

Tyson Foods, Inc.

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- Benjamin Theurer: All right, perfect. Good morning, everyone. Next on stage, we're glad to have with us Tyson Foods, which is one of the world's largest protein producers across all major proteins, chicken, pork and beef, and has a very sizable brand of prepared foods business.
- With us today are Jeff Schomburger, who was recently announced as the next CEO of the company beginning in October, and along with Curt Calaway, CFO. Now, before addressing the recent guidance changes, let's welcome Jeff, and we'll get to the outlook changes right after. But before that, Curt, a couple of forward-looking statements, please, and then we'll kick it off.
- Curt Calaway: Thanks. Just a quick housekeeping matter. Our comments may include forward-looking statements. Actual results may differ materially due to risks and uncertainties. And I refer you to our SEC filings for a discussion of these risks and factors, these risk factors. And we undertake no obligation to update these statements. Thank you.
- Benjamin Theurer: With that, Jeff, as you step into the CEO role in about a month, what would you say are the primary focus for you as you begin your tenure? And what opportunities excite you most when you start?
- Jeff Schomburger: Well, Ben, it's good to be here with you and to see you again. I've been around this company a long time. And fortunately, I got to know the team and the business and the board really well. And most importantly, they made it very clear, stay the course. The work this team has done over the past three or four years to stabilize the business and set us on a path to growth is outstanding. So just staying the course there.
- I've also had the chance the last 60 days to get out in a lot of plants. I think I've been in eight plants. I've gotten to visit 10 customers. I've been with four consumers in their homes to see how they experience our categories and brands. So I've really gotten -- and with our business teams as well. So I've just gotten a really good chance to think about what we do and how we do it and formulate the strategies going forward.
- But what excites me, the most important job, number one at Tyson Foods, is always operational excellence. 1% improvement or savings in our footprint is \$330 million in profit. That's the culture of this company. We're outstanding at operational excellence, and I certainly will get behind that 100%.
- But where I'll spend the most of my time is with consumers and customers and growth. I really want to spend a lot of time with R&D, with innovation, building our brand-building capabilities and helping us win with customers. Number one priority, growth.

Most excitement, consumers and customers. And I really want to bring that same operational expertise and the discipline and rigor of which we run our plants to our three-year innovation pipeline, to our master brand plans and to our joint business planning with customers. And that excites me big time.

Benjamin Theurer: So you've been on the board for many years at Tyson Foods. So talk a little bit about the time when you were a board member. What was your role? And then what ultimately made you actually interested or accepting the role as CEO when you got invited?

Jeff Schomburger: Well, 10 years on the board, so I've learned a lot about the great brands that we have. The culture of this company is outstanding. I've gotten to know the family really well. And I've known John Tyson for 25 years since I was in Arkansas previously with Procter & Gamble. So just deep respect for the culture, the brands, the company and the family and the board. I think the board has strengthened over 10 years and a lot of that credit goes to Mr. Tyson.

As I look out in the future, it's really just what I said. We are standing here with three iconic brands, Tyson, Jimmy Dean, Hillshire Farms. The biggest priority in the company right now is to shift and grow our business disproportionately in our branded and our value added products. So with that strategic choice, it really made me want to jump right in. So I'm really excited to help lead this journey to becoming a house of brands.

Benjamin Theurer: Okay. Perfect. Well, we'll come back with a couple of questions for you as well, but maybe on the new guidance, Curt, can you walk us through what really drove the changes? You've highlighted cattle as a big thing, but there were a couple of dynamics in the quarter. So maybe talk to us, what was just those dynamics versus what was maybe more on the underlying consumer softness that drove some of the other parts of the revision?

Curt Calaway: Sure. Let me start with, obviously, as you read, we changed our guidance in a release last week, but it was beef-led. Beef was the driver associated with that. We revised our range down about \$125 million in our beef segment, but that was really driven by the cattle pricing and the cattle cycle.

So we have a small portion of our beef business that has some vertical integration, and we have exposure to live animals. We acquired those live animals, call it six months or so ago. And as the price has fallen relative to those animals, we'll need to take, or we anticipated we would need to take a non-cash impairment on those live cattle. That is shifting loss into Q4 for animals that would otherwise be processed in our facilities in the first half of 2027. So the majority of the beef adjustment was really related just to the live cattle non-cash impairment that we're anticipating at the end of the fourth quarter.

Now, we did leave the range \$150 million wide because that price ultimately still has some flexibility until we get to the end of the period. And so there is still some range associated with that that we left in. But it was a beef-driven and specifically live cattle generated adjustment that we made.

To your point, we did make a couple of other changes as we opened up and provided a new guidance range. We did revise down slightly our pork outlook as well. And we really narrowed the range in chicken and boxed that in around the low end of our previous range. So our previous range was \$1.9 billion to \$2.05 billion. And we adjusted that to box it in around the \$1.9 billion at \$1.85 billion to \$1.95 billion. And that was really driven by, as we announced in our release, we've seen a little bit of consumer softness, as you've probably heard through this conference. But specifically for us, we saw our food service business pull back a little bit. And that really is what led to the change in our

chicken guidance for the quarter.

Benjamin Theurer: Okay. Now, just as we think about it, and you talked about the cattle dynamics on that pricing and obviously the consumer as well moving into the next quarter, which then is fiscal 2027 is going to be same. I understand you're not going to be able to provide a guidance. But just the general setup, how should we think about the coming year?

Curt Calaway: I think while we're certainly not here to give guidance for 2027, what we did say a quarter ago largely still rings true. We expect in our prepared foods business to continue to grow both at the top line volume and the bottom line profitability. We've demonstrated a track record. You got to go back over a year ago where we made the claim, we are going to grow volume and we're going to grow profitability in prepared foods, and we've been delivering that.

With respect to our chicken business, we've continued to grow volume. And very much a focus and expectation under Jeff as he said earlier, expectation of driving growth and driving growth in the value added and branded part of our businesses. And that extends into chicken as well. You should expect us to continue to operate with the same level of discipline, operational excellence, Jeff commented on that earlier, but specifically in the chicken business, expect that continued strong performance.

Within our beef business, the changes that we've made to the footprint is really about operating for where the cattle are and where we think they'll be in the future. And large scale plants in the cattle belt that we have a very good chance -- a very good opportunity to execute really high efficiency in those plants and concentrate then on revenue mix and continuing to add value to our customers and consumers through seasoned marinated case-ready beef and pork that sets us up in continuation of operational excellence, but also allows us plenty of opportunity for growth.

Benjamin Theurer: Well, we'll come back to that in a bit. But you've talked a lot about the consumer health, and Jeff, obviously you have a long standing history and followed the market for many years as to seeing different cycles. So there's a lot of pressure across retail, but also food service. Yet protein demand still is somewhat supportive. So talk to us a little bit about the long-term opportunities being protein exposed, but then at the same time, how to manage through those challenges of a lumpy sell to consumer.

Jeff Schomburger: What we see is protein is resilient, and the consumer is very resilient in protein. If you look at our protein business, and it's particularly chicken business, it is in service to a consumer and a customer and that's what we produce to that demand. So that cycle is working and it appears to be working very well.

Now, as we look further out, how do we build on that and maintain it? Well, first of all, I'll tell you that our quarter three, our poultry, our chicken business, both in the food service and in retail is up 3.8% on the value added branded, while poultry is only up 1%. So we see the retail growth pretty consistent, but there is softness in the food service as the consumer is under pressure. We think over time with the attractiveness of the industry, the consumer's priority and our ability to innovate, renovate and reach new consumers, particularly through the premium tiers of the category, we see a lot of tailwind and growth over the long term in poultry.

Benjamin Theurer: Okay. And across the other segments, are you seeing any trade downs happening, like people switching maybe from beef, or within beef, down to different cuts? What is consumer behavior, and has that had any impact on the level of profitability as you walk through?

Jeff Schomburger: What we see consumers doing, and we think this is a long-term trend, and that is searching for value. We're seeing segments of the consumers trade up to larger sizes to get a better value, and we see some consumers trading into smaller packs to get a better value. What we have to do is make sure that we have the lowest cost operations and have the ability to meet that consumer where they are. So we feel confident with our footprint that we'll be able to compete effectively in the value tier, in the mid-tier and the premium tier so we can grow consistently and sustainably over time.

Benjamin Theurer: Okay. Got it. Just coming back to the beef thing, and you've talked about the network optimization earlier on. So as we look at beef, obviously many dynamics. Not only you have taken decisions to shut down capacity, some of your peers have done similar transactions. We had the issue of New World screwworm with limitations of exports of Mexican cattle back to the U.S. for a year and a half now finally opening up.

So as you think about it, your new footprint, and with the potential of cattle coming into the U.S., and maybe some rebuild happening, and I'll let you comment on what you're seeing there, how do you think that your beef business ultimately is going to be structured, and in a little bit more detail from a profitability perspective, as to leverage your decisions coupled with some of the tailwinds, at least from market supply coming back in?

Curt Calaway: I think, look, we've made a couple of decisions as we've spanned across this year to set our footprint up as we believe the cattle cycle will evolve. Those are tough choices, but we needed to be bold and decisive and ultimately land on a network that's three really large scale facilities in the cattle belt. We believe that gives us the best position to operate with a great deal of efficiency within those facilities. And it will take us, just as it did from our previous announcement, it takes a little bit of time to get set in that new footprint, but setting up for the long term from an efficiency standpoint and where the cattle are.

You referenced where we are in a rebuild situation. We've been on this stage before talking about that last year, a very topical item to ask. We've said that it's been slow, it's been spotty, various references to that. And there's more data out that it's occurring, but it's not occurring at the rate at which it had in some previous rebounds. We're not dependent upon that. We set our network up to be successful in three large scale plants in the cattle belt. To the extent that we have more cattle available in the future, to the extent that the border continues to open from Mexico to flow those animals through, that will be additive and helpful to us.

But we are focused in operational efficiency and effectiveness in our plants, and then maximizing the mix and the revenue management and ultimately meeting consumer demands with seasoned and marinated and case-ready products, that's our pathway forward.

Benjamin Theurer: Okay. Perfect. Thanks for that. Leaving beef aside and maybe staying with the other big commodities, the more exposed segment, chicken. Obviously that has been very strong and we've seen a very good growth over the last couple of years, very solid profits. So as you think about it within the category, how much actually has mix shifted? To drive that profitability up, to make that profitability more sustainable, what is value add doing to it? Where do we stand ultimately in terms of mix within chicken towards value add, and how sustainable is the profitability level at that top end?

Jeff Schomburger: We think it's got a long tailwind, as I mentioned. And protein trend is going to stay with consumers, it's going to be a priority of consumers, and we see a long-term tailwind there. We see also this demand for consumers for convenience, for affordability, for bold

flavors. And we have a portfolio that can service all those needs in our poultry business. So the energy we're putting behind now in our prepared business, we're also putting it behind our poultry business to include better performing products, superior packaging, superior in-store presence. We feel the investments we're making, about 30% increase in advertising, more research capability, more R&D capability and more marketing capability, we see the runway shifting to the premium tiers of those categories and the value adds growing fast, and we're going to play in a big way.

Benjamin Theurer: Okay. And then within chicken, one of the topics that has come up is new genetics and what you bring to the table. So can you speak more about what the improved genetics actually have been contributing or helping you? And how much upside do you still get as this gets further developed as we compare to prior flocks and they get replaced from a contribution perspective for you guys?

Curt Calaway: There's really two separate things to think about in the flow through of our business. One is just the genetics business in and of itself. And we've talked about our performance in our chicken business as that genetics business is within the chicken segment. We saw a deterioration of performance, but it was over a long window, and it wasn't a significant change from a year-to-year basis. But we talked about, and starting in the second quarter, that we started to see the performance move up and move up more significantly on a year-over-year basis. So simply think of it as more of a slower decline over a longer time period with a quicker recovery associated with that.

That's really on the basis of making sure that we had the optimal cost structure within that business to support its needs and turning into a business that had been developing a new line to one that is selling a new line. So it was a fairly rapid recovery, and thus, we were talking about it as a driver of the change as we move from 2025 to 2026. And so a quicker step up in performance. What we talked about in the last quarter was as that breed then works its way through, and it's a larger bird breed, as it works its way through the system, we'll start to get the benefits of that performance in our domestic chicken business, not the genetics business but the domestic chicken business, in our operational execution.

Now it is very much built on operating with excellence, just as Jeff talked about earlier. It's about all the performance metrics within running a live poultry operation are very critical to deliver those results. But that's the next step of that performance. And we said that we expect to be able to roll that breed through within our larger bird business about 75% rolling through our live flocks by the end of calendar 2026 with the balance of that coming in 2027.

And so that's the next step as we look forward. We expect to continue to operate. That's not only just the breed itself but it's really good live execution just as we talked again about operating within the plants but operating with excellence in the entire supply chain for us.

Benjamin Theurer: Got it. Moving down to prepared foods. Obviously, that used to be a segment that was very seasonal, but most recently you said it's probably going to be more like a 50/50. So actually more of a healthy split throughout the year. Help us maybe understand what have been the initiatives to actually help what used to be a softer second half to be actually stronger. And what is the potential based on that to lift up profitability for the entire segment?

Jeff Schomburger: I think it really comes down to the past two or three years since Kyle's come into the business of really running it like a branded CPG business. What do I mean by that? We've got R&D that's supporting our brands, an innovation pipeline is better than we've

had with the past. We've got commercial innovations we partner with our customers on to drive business during certain periods where we want to drive the business. We've got advertising consistently deployed against these brands on a rhythm that we build those brands and are getting a terrific ROI. And we have customer joint business plans now that we've worked 18 months out.

And I think the combination of those factors has taken that business to a pretty smooth rate. I think we're at 55/45, front half back half. This year will be maybe 52/48. And we think it'll balance out pretty smoothly over the future with this business model that we now have in place.

Benjamin Theurer: Okay. Got it. And then you also had a couple of just cost headwinds during the last quarter. But as you look into what were the bigger ones, how much of that is still carrying into the fourth quarter? And what are just your general cost outlook here as it relates to raw materials, energy, transportation and so on?

Curt Calaway: I assume you're referring to some of the commodity cost headwinds that we talked about. And yes, we did experience some, but it was really kind of going two different ways. We had seen beef raw material inflation. And given the cycle and timing of the year, that flowed through a bit quicker. So we absorbed some of that higher raw material in beef and flowed through in our third quarter. As we saw some weaker raw material pricing within pork, that was still an inventory for us. So we talked about it'll take a little longer for it to flow through, given the sale cycle and inventory cycles. And so it's really a little bit of difference in the timing associated with beef clearing faster and pork going through a little bit later.

And look, we've seen other headwinds in the business. You referenced, fuel or freight. I think everybody has seen that. Our commentary has been really around from, that's a service in which we provide to our customers. And that's not something we subsidize, that gets passed through. It does take some timing difference where it doesn't just happen immediately, but over time that balances through. But we also run an incredibly large fleet internally that allows us to flex that size and flex the routes and where it is to be able to help mitigate what we're seeing in some transportation rates.

But we're expecting certainly, as we think about prepared foods and managing through, setting our pricing appropriately, giving where the commodities are influencing the raw material, and managing growth through what Jeff talked about. And not only bringing through Hillshire Reserve lunch meat, Jimmy Dean, Jimmy Dean high protein offerings and continuing to expand those franchises into the consumer, some cases a premium product as well, and giving us the ability to continue to grow at volume and profitability.

Benjamin Theurer: Got it. I'll come back to what you said early on, brand building in prepared foods. So obviously, you have a good amount of multi-billion dollar brands, very strong, but I think there is a big portfolio of smaller brands as well. So as you think about this, developing those brands, what would be kind of like the path you would like to go? How would you like to grow these brands to really give that the next leg?

Jeff Schomburger: Fortunately, we see a lot of potential for organic growth in this space. We talked about Tyson, Hillshire and Jimmy Dean, but we haven't talked enough about is Aidells, who invented the chicken sausage category with high flavors. We haven't talked about State Fair so much, we haven't talked about Ballpark, and we haven't talked about Tortillaland. So we have three or four brands that we believe can be the next billion dollar brands. And recently, we've staffed those brands to grow. We put brand managers, insights managers, marketing managers and R&D resources against this stable of brands that we have in our portfolio because we truly believe that they can become the next billion dollar brands

because they're in segments that are really important to the consumer.

Tortillaland has the highest repurchase rate of any brand we own. We just need to drive awareness and then build the shoulders out on that tortilla brand to meet the food consumers' needs. We also have another brand we launched recently called Buena Mesa with a customer that we're now expanding to broader customers. It's a fresh meat business, highly seasoned, orientated to the Hispanic consumer and any consumer that values that taste and bold flavor experience. So I'm tremendously excited about taking these brands that we've neglected, frankly, for the past three or four years and putting the full weight of our brand building capabilities against it.

Benjamin Theurer: Okay. Perfect. Finishing up on some of the segments. Obviously pork is another one that you had a little bit of a guidance cut. I think the midpoint went from \$275 million to \$225 million. What's been driving that in pork? Is that more of like a short-term dynamic? We've seen some of your peers doing similar adjustments? So as you think about it, is that shorter term or is there something structural behind the cut on the pork side?

Curt Calaway: I would say, I think broadly speaking, there's been some realization in the industry that pork profitability was a little lower than had been forecasted previously. We're not unique in that case. But certainly on hog availability and the animal flows, there was some disruption relative to that versus expectations, and we've seen some lower cutout prices. That's really what led to here in the short term a revision in our guidance.

But I would hurry on to say that our pork business is largely in service to our prepared foods business. We operate them to make sure that we're extracting all the value from our pork business through to prepared. And ultimately, while we're in a period of some lower cutout prices, that does help us as we manage through and look to grow our prepared foods business having a lower input cost.

Benjamin Theurer: Okay. Thank you. Thanks, very clear. On capital allocation, obviously a lot of things to discuss, and maybe Jeff, I'll let you start first. As you think about using CapEx to invest into these brand building, is there any need to also spend capacity, or is it just the brand building and the ultimate capacity is already installed?

Jeff Schomburger: No, we are going to be investing capital, particularly in further processing to take that raw material and turn it into a brand or a value added product for our customers. So we are aggressively filling out that capacity to support this rapidly growing demand.

The investment that we will make will be from the P&L, because we are adding headcount. We are putting new roles in place in R&D and advertising and brand and go-to-market so that we can put the full weight of the brand building model in place. So those will be the two big -- oh, and then finally advertising, of course. We've increased our MAP spending, our advertising spending 30% last year. We plan to increase that investment another 30% next year.

Benjamin Theurer: Okay. CapEx obviously right now is, I would say, on the lower side, Curt. But with that in mind, how should we think about it? Your leverage sits at 2x. Obviously you do have the dividend. I think you started doing a little bit more on the buyback side again. But if you just balance -- if you would have to balance the CapEx versus dividends versus buybacks and then ultimately M&A.

Curt Calaway: Very broad question there.

Benjamin Theurer: Sorry.

Curt Calaway: That's okay. Look, I think we have a differentiated business model in a number of the businesses that we've talked about, but we also have a differentiated balance sheet. We've stayed very true to our capital allocation priorities. And we've built, I think, an incredibly healthy balance sheet that gives us the optionality and flexibility behind your question. Jeff and I certainly have worked together for a long time while he was a board member over at the Strategy and Acquisition Committee being his responsibility. We have a long track record of discussing capital allocation.

And we have the capacity to invest where we need to. We do have a lot of open capacity. We do have a lot of room to grow. But we're also going to stay ahead of where we see the consumer demand going. We're going to stay ahead to make sure that we've got that capacity added where it needs to be and the product and type in advance. So we're meeting the consumer needs, and that's not a bottleneck. And we're committed to doing that.

You've referenced share repurchases. We did deviate a little bit from our normal practice, and we talked about in the third quarter call that we had bought just a little under \$50 million of shares from the time the quarter ended up until the earnings call. That's a little different for us. But we are ultimately, I think, capable of doing all of the above. We're able to invest in the business. We're able to return cash to shareholders. And we also have a balance sheet that's incredibly healthy at a leverage of 2x and plenty of liquidity. You embedded a little bit of an M&A question there at the end.

Benjamin Theurer: I was just trying to sneak in if M&A was something you would bidder right now or not. Are there opportunities, or do you see there is actually more opportunity to just grow internally?

Curt Calaway: There is a tremendous opportunity for us to grow internally. Jeff highlighted a number of those opportunities that we're activating and give us a great opportunity. But we are a company of 91 years old that has been built on M&A over time. That is part of us. But I think by our track record here, as we've managed our balance sheet incredibly well, and we haven't done a large M&A transaction in a while, you should expect us to be very disciplined. You should expect us to be very return focused.

Jeff and I have, in that time he's been the Chair of the Strategy and Acquisition Committee, we've talked in depth relative to the focus and the commitment to delivering returns on the capital we are investing, and you should expect that to continue. Disciplined approach and very return focused.

Benjamin Theurer: Okay. So maybe last question for you, Jeff. You obviously have a background from a very international company. And I know, and we've talked about this, you've lived in many places in the world. So the international business at Tyson, it's always been small, but it's been nicely growing. There've been a couple of good investments that actually have started to deliver a pretty solid profit to the firm. So as you think about the different geographies you're in, is there any appetite to invest, to expand a little bit, or are you happy with the footprint that you have right now? And where do you think, from a regional perspective, will be the big opportunities?

Jeff Schomburger: Our primary focus has always been in Asia and specifically Southeast Asia, and we still like those markets. The vast majority of the poultry growth over the next decades is going to come from the Asian markets. What we've done in the past, what, two or three years, Curt, is really focus on optimizing the assets we have, and that's returned very nice returns for the company. So we've now got a stable, relatively predictable business in Asia. As we look forward, we really like Thailand, we like Malaysia and a few other markets. And we're going through the strategic process really kind of figuring out where

we're going to play and how we're going to win even faster in Asia.

Benjamin Theurer: Okay. Perfect. Well, with that, this one's close to end. Jeff, thank you very much for being on the stage.

Jeff Schomburger: Thank you, Ben. Appreciate it.

Benjamin Theurer: Good luck with your first months in about a month's time. Thank you, Curt. Always a pleasure having you. Thank you very much. There won't be a breakout session. Thank you very much.