



THE EXPENDABLES

Smoother than a fresh jar of Skippy®



Hormel®

The image shows the Hormel logo, which consists of the word "Hormel" in a red, italicized serif font. A green leaf icon is positioned above the letter 'm'. The logo is enclosed in a green, rounded rectangular border. The entire logo is centered on a white rectangular background, which is itself centered on a light brown, textured surface. Two dark brown horizontal bars are positioned on either side of the white background, appearing to hold it in place.



Overview

- International manufacturer and marketer of branded meat and food products
- Distributes products to supermarkets and independent grocery stores in the US and overseas
- Sells food fresh, smoked, frozen, cured, cooked and canned



History

- 1891 – George Hormel founded Geo. A. Hormel & Co.
- 1928 – Hormel went public
- 1986 – Opened a new 1,089,000 sq. ft. plant, largest investment in Hormel's history
- 1990's – Expanded into international markets
- 2001- Acquired The Turkey Store
- Met the Billion Dollar Sales Challenge a year early, set a higher goal
- 2009 – Joint venture with Grupo Herdez to form MegaMex Foods LLC



Brand Acquisition Timeline



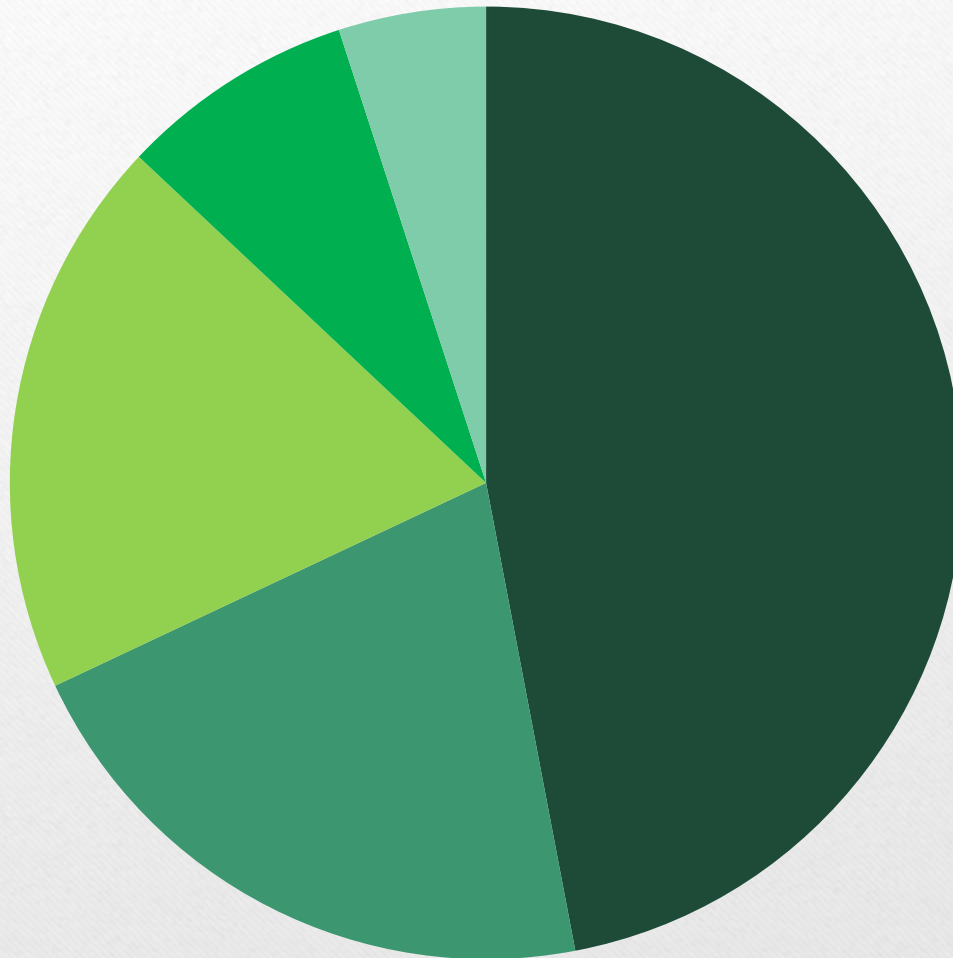
APPLEGATE







Business Segments



■ Refrigerated Foods – 47%

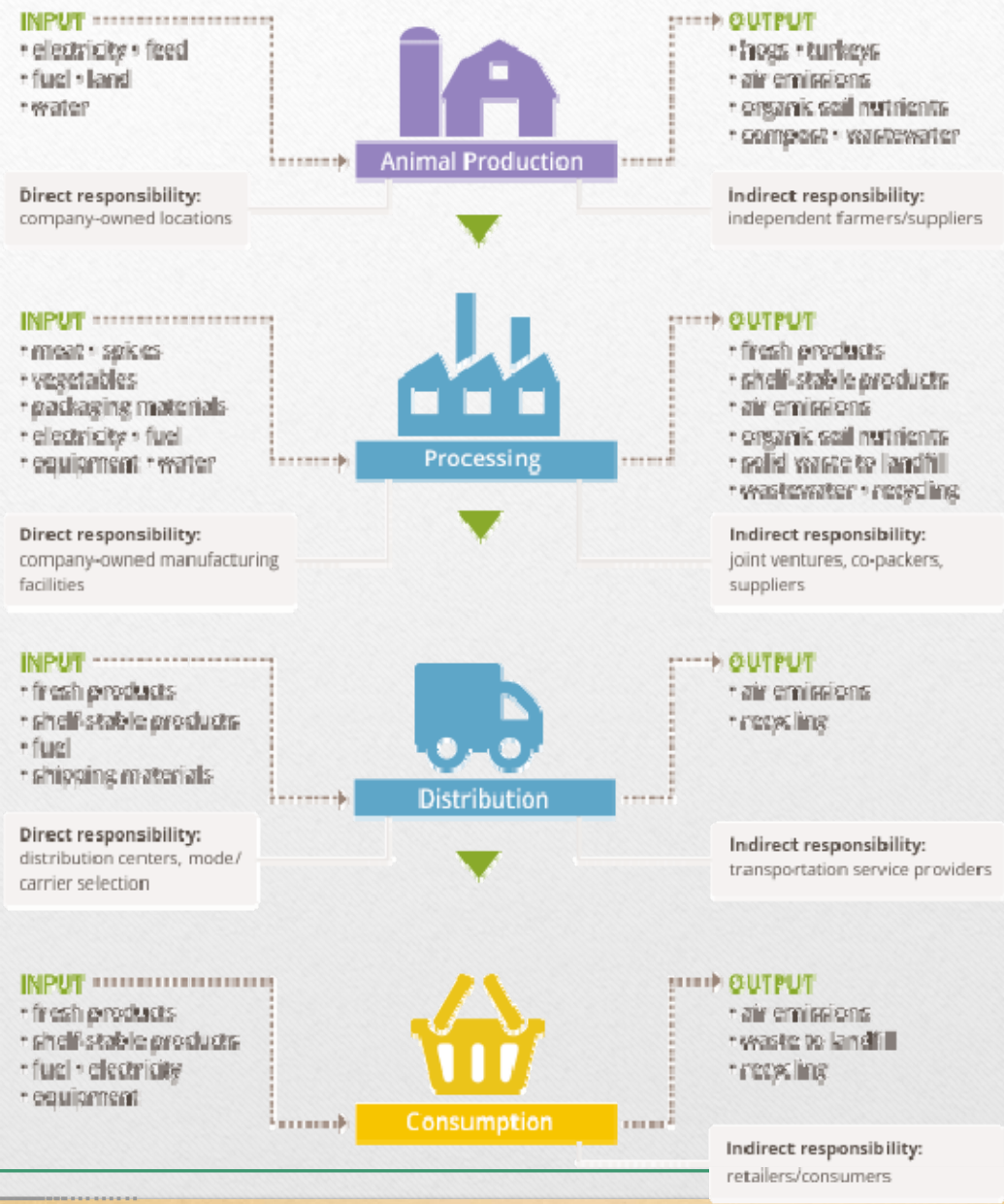
■ Jennie-O Turkey Store – 21%

■ Grocery Products – 19%

■ Specialty Foods – 8%

■ International & Other – 5%

Supply Chain





Locations

- Based in Austin, Minnesota
- Sells products in 50 States through direct sales force
 - 20,000 employees
- Multinational manufacturer
 - Americas, Asia-Pacific, Philippines, China, Europe, Australia



Global Markets



Recent News



Recent News

- May 2016 - \$286 million acquisition of Justin's® Specialty Nut Butter Brand
- May 2016 – Sold Diamond Crystal Brands for \$110 million
- January 2017 – Sold Farmer John, Saag's Specialty Meats, and Three Farm Operations for \$145 million



Risks

- Center of Store Competition
- Feed and Input Costs
- Weather
- Livestock Disease
- Global Trade Concerns



Competitive Advantage

- Variety of food product options
 - Diversified revenue streams
- Acquisitions leading to diversification
 - Intangible Assets – Brand Names
- Largest branded turkey vendor
- Economies of Scale
 - Buying power against competitors
 - Spread distribution marketing and management costs



Qualitative Analysis

Metrics	Results
Sustained Competitive Advantage?	Yes
Easily Explainable?	Yes
Heavily Unionized?	No
Heavy Capital Infusion or R&D?	No
Can Inventory become Obsolete?	Yes
Chronic “One-Time” Write-Offs?	No
Billion Dollar Competitor?	No

Quantitative Analysis

Quantitative Analysis



Value Bands



Price/Earnings





Price/Sales





Price/Owner's Earnings





Price/Earnings less Cash



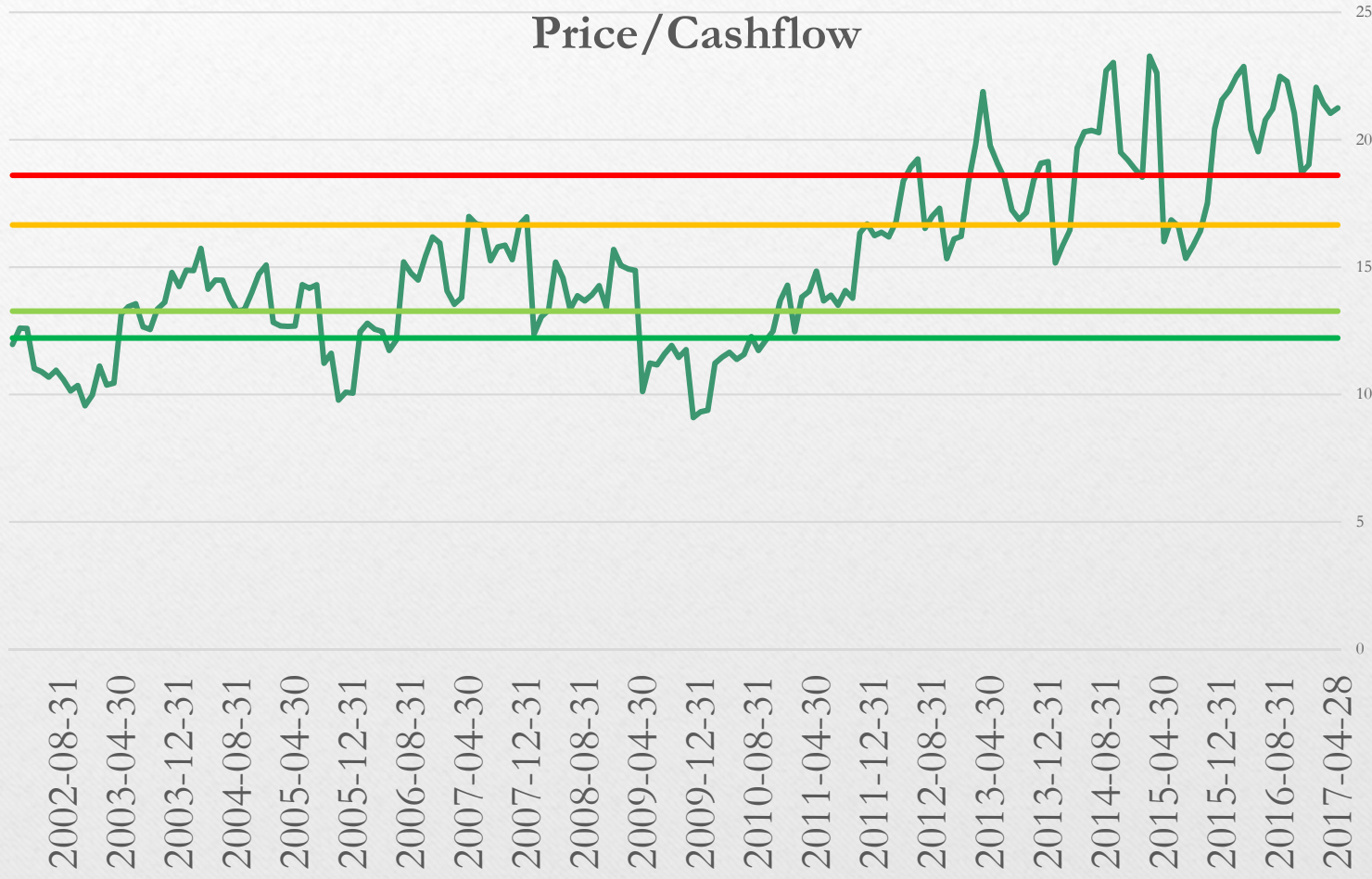


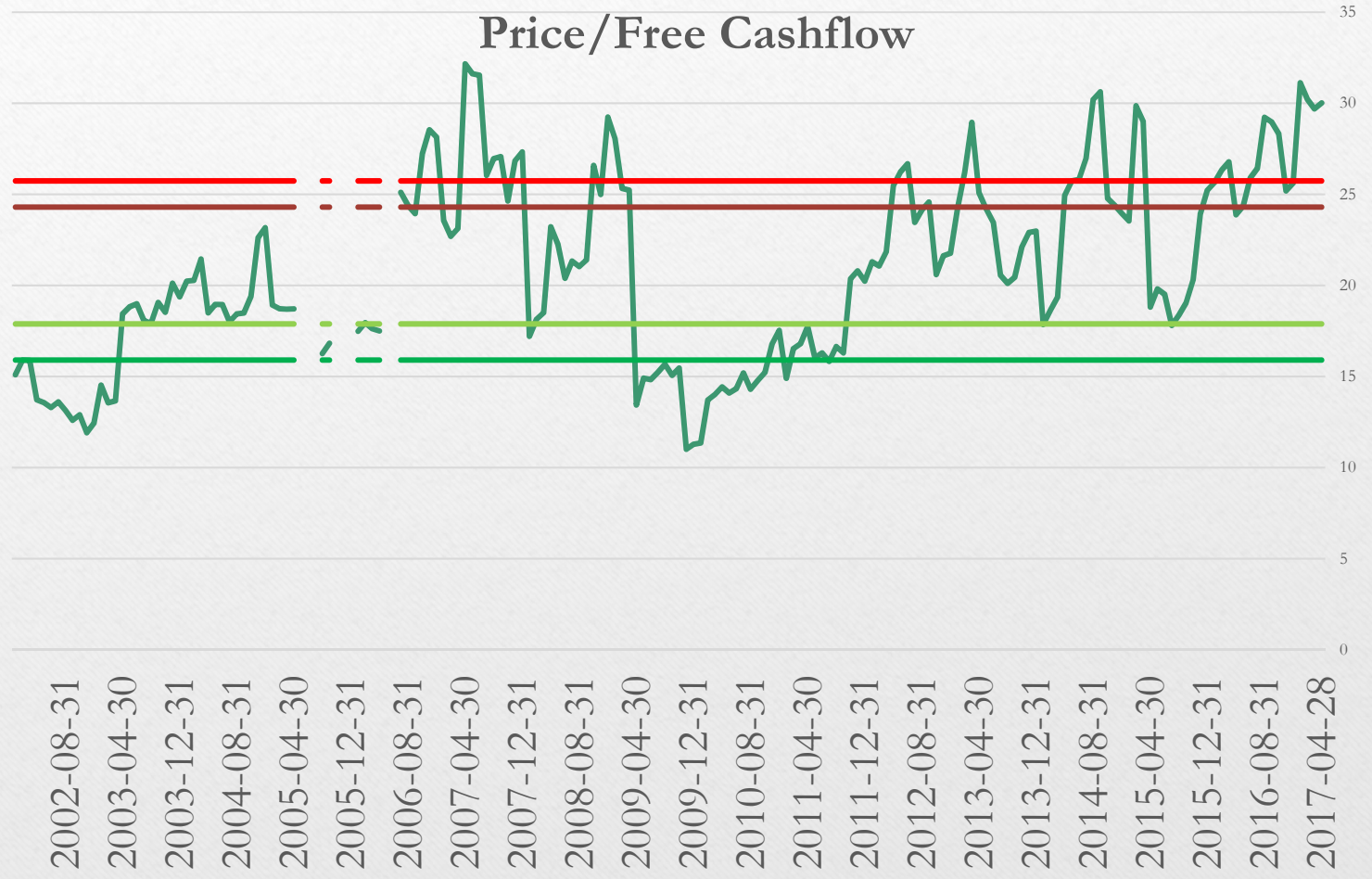
Price/Book





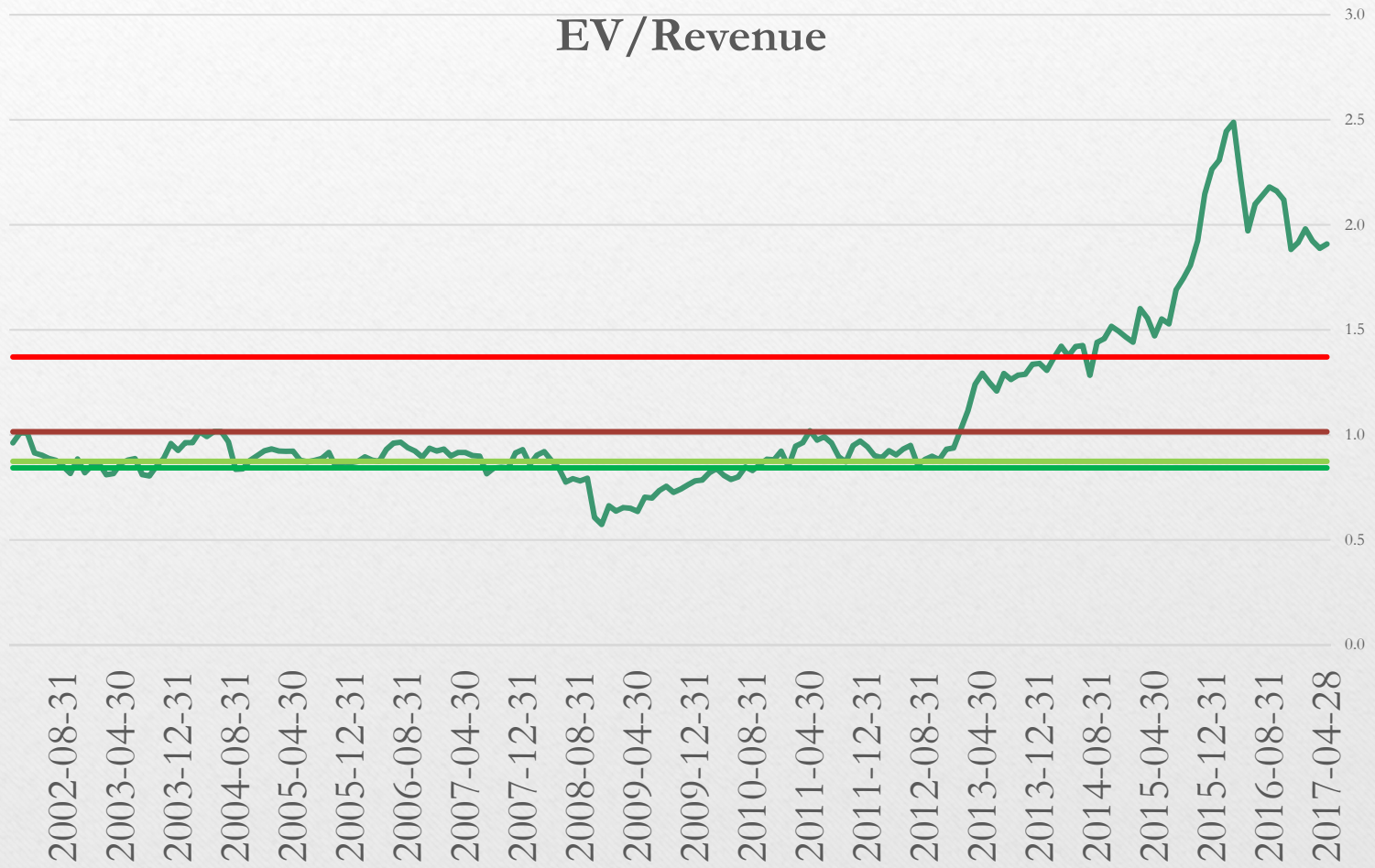
Price/Cashflow





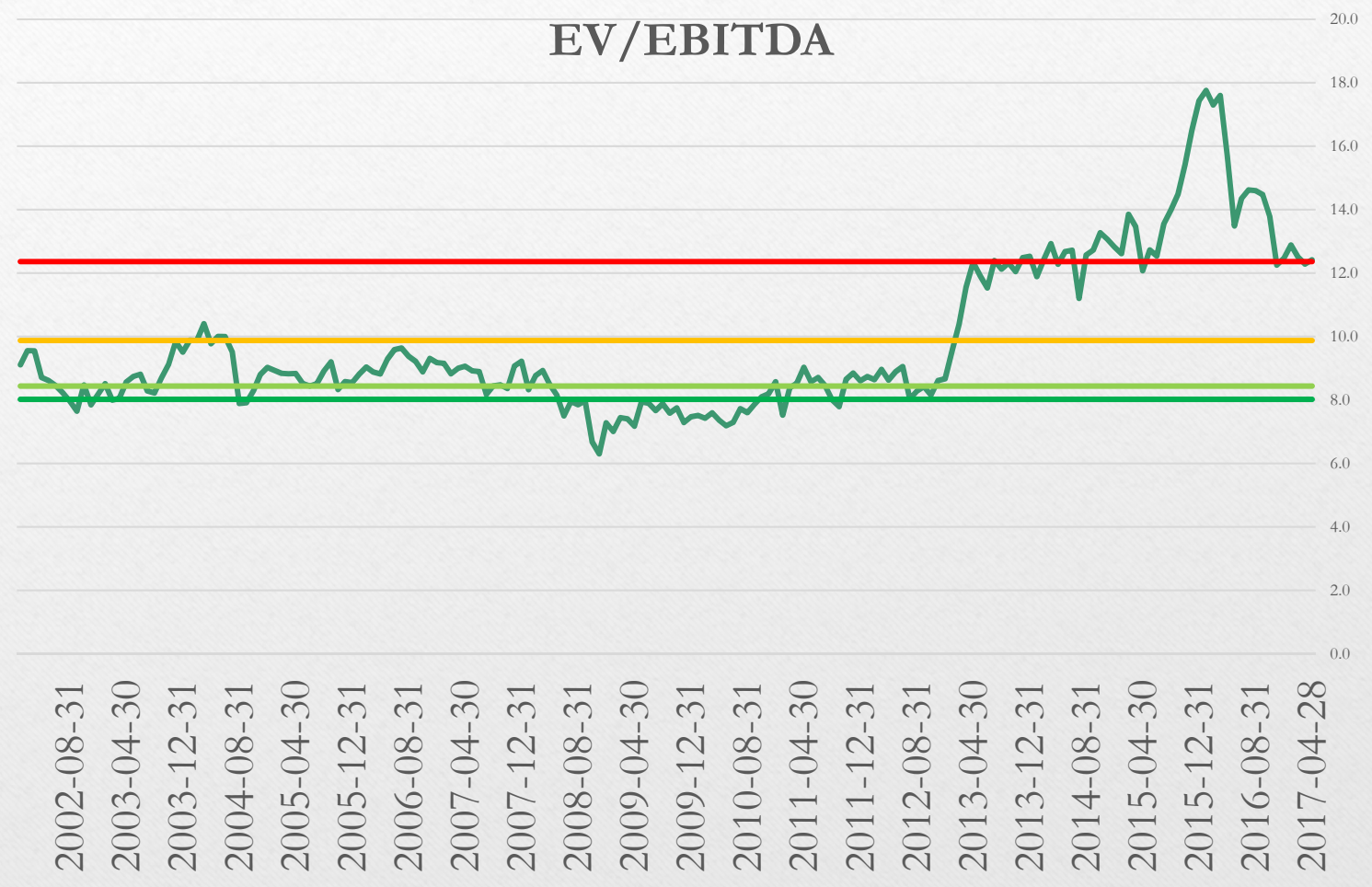


EV/Revenue



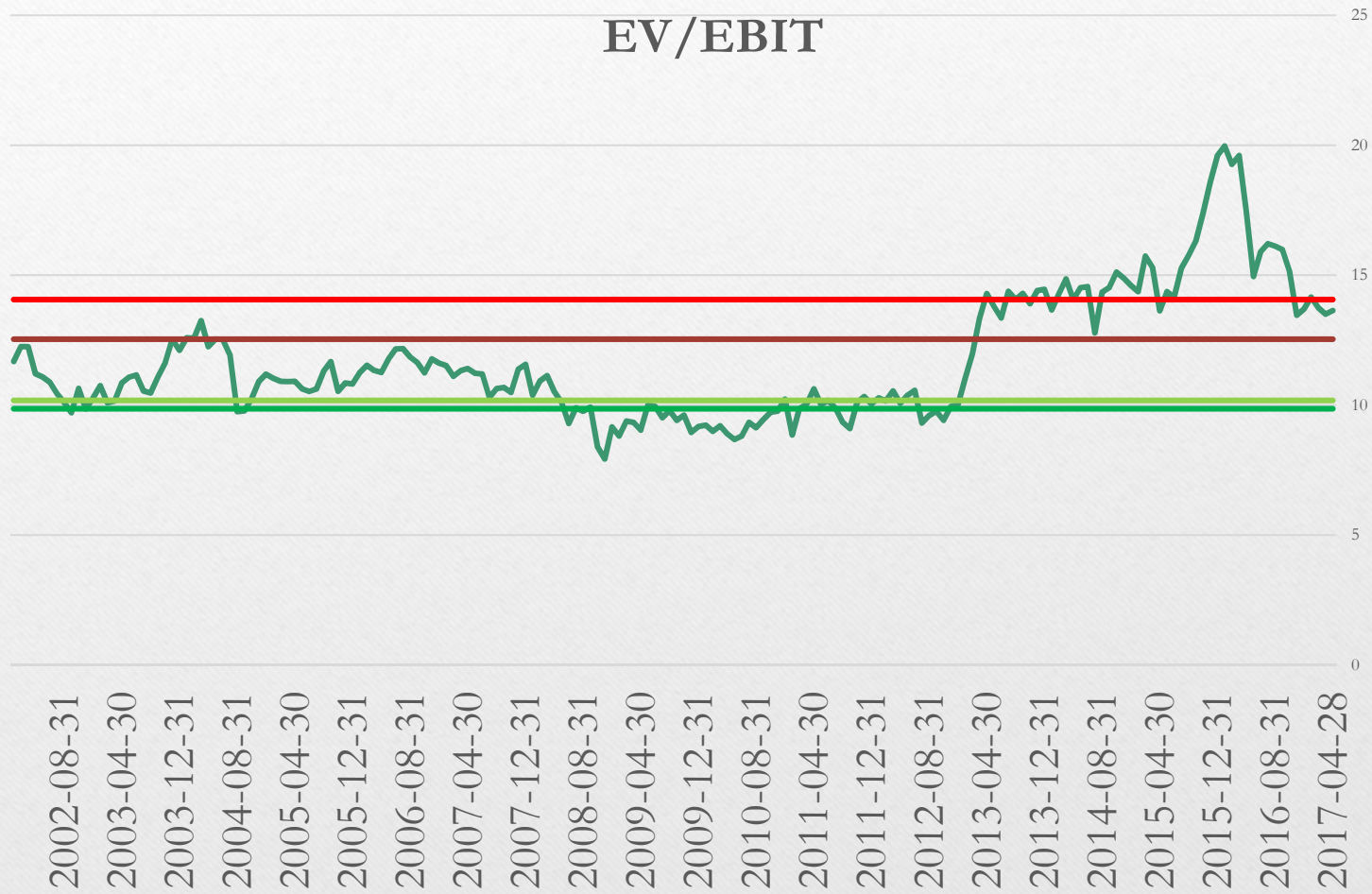


EV/EBITDA



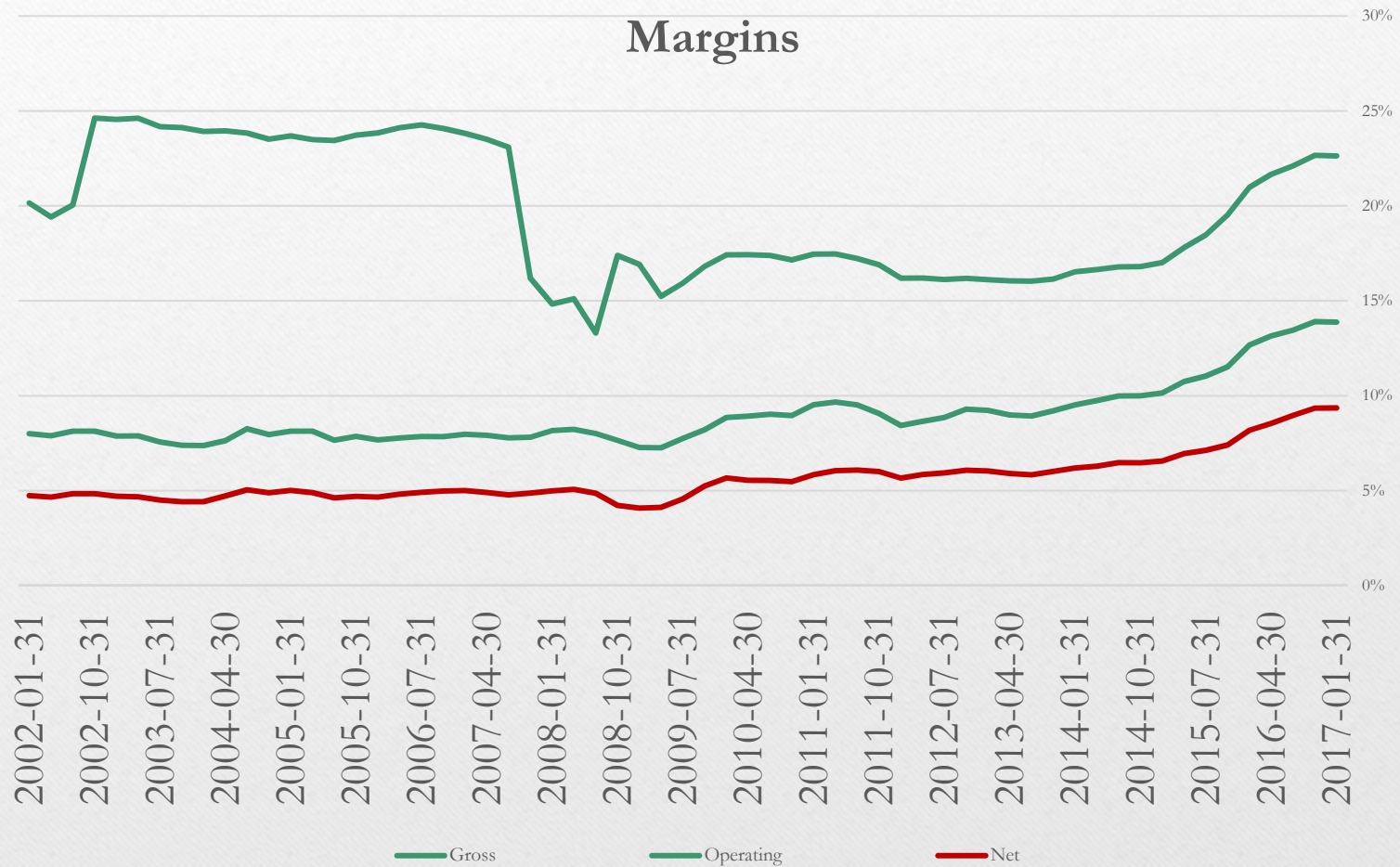


EV/EBIT





Margins





Returns



Conscious Investor



Conscious Investor - 10 years

	10/07	10/08	10/09	10/10	10/11	10/12	10/13	10/14	10/15	10/16
EPS(\$)	0.54	0.52	0.63	0.73	0.87	0.93	0.98	1.12	1.27	1.64
SPS(\$)	11.41	12.53	12.23	13.58	14.96	15.65	16.60	17.67	17.53	18.02

	EPSttm	Years	HGROWTH	STAEGR [®]
EPS (\$)	\$1.65	10	12.79%	93.87%
SPS (\$)		10	5.56%	96.83%



Conscious Investor - 6 years

	10/11	10/12	10/13	10/14	10/15	10/16
EPS(\$)	0.87	0.93	0.98	1.12	1.27	1.64
SPS(\$)	14.96	15.65	16.60	17.67	17.53	18.02

	EPSttm	Years	HGROWTH	STAEGR [®]
EPS (\$)	\$1.65	6	12.71%	95.15%
SPS (\$)		6	3.89%	98.83%



Conscious Investor - 3 years

	10/14	10/15	10/16
EPS(\$)	1.12	1.27	1.64
SPS(\$)	17.67	17.53	18.02

	EPSttm	Years	HGROWTH	STAEGR ®
EPS (\$)	\$1.65	3	21.28%	97.86%
SPS (\$)		3	0.99%	99.53%



Conscious Investor – Safety

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®	Req. Return	TARG®
Default	\$34.94	\$1.65	23.54	12.79%	36.0%	16.09%	10%	48.27
Safety	\$34.94	\$1.65	17.41	6.00%	35.0%	4.31%	10%	25.41

Cut P/E Ratio by 26.04%

Cut Growth by 53.09%

Cut Payout by 2.78%



Kill It

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®	Req. Return	TARG®
Default	\$34.94	\$1.65	23.54	12.79%	36.0%	16.09%	10%	48.27
Kill It	\$34.94	\$1.65	16.00%	5.00%	35.0%	2.07%	10%	22.30

Cut P/E Ratio by 32.03%

Cut Growth by 60.91%

Cut Payout by 2.78%



Kill It Again

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®	Req. Return	TARG ®
Default	\$34.94	\$1.65	23.54	12.79%	36.0%	16.09%	10%	48.27
Kill It Again	\$34.94	\$1.65	14.83	4.00%	35.0%	0.00%	10%	19.73

Cut P/E Ratio by 37.00%

Cut Growth by 68.73%

Cut Payout by 2.78%

Discounted Cash Flow



DCF- GuruFocus Default

Earnings Per Share:	\$1.65
Growth Rate for the Next:	10 yrs: 12.2%
Terminal Growth Rate:	4%
Years of Terminal Growth:	10
Discount Rate:	12%
Business Predictability:	★★★★☆

DCF	
Fair Value:	\$28.09
Tangible Book Value	\$3.52
Growth Value:	\$16.66
Terminal Value:	\$11.43
Stock Price:	\$34.94
Margin of Safety:	-24%



DCF- GuruFocus Adjusted

Earnings Per Share:	\$1.65
Growth Rate for the Next:	10 yrs: 12.2%
Terminal Growth Rate:	4%
Years of Terminal Growth:	15
Discount Rate:	9%
Business Predictability:	★★★★☆

DCF	
Fair Value:	\$42.59
Tangible Book Value	\$3.52
Growth Value:	\$19.41
Terminal Value:	\$23.17
Stock Price:	\$34.94
Margin of Safety:	18%



DCF- Value Line Adjusted

Earnings Per Share:	\$1.65
Growth Rate for the Next:	10 yrs: 11.5%
Terminal Growth Rate:	4%
Years of Terminal Growth:	15
Discount Rate:	9%
Business Predictability:	★★★★☆

DCF	
Fair Value:	\$40.50
Tangible Book Value	\$3.52
Growth Value:	\$18.73
Terminal Value:	\$21.77
Stock Price:	\$34.94
Margin of Safety:	14%



DCF- Default Reverse

Earnings Per Share:	\$1.65
Growth Rate for the Next:	10 yrs:
Terminal Growth Rate:	4%
Years of Terminal Growth:	10
Discount Rate:	12%
Business Predictability:	★★★★☆

Reverse DCF			
Growth Rate:	15.52%		
	10y	5y	1y
Revenue Growth Rate:	5.7%	3.9%	3.7%
EBITDA Growth Rate:	9.5%	11.0%	12.8%
Earnings Growth Rate:	12.2%	12.9%	19.6%
Free Cash Flow Growth Rate:	17.1%	17.3%	-27.8%
Book Value Growth Rate:	10.3%	11.1%	10.0%



DCF- Adjusted Reverse

Earnings Per Share:	\$1.65
Growth Rate for the Next:	10 yrs:
Terminal Growth Rate:	4%
Years of Terminal Growth:	15
Discount Rate:	9%
Business Predictability:	★★★★☆

Reverse DCF			
Growth Rate:	9.44%		
	10y	5y	1y
Revenue Growth Rate:	5.7%	3.9%	3.7%
EBITDA Growth Rate:	9.5%	11.0%	12.8%
Earnings Growth Rate:	12.2%	12.9%	19.6%
Free Cash Flow Growth Rate:	17.1%	17.3%	-27.8%
Book Value Growth Rate:	10.3%	11.1%	10.0%

Intraportfolio



ROE

Symbol	ROE	Symbol	ROE
AXP	5819.19%	MCK	21.65%
BF.B	77.11%	UNP	20.79%
IBM	68.90%	HRL	20.34%
PEP	53.33%	ORCL	18.60%
CHRW	41.86%	UHAL	18.13%
BBBY	26.36%	WMT	17.59%
DG	23.21%	QCOM	14.47%
MSFT	23.11%	NSRGY	13.94%
PII	22.99%	BRK.B	9.05%
MCK	21.65%	AIG	-0.98%



ROIC

Symbol	ROIC	Symbol	ROIC
AXP	2774.51%	UHAL	20.01%
MSFT	95.95%	PII	17.11%
BF.B	35.42%	MCK	17.00%
CHRW	25.32%	DG	15.85%
ORCL	25.05%	QCOM	14.48%
IBM	24.35%	UNP	13.60%
PEP	21.74%	WMT	13.05%
HRL	21.11%	NSRGY	10.80%
BBBY	20.55%	BRK.B	8.14%
UHAL	20.01%	AIG	-0.25%



P/E

Symbol	P/E	Symbol	P/E
AIG	0.00	QCOM	17.66
BBBY	8.54	BF.B	18.38
IBM	13.21	ORCL	21.29
AXP	14.58	HRL	21.46
MCK	15.95	CHRW	21.64
DG	16.16	UNP	21.74
UHAL	16.45	PII	25.56
WMT	17.09	PEP	26.17
BRK.B	17.16	NSRGY	28.33
QCOM	17.66	MSFT	31.87



P/S

Symbol	P/S	Symbol	P/S
MCK	0.16	HRL	2.01
BBBY	0.48	UHAL	2.12
WMT	0.48	AXP	2.37
CHRW	0.85	PEP	2.64
DG	0.91	NSRGY	2.68
PII	1.19	QCOM	3.39
AIG	1.30	UNP	4.66
BRK.B	1.85	ORCL	5.06
IBM	1.94	MSFT	6.26
HRL	2.01	BF.B	6.28



P/FCF

Symbol	P/FCF	Symbol	P/FCF
UHAL	0.00	DG	19.43
MCK	5.38	MSFT	19.53
BBBY	8.76	BRK.B	21.10
AXP	11.09	NSRGY	22.15
WMT	11.20	PEP	22.52
IBM	13.45	UNP	23.06
QCOM	14.18	CHRW	25.38
PII	15.07	AIG	27.79
ORCL	16.29	HRL	30.38
DG	19.43	BF.B	43.98



EV/EBIT

Symbol	EV/EBIT	Symbol	EV/EBIT
AXP	0.05	ORCL	13.49
BBBY	5.91	HRL	13.71
UHAL	9.61	CHRW	14.28
DG	10.77	IBM	14.70
WMT	11.42	QCOM	15.19
BRK.B	11.70	PEP	18.23
MCK	11.85	PII	19.41
BF.B	13.44	NSRGY	19.57
UNP	13.45	MSFT	21.72
ORCL	13.49	AIG	66.35



Conclusion

- Hormel is a consistent and predictable company
- Long history and future growth opportunities
- Falls into “Eat ‘em” category



*It's far better to buy a wonderful company
at a fair price than a fair company at a
wonderful price.*

- Warren Buffett



Price Determination Table

	P/E	P/OE	P/B	P/CFO	P/FCF	EV/EBITDA	EV/EBIT	
per share	1.65	1.35	8.65	1.65	1.17	2.7	2.45	
20% mpl	16.84	16.27	2.58	13.27	15.47	8.44	10.18	Average
20% price	\$27.79	\$21.96	\$22.32	\$21.90	\$18.10	\$22.79	\$24.94	\$22.83
							Avg	\$26.14
70%	20.28	23.2	3.25	16.65	24.3	9.87	12.54	
70% Price	\$33.46	\$31.32	\$28.11	\$27.47	\$28.43	\$26.65	\$30.72	\$29.45



Recommendation

- Limit Order at: \$26.14