxes, other than federal income taxes .....	10,441	14,599
Dividends payable .....	12,079	11,774
Federal income tax .....	4,687	1,172
Current maturities of long-term debt .....	18,033	6,117
	-----	-----
TOTAL CURRENT LIABILITIES .....	294,118	267,651
LONG-TERM DEBT--less current maturities .....	209,208	204,874

ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION .....	248,330	248,201
OTHER LONG-TERM LIABILITIES .....	20,358	21,851
SHAREHOLDERS' INVESTMENT		
Preferred Stock, par value \$.01 a share-- authorized 40,000,000 shares; issued--none		
Common Stock, non-voting, par value \$.01 a share-- authorized 40,000,000 shares; issued--none		
Common Stock, par value \$.1172 a share-- authorized 200,000,000 shares; issued 72,457,612 shares July 31, 1999		
issued 73,614,546 shares Oct. 31, 1998 .....	8,492	8,628
Accumulated other comprehensive income (loss) ....	(6,328)	(3,910)
Retained earnings .....	836,962	812,156
	-----	-----
	839,126	816,874
Shares held in treasury .....	0	(3,559)
	-----	-----
TOTAL SHAREHOLDERS' INVESTMENT .....	839,126	813,315
	-----	-----
	\$ 1,611,140	\$ 1,555,892
	=====	=====

See notes to financial statements.

<TABLE>  
STATEMENTS OF EARNINGS (Unaudited)  
(In Thousands, Except Per Share Amounts)

HORMEL FOODS CORPORATION  
<CAPTION>

	Three Months Ended		Nine Months Ended	
	July 31,	July 25,	July 31,	July 25,
	1999	1998	1999	1998
	-----	-----	-----	-----
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Sales, less returns and allowances	\$ 816,818	\$ 755,769	\$ 2,406,918	\$ 2,349,008
Cost of products sold .....	595,813	561,144	1,717,125	1,744,149
	-----	-----	-----	-----

GROSS PROFIT .....	221,005	194,625	689,793	604,859
Expenses:				
Selling and delivery .....	86,599	72,676	260,870	226,022
Marketing .....	72,838	66,481	224,602	199,594
Administrative and general .....	18,169	21,804	52,815	61,518
Gain on plant sale .....	0	0	0	(28,379)
	-----	-----	-----	-----
OPERATING INCOME .....	43,399	33,664	151,506	146,104
Other income and expenses:				
Other income--net .....	4,616	3,499	14,370	10,784
Equity in earnings of affiliates	952	615	3,906	3,182
Interest expense .....	(3,606)	(3,919)	(10,222)	(10,472)
	-----	-----	-----	-----
EARNINGS BEFORE INCOME TAXES .....	45,361	33,859	159,560	149,598
Provision for income taxes .....	15,811	12,865	55,796	55,459
	-----	-----	-----	-----
NET EARNINGS .....	\$ 29,550	\$ 20,994	\$ 103,764	\$ 94,139
	=====	=====	=====	=====
NET EARNINGS PER SHARE (BASIC) ...	\$ 0.41	\$ 0.28	\$ 1.42	\$ 1.25
	=====	=====	=====	=====
NET EARNINGS PER SHARE (DILUTED) ..	\$ 0.40	\$ 0.28	\$ 1.41	\$ 1.23
	=====	=====	=====	=====

See notes to financial statements.

</TABLE>

Page 4

FORM 10-Q

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
(In Thousands of Dollars)

HORMEL FOODS CORPORATION

	Nine Months Ended	
	July 31, 1999	July 25, 1998
	-----	-----
OPERATING ACTIVITIES		
Net earnings .....	\$ 103,764	\$ 94,139
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation .....	42,943	37,896
Amortization of intangibles .....	5,174	5,344
Equity in earnings of affiliates .....	(3,906)	(3,182)
Provision (benefit) for deferred income taxes ..	2,274	(147)
(Gain) loss on property/equipment sales .....	927	1,974
(Gain) loss on plant sale .....	0	(17,592)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable .....	1,239	25,303
(Increase) decrease in inventories and prepaid expenses .....	(21,753)	7,820
Increase (decrease) in accounts payable and accrued expenses .....	12,882	(13,584)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES .....	143,544	137,971
INVESTING ACTIVITIES		
Sale of held-to-maturity securities .....	60,224	54,065
Purchase of held-to-maturity securities .....	(72,537)	(83,056)
Purchases of property/equipment .....	(53,620)	(43,788)
Proceeds from sales of property/equipment .....	776	39,467
(Increase) in investments and other assets .....	(38,789)	(10,678)
Dividends from affiliate .....	0	1,670
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES .....	(103,946)	(42,320)
FINANCING ACTIVITIES		
Proceeds from long-term borrowings .....	25,952	18,694
Principal payments on long-term debt .....	(4,745)	(8,560)
Dividends paid on Common Stock .....	(35,871)	(35,896)
Stock Repurchase .....	(41,577)	(76,518)
Other .....	2,331	1,488
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES ..	(53,910)	(100,792)
	-----	-----
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS .....	(14,312)	(5,141)
Cash and cash equivalents at beginning of year .....	203,934	146,853
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF QUARTER .....	\$ 189,622	\$ 141,712
	=====	=====

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS  
(UNAUDITED)

HORMEL FOODS CORPORATION

NOTE A

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In the opinion of the Company, the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring accruals) necessary for a fair presentation.

The accounting policies followed by the Company are set forth in Note A to the Company's Financial Statements in the 1998 Hormel Foods Corporation Annual Report to Shareholders, which is incorporated by reference on Form 10-K.

NOTE B

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The results of operations for the three and nine month periods ended July 31, 1999, and July 25, 1998 are not necessarily indicative of the results to be expected for the full year.

NOTE C

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Beginning in 1999, the Company is required to report comprehensive income as defined by Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income". SFAS 130 requires minimum pension liability adjustments and foreign currency translation adjustments, which prior to adoption were reported separately in common stockholders' equity, to be included in "Other Comprehensive Income". Comprehensive income (net income plus other comprehensive income) was \$27,265 and \$101,346 for the quarter and nine months, respectively, compared to \$20,994 and \$94,139 for the same periods in 1998.



MANAGEMENTS' DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(In Thousands except share amounts)

HORMEL FOODS CORPORATION

RESULTS OF OPERATIONS  
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Net earnings in the third quarter increased 40.8 percent to \$29,550 from \$20,994 during the same quarter of 1998. Sales for the quarter increased 8.1 percent to \$816,818 from \$755,769 last year. Sales tonnage for the period increased 13.3 percent compared to the same period of 1998.

Net earnings for the first nine months of fiscal 1999 were \$103,764 compared to \$94,139 last year. The 1999 results include a gain, net of taxes, of \$3,808 on the sale of land by Campofrio Alimentacion, S.A., a Spanish company in which Hormel has a 21.4 percent ownership interest. The 1998 results include a gain, net of taxes, of \$17,402 on the sale of the Davenport gelatin plant and business to Goodman Fielder Limited, of Sydney, Australia.

Excluding the one-time gains, sales and earnings for the first nine months of 1999 were \$2,406,918 and \$99,956, respectively, compared to \$2,349,008 and \$76,737 for the same period last year. Tonnage volume for the nine months increased 9.4 percent.

The increase in earnings, tonnage volume, and sales dollars for both the quarter and nine months were a result of aggressive promotional programs and a product mix reflecting volume increases in higher margin, value-added branded tonnage. The Company also benefited from a continuing large supply of live hogs allowing Company facilities to be operated at optimum capacity.

The Company's core branded business continues to be the major contributor to earnings. The Prepared Foods Group tonnage increased 5.2 percent for the quarter and 5.7% for year-to-date. Sales to mass merchandisers and club stores remain strong and have doubled in the past three years. Microwave items as a group are

up 8.0 percent for the year. KID'S KITCHEN microwaveable cups led the growth with an increase of 30.0 percent to-date.

Meat Products tonnage increased 8.0 percent for both the quarter and nine months. Branded processed meat products continued to grow at a rate of 5.0 percent. Fresh pork sales increased 11.0 percent. During the fourth quarter, the Company will complete the reopening of the closed Houston facility to handle the increased demand for microwave and fully cooked bacon products. This will allow for expansion from regional to national distribution for these products.

The retail ham category continues to experience double-digit growth over 1998. The growth should continue throughout the fourth quarter with the planned advertising and promotional support during the upcoming major holiday season.

Tonnage volume for the Foodservice Group increased 15.0 percent for the quarter and 13.0 percent for the nine months. Branded volume increased 12.0 percent for the quarter led by increases of BREAD READY pre-sliced meats of 21.0 percent.

Page 7

FORM 10-Q

MANAGEMENTS' DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(In Thousands except share amounts)

HORMEL FOODS CORPORATION

RESULTS OF OPERATIONS  
-----

Export sales continued to grow across all regions and categories with volume increases of 50.0 percent for the quarter and 37.0 percent for the nine months. The SPAM brand continues to do very well in foreign markets with an increase in the third quarter of 44.0 percent. SPAM has reached an all-time high market share of 56.0 percent in the U.K. STAGG chili has also experienced a very successful launch in the U.K. with all major chain accounts having authorized some or all of the eight variety product line. China operations continue to show improvement with branded hot dogs showing double-digit increases in both Beijing and Shanghai.

Jennie-O Foods, Inc., a wholly owned subsidiary, is celebrating its 50th anniversary this year. Jennie-O results exceeded 1998 for both the quarter and nine months. The benefits of low feed grain prices and above average commodity turkey prices experienced in the third quarter appear likely to continue through the fourth quarter. The number of turkeys to be processed during the fourth quarter should be similar to last year's levels. Jennie-O continues to focus on

improving its product mix in order to better serve its customers.

Selling and delivery expenses for the quarter and nine months were \$86,599 and \$260,870 compared to \$72,676 and \$226,022 last year. Marketing expenses were \$72,838 for the quarter and \$224,602 year-to-date compared to \$66,481 and \$199,594 in 1998. The increases for the quarter and year-to-date are due primarily to the increased sales volume over last year. The Company continues to emphasize its well-established products including branded fresh pork as well as its newer ethnic product lines in promotional programs targeted to increase sales of higher margin items.

Administrative and general expenses decreased to \$18,169 and \$52,815 for the quarter and nine months from \$21,804 and \$61,518 last year generally due to a decrease in pension charges.

The effective tax rate for the quarter and nine months was 34.9 and 35.0 percent compared to 38.0 and 37.1 percent for the same periods in 1998. The decrease in rates reflect the effect of tax credits from the federal affordable housing program and research and development operations, a decrease in state taxes, and an increase in foreign earnings not taxable in the U.S.

Page 8

FORM 10-Q

MANAGEMENTS' DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(In Thousands except share amounts)

HORMEL FOODS CORPORATION

FINANCIAL CONDITION  
-----

Ratio comparisons for the third quarter of 1999 and 1998, which demonstrate the Company's financial strength, are as follows:

End of Quarter  
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	3rd Quarter 1999	3rd Quarter 1998
	-----	-----
Liquidity Ratios		
Current ratio	2.5	2.7
Receivables turnover	14.4	*14.2
Days sales in receivables	25.2 days	*24.3 days
Inventory turnover	9.1	8.9
Days sales in inventory	41.8 days	40.6 days
Leverage Ratio		
Long-term debt to equity	27.1%	27.1%
Operating Ratios		
Pre-tax profit to net worth	***25.7%	**25.1%
Pre-tax profit to total assets	***13.4%	**13.1%

\* Includes \$71,400 in receivables from the sale of the Davenport plant.

\*\* Includes \$28,379 from the sale of the Davenport plant.

\*\*\* Includes \$3,808 from the sale of land by Campofrio.

Changes during the first nine months in current asset and liability balances followed normal seasonal patterns. The Company continues to keep surplus cash invested short-term as it examines business opportunities that meet its long-term operating goals. Inventory levels are considered adequate for the traditional promotional activities that occur during the fourth quarter. To-date in 1999 the Company has invested \$53,260 in new plant and equipment. Investment in plant and equipment continues to focus on the development of better and more convenient products for our customers as well as enhancing productivity gains and efficient product flow. The Company through a subsidiary, Park Ten Foods, LTD., will be re-opening a production facility in Houston, Texas, during the fourth quarter of 1999.

During the first quarter of the year, the Company made an equity investment of \$22,000 in a joint venture, Purefoods-Hormel, in the Philippines. The increase in long-term debt during the first nine months of 1999 was primarily due to the investment in the Philippines. The leverage ratio indicates that significant borrowing capacity remains to take advantage of business opportunities that may arise through acquisition or internal expansion.

During the third quarter, 489,900 shares of common stock were repurchased under the share repurchase program bringing the total since the inception of the second share repurchase program to 1,265,400 shares.

YEAR 2000

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For many years, the Company's internally developed software has been designed in ways that largely eliminate the need for major revisions for the Year 2000. As of the end of the quarter, the review of major computer systems has been completed, and any known required changes have been made. The Company's operating system software is also Year 2000 compliant. Additional system testing is now being performed. Management does not anticipate any problems in this area.

The Company continues to review the impact of the Year 2000 on its software purchased from third-party vendors. All systems have been evaluated, and needed upgrades have been identified and either implemented or scheduled. Revisions are currently over 95 percent complete, and will be finished before October 1, 1999.

The Company has queried its significant customers and suppliers regarding their exposure to potential Year 2000 problems. Based upon this investigation, the Company is not aware of any supplier or customer with significant Year 2000 issues. However, the Company has no means of ensuring that customers and suppliers will be Year 2000 ready.

The Company does not anticipate any delays in completing Year 2000 revisions by October 1, 1999. The Company has a contingency plan in place to prevent problems related to the Year 2000, and to deal with unforeseen problems which may arise. The contingency plan includes:

- Special operational schedules for plant operations at year end to ensure smooth transition.

- Provisions for manual methods of order fulfillment in the event of problems with automated systems or external network providers.

- Establishment of target year-end inventory levels for key products and manufacturing supplies to help maintain a high level of order fulfillment in the event that disruptions in the supply chain occur in places outside the Company's control.

Total historical and anticipated remaining costs to remedy Year 2000 problems are not material.

PART II - OTHER INFORMATION

HORMEL FOODS CORPORATION

Item 4. Results of Votes of Security Holders.  
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None.

Item 6. Exhibits and Reports on Form 8-K  
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None

SIGNATURES  
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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

Date: September 14, 1999  
-----

/s/ D. J. HODAPP  
By: -----  
D. J. HODAPP  
Executive Vice President  
& Chief Financial Officer

Date: September 14, 1999

/s/ J. M. ETTINGER  
By: -----

-----  
J. M. ETTINGER  
Treasurer

Page 11

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HORMEL FOODS CORPORATION

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