[Hormel Foods Corporation at Prudential Equity Group Back-to-School Consumer Conference - Final]

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JOHN MCMILLAN, FOOD ANALYST, PRUDENTIAL: I'm going to start, as people wander in. Good morning, everybody, I'm John McMillan. Welcome to the Back-to-School Conference. I want to thank Hormel Foods for issuing the first press release of the Back-to-School Conference and I'm sure Jeff will go over it but I've been a food analyst for 21 years at Prudential and Hormel Foods, which was once called George A. Hormel, you know, under my calculations, has been one of the - one of two best-performing food stocks over that 20, 21 years.

Now, one could say it's interesting that the other company on the top of the charts is Smithfield Foods, so it's as easy as just understanding you should have invested in pork 21 years ago but I think if you look through that industry and see all the processed meat companies, the slaughterers, the hotdog companies that have kind of gone belly up, you'll see that it isn't all about pork. It isn't all about that. I think the success of Hormel has been driven by, you know, a few things and probably the biggest one has been a stable management team.

Jeff Ettinger has only been CEO of Hormel for, I guess, nine months now but it seems like he's been around forever and his predecessor, Joel Johnson, it seemed like he was around forever and [Dick Nolton] has been around forever. So, you know, I've only known, in my 21 years, three leaders of Hormel. I look at some other food companies and they go through three leaders in a year, so I think, more than anything else, it's the stable management team that is really focused on the long term and it's been a pleasure to follow Hormel for 21 years and with that, I'll turn it over to Jeff - welcome.

JEFF ETTINGER, PRESIDENT AND CEO, HORMEL FOODS CORPORATION: Thank you very much, John for that nice introduction. Obviously, as everyone [Unintelligible] this conference, we need to warn the audience that we will be making some forward-looking statements and then we're going to start with a quick video clip that's somewhat of a backward-looking statement.

[VIDEO PRESENTATION] [MUSIC PLAYS] The nation's number one turkey processor and Spam producer, Hormel. [Spam], that belongs to Hormel. Hormel Foods family. Hormel Foods must be selling a lot of Spam. Hormel, I mean, [you think] it really should be Spam right [on the NASDAQ]. I brought breakfast for all of us. Spam, it's making a comeback. Spam. Hormel Foods, the Austin-based maker of Spam. Getting Spam out there. High-voltage pork. Spamming the globe is Hormel's--Yummy. Spam. Hormel is just Spam, Spam, Spam, Spam and Spam. Listen, I won't do the show without a can of Spam on the [check]. Spam. [END OF PRESENTATION]

JEFF ETTINGER: We are clearly known as Hormel, maker of Spam foods to most folks but I have an opportunity this morning to share with you a lot of the other things that go on at Hormel Foods that we're excited about. We've got a 115-year history in the business. We're a company that emphasizes branded, value-added product and we have a long legacy of innovation and quality in everything that we do.

In terms of an overview of the Company, we are heavily emphasizing brands. Spam is certainly one of those brands but we're also known for Hormel Chili, Hormel Pepperoni or Hormel Always Tender Pork, our Dinty Moore Beef Stew, Chi-Chi's Salsa, Jennie-O Turkey Store products and then a wide array of ethnic products that we've grown over the 10-12 years. We've been a very stable company on a financial basis. We've had 40 consecutive years of dividend increases and we've paid a dividend every year since we were listed on the New York Stock Exchange. We've had excellent shareholder returns. Our ten-year [cagier] is 15% and we do feel that Hormel Foods operates in a unique space in the food business that were part packaged goods and part protein, and we'll talk about those business segments in a moment here.

On a reporting segment basis, we can start with our grocery products group. These would be the shelf-stable items of Spam luncheon meat, our microwave business and our ethnic products, represents about 14% of sales t are just under $900 million and double that in profits or about 28% in the current year, after the first three quarters.

On the protein side of the business, we have our refrigerated foods business within Hormel Foods, a big chunk of our sales, over 50%, both retail and food service, as well as our Farmer John operations results roll up through refrigerated foods. Jennie-O Turkey Store would be our third segment; very focused in value-added turkey items. One of the largest processors in the United States and in the world and if you notice those operating profit numbers on a year-to-date basis, it was 28% grocery product, 26% refrigerated foods, 27% Jennie-O Turkey Store, so we have outstanding balance within our three major segments. In the last year, it was a three-way horse race right down to the end of the year to see which one would be the largest profit contributor and last year, Jennie-O Turkey Store was.

We've had an excellent year with our specialty segment. Our specialty foods group, Diamond Crystal brand, Century Foods and some of our specialty products items within the core Hormel Company, that unit is up on a profit basis over 70% this year as we're starting to attain the normalized margins we expect from that group at a 6-7% operating basis and then, finally, our [Unintelligible] segment would be our international group and our Dan's Prize cooked beef subsidiary and they're both having excellent years as well.

If you look at it from a channel standpoint, one of the things that I think differentiates us, again, from other companies and provides part of that balanced story that I was talking about is that we do have a significant grocery retail business, 57% but we also have over 30% of our company-wide sales going into the food service segment and we've placed emphasis on food service over a long frame of time and we've really been able to attain good results and good returns in doing that.

We do have focus within the deli area of the grocery store and bring - obviously, ham and turkey are the two largest-selling items within the - behind the glass area of deli and we're leaders in both and then, finally, our international piece is a small but growing piece for us. We have two operations on the floor in China, in Beijing and Shanghai that are growing [for us]. We have a significant partnership in the Philippines but overall, sales of international are just under 5% for the Company.

In terms of the growth objectives and the guidance that we give on a long-term basis, our long-term guidance is that we intend to grow our business 5% on the top line and 10%, in terms of operating earnings. In terms of how we expect to get there, when you look at each of the segments, we recognize, for starters, that our grocery segment, it tends to be in the center of the store, slower-growing area of the store - I'm going to talk, in a couple minutes, about some areas within grocery products that are growing at a faster rate than that - but overall, built into that 5% model is about a 3% expectation for the grocery piece. Within the value-added protein segments, refrigerated foods and Jennie-O Turkey Store, we do believe we can grow those at a 5% or higher clip and have, indeed, been doing that over the past several years. Our specialty foods expectation would be more like 6% and we intend to grow our international business at 10%+, off of a fairly small base.

John was nice enough to mention the consistency that our Company's had, in terms of management. One of the other elements of consistency I think we bring to the party is very consistent application strategies. We really don't go kind of bounce around, year to year, with different strategies. It's been about that balanced focus. It's been about value-adding, commodity items. We've always had a focus on brands. Over the last few years, we've stepped up our activity in the acquisitions area - and I'll review that a little bit later in the presentation - and through it all, we really do have an emphasis, at all times, on maximizing operating efficiency. We pride ourselves on trying to keep our costs in line at all times and not having to do the massive layoffs or the massive restructurings that you sometimes see in the industry.

What this has lead to is very consistent performance. We've only had two down years in the last 24 years. Hormel Foods, since we are part in the protein business, we sometimes get characterized as somewhat of a commodity company. I [unintelligible] that status as being purely commodity company, you don't see the down ticks in different kind of markets scenarios and over a long period of time, since 1981, an 11% compound growth rate in our earnings.

One of the kind of headline issues off of our conference call that occurred here just a couple weeks ago was the different scenarios confirming us, in terms of hog prices and hog price expectations. We have called the market as being maybe in the high 40s for our operating quarter. Other companies looked at it more in the high 50s. You know, time will tell which scenario's right. I will say, as of today - as of yesterday, it was down to $49, so it certainly is approaching the area that we had suggested but I would also offer to the group that it really - to us, it's not as significant a number as it might be to some other players within the industry. Over time, we've been able to steadily grow our business through high-hog markets, through low-hog markets. The key, to us, is having visibility to that pricing.

During the third quarter, there was a short-term spike in costs and that's very difficult to immediately turn around into your value-added products and push that pricing through but if we can - if over a sustained period of time, we see either a higher-pricing scenario or a lower-pricing scenario, we can adjust our prices to the market accordingly and do just fine.

The other thing I guess I would point out - and John pointed out, in his introduction, as well - that we don't view this as a zero-sum game, that whether - it's not that somebody's going to win with high prices and somebody's going to lose with high prices. Indeed, the two companies that John was nice enough to highlight is who he's followed over a long time, our Company, Hormel and Smithfield, we have very different strategies, yet we've both been able to be very successful over a long period of time and I think we can continue to do that into the future.

Our Q3 results that were announced here, a couple weeks ago, we had another nice up quarter. We're on track, right now, to deliver double-digit increase in profits on a full-year basis and that would be on top of having done the same thing the last two years in a row. We're seeing very solid results from our grocery products, specialty foods and all other segments within that. Jennie-O Turkey Store and refrigerated foods were down slightly. Refrigerated because of that spike in the hog costs that I mentioned earlier and Jennie-O Turkey Store in terms of just - in terms of the comps that they've been looking at. Jennie-O Turkey Store's operating margins for the third quarter were still in the high 9% range. That's very - those are excellent margins, from what we're looking at. Our long-term expectation for that unit would be 8% to 9% and then slowly growing from there but last was an exceptional year in the turkey business. In the fourth quarter, we had 13% operating margins and we don't see that repeating itself and that's been part of our guidance going forward in the third and the fourth quarter.

As you'll probably hear from every company you talk to today, clearly, we are confronted with higher energy and distribution costs. We've been doing everything we can to try to offset those costs. One of the areas that we've been able to achieve some significant savings is by virtue of the acquisitions we've made and by virtue of doing more consolidated purchasing among all of our units. While some of our raw materials have gone up, we've actually been able to obtain decreases in certain other key raw materials and so that's been a helpful out-product of those acquisitions and through it all, we really are focused, at all times, on our unit as - on the growth of the value-added products, the growth of our franchise with consumers and the grocery store and in restaurants and we saw excellent growth in all of our segments on a value-added basis during the third quarter.

We are a strong generator of free cash flow. We're on track in 2006 to, once again, generate a little north of $300 million in free cash flow. In terms of usage priorities, we are interested in growing our business, hence our guidance of 5% top line, 10% bottom line. We look for acquisition opportunities that we think are good fits with the Company and that will allow us to deploy capital on an intelligent basis. If those acquisitions aren't available on a given year, we don't bite aggressively. We'll bide our time and wait for the right deals to come around.

In the meantime, as I mentioned earlier, we have increased our dividend, every year for the last 40 years and we'll continue to be a solid payer and payout company in the dividend area and we do have a share repurchase authorization outstanding that still has 7 million to 8 million shares to go.

I want to talk briefly about kind of what the current environment looks like, from our perspective. From a protein freezer standpoint, to us, it's fairly benign, particularly, in the commodities where we have a heavy influence. We are big in the turkey business. We are big in the hog business and you see both pork and turkey raw materials in the freezer being down. Clearly, at some point, all proteins affect each other and so we keep our eye on the other protein but as we sit here today, we're in a fairly benign environment, at least as those freezer inventories look.

On a market basis, the turkey market is a little bifurcated. We have very high breast meat prices at the end of the summer here, and that's usually an advantage but we're also utilizing almost all the breast meat within our system, so we're not selling a lot of commodity breast meat out. Indeed, there's times we've been buying over the last couple of months and so that's less of an advantage to the business. On the dark meat side, there, we are in that seller. Those prices are solid but they're not as high as they were a year ago, in that part of the year-over-year comparison. Pork markets have been fairly consistent with the year-ago, beef is higher and chicken's lower but obviously, coming up.

We're, you know, looking at crop conditions going forward. In terms of the impact on Hormel Foods, we are now on hog contracts whereby we no longer have the grain risk on those contracts, so that's really not part of our profit [niche]. In the turkey side of the business, however, we do run all our own feed mills. We provide virtually all the feed within the operations, so there, we would have a grain exposure. We're looking at the markets right now as being in pretty good shape as they run into the harvest season here and the impact of it, if you saw a sudden spike in any of those markets today, given the 22-week lifespan of the further process, [Tom products], our primary product, the Jennie-O Turkey Store, you'd be looking four-to-five months out from now, in terms of seeing that cost impact on our bottom line.

And lastly, there's been a lot of talk and a lot of activity in the protein industry, in terms of some mergers and acquisitions. We've got questions on is that going to affect your business and I guess our answer is really, we don't think it will. We've had the same philosophy in place for a number of years in the turkey business. We are vertically integrated, to an extent. We do take a position of being one of the largest companies within that industry and see ourselves as being a low-cost producer and a scale player, as well as a value-added player and that won't change with any of the acquisitions that have gone on.

On the hog side of the business, we've long been number five or number six, in terms of slaughter numbers. We really focus our slaughter on meeting our value-added volume expectations. We have all our raw materials contracted into - on long-term contracts going forward. We've been able to renew those contracts, very easily, over the past year or two years and don't see any change in that going forward and we're not a big buyer of meat from other companies and so whatever goes on, in terms of the, you know, which hands on which assets, at least on the pork side of the business or the beef side of the business, we really don't see that affecting our business model.

What we really do want to focus our attention on and do focus on is the consumer side of the business. It's the branded products; that we look to anticipate, listen and respond to consumer needs and really push innovation in all our product lines. During 2006, we will sell just over $750 million-worth of products this year alone that we have created during this decade. During this decade, if you go back to the end of '99, our Company was just over $3 billion in sales. In 2006, we're going to be just under $6 billion in sales and those new products represent about a third of that growth. Acquisitions represents a little over another third and then our organic, our core business has grown by a third and so we look at all these areas as growth drivers for us.

The key to us, in terms of product delivery, is flavor and convenience; those are the top two and then anything you introduce to the retail trade or to the restaurant trade, in this day and age, has to be easy to prepare, whether it's at home or for a food service operator and has to meet those flavor requirements and then lastly, we're seeing more and more interest in the type of items that are in the good-for-you category, natural items and those types and I want to run a little segment here about a product line that we're quite excited about that we introduced this year that meets all three of these criteria.

[VIDEO PRESENTATION] [MUSIC PLAYS] We've determined the need. We've assessed the opportunity. We've developed the strategy. We've supported the effort and we've delivered. Hormel Natural Choice deli sandwich meat. The great taste comes naturally. New Hormel Natural Choice deli sandwich meat, all natural, no preservatives. The great taste comes naturally. New Hormel Natural Choice. [END OF PRESENTATION]

JEFF ETTINGER: Our Hormel Natural Choice line of products is an out-growth of a food safety technology that we embraced, high-pressure pasteurization. Hormel Foods is a pioneer in utilizing this technology in the early part of this decade. We use it on Proscutti ham and we saw it as an opportunity to treat pre-sliced meat, one of the major challenge areas within the food safety environment that most other chemicals utilize chemicals, lactates, [diacitates] and so forth to attain food safety in those areas. By utilization high-pressure pasteurization, we're allowed to take out - we can take out any chemicals, any preservatives in these products and we can attain an all-natural product and indeed, we launched Hormel Natural Choice, an all-natural line of turkey and ham products here earlier this year. We're up to 82% at distribution on a national basis in retail stores throughout the country. We're getting excellent results, in terms of the sell-through. We're having the highest number of consumer compliments coming in on this line that we've ever received on our product line and so it's really off to an excellent start.

We're expanding the Hormel Natural Choice brand into other areas of the store, as we speak. At this summer's deli meeting, and in [IDDBA] show, we unveiled a behind-the-glass program of Hormel and Jennie-O Turkey Store Natural Choice, behind-the-glass deli items and this fall, for the holiday season, we're coming out with a Natural Choice, retail ham product as well.

Another innovation within our refrigerated group is in the ham area. Our oven-ready ham is in test in a number of a markets. It's a premium item that you can just take from the refrigerator and without any preparation requirements, put in the oven and have an excellent opportunity, great experience for the consumer at home. This is an out-growth. Also, the oven-ready turkey franchise that we created at Jennie-O Turkey Store, that franchise is in its third year and continues to gain more consumer and retailer acceptance, as well, each year.

One of the key areas of convenience within the refrigerated case is in these meal solutions, easy, quick meals for families. The Hormel entrees that you see on the left are a product line we created during this decade and they've had excellent growth and then one of our acquisitions was the Lloyd's line of products that you see on the right. Together, these two represent about $200 million in sales for our Company, highly value-added, solid margins and a growing part of the consumer experience within the grocery store.

One of the keys to selling these items is to make sure you're conveying to the consumer that this is really a meal solution opportunity and so we tend to do tie-ins with side dishes. We'll do tie-ins with companies that provide the salad component of the meal and we do see, you know, in each of these cases, all of those types of segments are growing and allows us to gain synergies with those other items.

I talked earlier about the emphasis on food service and how over 30% of our sales go out in a food service form and we really do place a lot of emphasis on it. The key to our food service unit is what we call our pre-strategy, that's taking labor out of it for the operator - pre-slicing, pre-marinating, pre-weighing, the pre-packaging - anything we can to deliver to high-quality, flavorful items for a food service operator but to take labor out of their operation. Food service requires a lot of one-on-one collaboration. You have chefs from the major operators sitting side-by-side with our chefs in our R&D facility. You do develop unique product on a one-on-one basis for certain food service operators and we've been able to, by virtue of that, grow our food service business at a much faster clip than the national trend has been for food service growth.

Obviously, with Jennie-O Turkey Store in the portfolio, value-added turkey has to be a priority for us and it has been now for a number of years. We've been able to attain high, single-digit growth in value-added turkey for the last five years in a row. We sell it in the frozen case, in the deli part of the store, in processed meats, in the fresh meat case. The item you see on the lower right there is a rotisserie turkey. Rotisserie chicken is a gigantic category within the retail environment and we've been able to carve out a nice niche and growing niche for Jennie-O Turkey Store rotisserie turkey as another offering for that segment.

Within the grocery products area, we're looking for growth as well in the consumer packaged goods. The items on the right would be the more steady items, the canned Hormel chili, the Spam luncheon meats. Down at the bottom, you see the Valley Fresh line of chunk chicken items that we purchased on an acquisition basis here, earlier this year and then I mentioned that there are a couple of high-growth areas within our grocery portfolio as well.

Our microwave meals area, the items pictures on the upper left here are growing. This is the third year in a row that those items have grown at over 30% clip on a year-over-year basis. They've just made a nice connection with consumers. We re-branded them and we took the [bowl] items out of the box that they used to be sold in, two, three years ago and by virtue of those changes and by adding new flavors to the line, it has really taken off and we see that as a real good catalyst for growth going forward.

On the bottom left, you see a number of our ethnic offerings. These are not under the Hormel brand but they're clearly sold by our Hormel sales force out in the marketplace. They range from Chi-Chi's salsa to Herdez brand, a Mexican product, authentic Mexican products, Carapelli Olive Oil, Patak Indian food, Peloponnese olives and all together, our ethnic segment and adding in the [Manny's] acquisition we made last year, is over $200-million part of grocery product and it's been growing at a nice rate as well.

In terms of acquisitions, I've referred to acquisitions a couple of times. Really, what we're looking at, in an acquisition is, A) What do we bring to the party? Why is this asset going to be worth more in our hands than it was in the previous owner's? Under the philosophy, I mean, that you're not going to steal businesses in most situations. You're going to pay the value of what the business is worth today. So the way to enhance value and bring opportunities for the shareholders is that we need to bring something to the party. By the same token, we look at the assets and say, well, what are they bringing to us? Are these assets redundant to something we already have? Do we already have brands in the same space or in the same region of the country? And if so, maybe we'd be a less likely to be interested in those.

We look for businesses that fit within the core competency, the business segments that we've had more longstanding success in. We tended to do deals in the $50 million to $350 million range, though as John eluded to, I'll have one to talk to you about this morning that's in the $17 million level and so we look at all different sized deals but we tend to shy away from what many call the transformational deal, those very large deals for us and I think we've still been able to enjoy good success with the deals we've had.

We look at acquisition platforms on a segment-by-segment basis. We've talked about grocery products. Kind of ethnic foods is one part of it; canned meats would be another. Within refrigerator, there's deli, there are refrigerated meals, there's the processed meats side and then we have a major food service emphasis. Jennie-O Turkey Store's all about value-added turkey. The specialty segment has been kind of the Diamond Crystal, [pop] of the table types of items and then we have our international group and so over the last year and a half, we've made five acquisitions and each one of these fit within one of these targeted segments and allowed us, on an aggregated basis, to grow our business nearly $1 billion and on a bottom-line basis, have been nice contributors as well.

Now, as John mentioned, we did make an announcement this morning of another small deal, a $17 million deal. This is actually a publicly-traded company out west called Provena Foods. The focus here really is on the production capabilities of this entity. They have a very fine manufacturing facility for pepperoni and Italian-style sausage products. Hormel Foods is the largest pepperoni manufacturer in the country. We had been looking at expanding our own operations and having to spend a great deal of capital in order to do that, by making this acquisition, we attained about three times the capacity that we would have put into our plant for the same amount of money and it also came with a book of business of about $50 million that we'll be able to integrate into our overall food service operation. It's located out on the west coast, which is also a benefit for us. We have a lot of food service business out in that area and with the Farmer John operation, we have a lot of trim, raw materials available to feed into this business and so it's another nice, small but excellent fit for our Company, going forward, within our refrigerated foods area.

So, in summary, you know, Hormel, maker of Spam, but we also want to be known as Hormel, the balanced food company, a balance between being packaged good and protein, a balance between being in the retail and food service segment, a balance in terms of the profit delivery of our major business segments. We want to be known for our strong brands, Spam and many others. We want to be known as being a leader in many of these categories and many growing categories. Microwave, shelf-stable meals, refrigerated entrees, value-added turkey, party trays - there's a number of areas that we participate, within the grocery store, that are growing at very nice levels and then, finally, we do view ourselves as having a strong financial position.

We've long taken the position that it's not inconsistent to be conservative in your financial operations but aggressive in your marketing and your innovation and we've had good success, over the years, through that combination. With that, I'll be happy to take any questions anyone has.

JOHN MCMILLAN: We have about 15 minutes.

UNIDENTIFIED PARTICIPANT: How much of that is on the [unintelligible]?

JEFF ETTINGER: The one we just made? About $7 million. So ten - we're actually - it's a publicly-traded company and we're actually going to use stock swap for the equity portion of it and then $7 million in debt will be [unintelligible].

UNIDENTIFIED PARTICIPANT: [unintelligible] you gave goals for top line growth for the various areas, you know, the grocery goal, I think, was 3%, if I remember.

JEFF ETTINGER: Yeah, that's correct.

UNIDENTIFIED PARTICIPANT: You know, you haven't done that consistently in the last couple of years, as well as the Company had done. Other than the microwave area, kind of what turns that around?

JEFF ETTINGER: I think the key for us in grocery over the past couple of years has not been the failure of the growth pieces of grocery products to do what they need to do. It's been that, instead of having all our other items remain fairly stable, we've got a few significant decliners and that's what we need to remedy. Dinty Moore Beef Stew, on a canned basis, had a couple years in a row of declining. We had gotten it back to kind of, you know, holding its own and then this last quarter, again, we had a significant decline and so that's a franchise we have to put some attention against and work on.

It's an interesting franchise though because at the same time, as the Dinty Moore canned item has declined, as we've talked about over the past few years, the number-one selling item in that growing microwave line of products is Dinty Moore Beef Stew, so it's not that consumers don't like Dinty Moore Beef Stew. We have a challenge in front of us, in terms of the form and the price and the delivery vehicle of the product and then, potentially, need to boost our advertising against that line.

The same thing in terms of what we've seen. Some declines this year, while Hormel chili has grown, Stag chili had declined and so we need the stable part of grocery product to stabilize and then we can really allow the ethnic and the microwave segments to shine through and lead to that overall growth.

Next question. Mhm?

UNIDENTIFIED PARTICIPANT: So there's no - from this acquisition, there's no EPS impact? It's just too small to matter and then I guess, $50 million in sales, I assume most of it, since it's going pizza topping, it's pretty much all food service-related?

JEFF ETTINGER: Yeah. Yeah, it's almost all food service and at this point, yeah, we don't see it having an EPS impact but if going forward, once we've had a chance to look at the operational more, we have a different sense of it, we would talk about that, probably in our November call but it's not a big enough entity to make a huge difference.

UNIDENTIFIED PARTICIPANT: Now, who is the leader in pizza top--

JEFF ETTINGER: Oh, we're the leader in pepperoni and then there are several other players that tend to be in the other parts of the topping business. We have topping items within our portfolio as well but it's a much more fragmented business.

Tyson's has some pieces of it, Smithfield does and there are some smaller companies out there that compete in pizza toppings as well.

UNIDENTIFIED PARTICIPANT: Now, having 30% of your business in food service, normally, is a big positive. The fact that the food service industry has, you know, very publicly slowed down over the summer might be viewed as a short-term negative. Can you just kind of update us on the trends, kind of, you're seeing in the business?

JEFF ETTINGER: Okay. I mean, I'm clearly - our emphasis in the area is always to grow at a rate faster than the rest of the industry is but if the rest of the industry is at a slowdown or a standstill or even a slight decline, that's going to impede our ability to grow at the rates we've been growing. We did, I think, our announced results for the third quarter for food service was 4% growth. That's lower than what we had been attaining in the past and you know, we're kind of in a wait-and-see mode to see how much impact we'll have going forward, in terms of that slowdown but we are seeing that on an aggregate basis, both in the distributor poll and on from our operators but again, it just puts a higher and higher premium on our ability to make sure we're innovating and coming up with items that even in a stable environment, that that operator are going to want to carry.

JOHN MCMILLAN: Any [others]?

JEFF ETTINGER: Yeah.

UNIDENTIFIED PARTICIPANT: [Unintelligible] gross target 5% top line growth. Can you [put that] into how much growth is going to come from acquisition and how much is [going to come] from organic growth?

JEFF ETTINGER: We clearly have been active in acquisitions and view that as one of our areas of growth. We haven't - but within our operating unit basis, when we looked at our annual planning process, we really have an expectation that most of those units ought be able to generate 5% growth without acquisitions and indeed, you know, last year, when we were active in acquisitions that we were far ahead of both of those numbers, the 5% and 10% numbers.

So, you know, maybe 1% of it or maybe not any and just having that be an additive factor over time but we don't have a specific year-over-year target, okay, we're going to make an acquisition and it's going to be this much of the growth.

UNIDENTIFIED PARTICIPANT: Can you also talk about your expansion plan internationally? You mentioned about you have [small] presence in China and would you like to expand more in those areas?

JEFF ETTINGER: Yeah, we opened our operations in Shanghai and Beijing in the late 1990s and over this past year is kind of when we've turned profitable with those operations, so we're pleased with that. They've been adding to the growth, in result to the international unit.

When we first went into China, our expectation and our focus had been on trying to create a retail-branded business in China; kind of duplicate the Hormel brand in a country that has very high per-capita consumption of pork. That's been slow to start. Our expectation had been some of the mega marts, the Carrefours and others were going to expand in store count and we'd be able to kind of follow them around the country and gain that distribution.

We have very good distribution in the mega marts that are in existence but that kind of growth has not occurred until very recently. Now, Wal-Mart is expanding on a much more aggressive basis in China. They were restricted in the past, in terms of what provinces they were allowed to build stores in. They had a lot of grand openings this last year. Two of the grand openings that we participated in had 100,000 people the first day go through their stores. I mean, it's just an incredible economy if you can light into it in the right connection point.

In the meantime, as the retail has been a slower than what we expected, we found a very excellent avenue on the food service side again. That's kind of consistent with our philosophy in general, to always look for the food service opportunities. McDonald's is over there. Subway's over there. Tony Roma's, Pizza Hut - we sell to all those operators. They like the fact that we're a well-established western company that they know but are in market and in country and able to supply them on a local basis and so that gives us a good platform for growth and now we think the retail side does have good opportunity over the next few years to start moving up the way we had expected originally.

UNIDENTIFIED PARTICIPANT: Could you give a little more detail as to kind of how you define - or what's within food service? I mean, maybe, you know, largest customers are primary segments that make up food service?

JEFF ETTINGER: Well, food service runs the gamete from traditional restaurants and even within that, you have QSRs, you have kind of casual dining, the Applebee's-type places, you have fancy dining. We sell to all those segments. We sell on an institutional basis, to hospitals, to colleges - those types of facilities and the food service sale is always a - it's kind of a two-part sale. You have to have a strong relationship with the food service distributors - and we have major customer relationships and major sales to Cisco and U.S. Food Service and Gordon's and the other food service distributor outfits - and then we have one of the few remaining direct sales forces that call on operators throughout the United States and that's the second part of the sale and that's where you get into the chef involvement and creating unique items within those food service operators.

So it really runs the gamete but any of the away-from-home eating would be what we would define as food service and those tend to all go - the other common element to all of those is they all go - pull through a food service distributor. Even the largest restaurant chains almost all utilize distributors. Retail used to be that way but in the last 10-20 years, retail has moved. The bigger operators have their own distribution. They don't use the distributors on such a regular basis.

Yeah?

UNIDENTIFIED PARTICIPANT: But is there any segment or customer that makes up, you know, a larger portion of your sales within food service or is it pretty well distributed?

JEFF ETTINGER: Well, on an operator basis, the answer would be no. It's very distributed. On the distributor side, Cisco's the largest in the country and they would be our largest customer as well and our share of business within this is probably proportionate to what their share of the marketplace is.

There was one over there [I think].

UNIDENTIFIED PARTICIPANT: Hi. From a strategic standpoint, does the Natural Choice product line consider new channels of distribution, from the context of avoiding [canalization], maybe to the higher-end dollars?

JEFF ETTINGER: Well, sure, it's a good question and really, that's one of the things, frankly, we're most excited about this product line. Hormel, over the years, has not done much in pre-sliced lunchmeat. I mean, we had a light and lean line out in the early '80s - late '80s, early '90s that did okay and then kind of faded. We've just never been big in that package area of the store and that's a huge area, more than $1 billion business and so this did give us an opportunity, with a true [point of] difference on our product, to enter a category that has high household penetration numbers and has high return and we think we can really, you know, stake a claim in that area and expand from there.

Any others?

Well, thank you all for your attention this morning.

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