# Tyson Foods

## First Quarter 2025 Earnings Call

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**CORPORATE PARTICIPANTS**

**Sean Cornett -** *VP, IR*

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**PRESENTATION**

**Operator**
Good morning, and welcome to the Tyson Foods First Quarter 2025 Earnings Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star and then one on a touchtone phone. To withdraw your question, you may press star and two. Please also note today's event is being recorded.

I would now like to turn the conference over Sean Cornett of the Investor Relations team. Please go ahead.

**Sean Cornett**
Good morning, and welcome to Tyson Foods' Fiscal First Quarter 2025 Earnings Conference Call. On today's call, Tyson's President and Chief Executive Officer, Donnie King, and Chief Financial Officer, Curt Calaway, will provide prepared remarks, followed by Q&A. Additionally, joining us today are Brady Stewart, Group President, Beef, Pork and Chief Supply Chain Officer; Kyle Narron, Group President of Prepared Foods; Wes Morris, Group President, Poultry; Kevin Cole, President, International and Global McDonald's; and Melanie Boulden, Chief Growth Officer. We have also prepared a supplemental presentation, which may be referenced on today's call and is available on Tyson's Investor Relations website and via the link in our webcast.

During today's call, we will make forward-looking statements regarding our expectations for the future. These forward-looking statements made during this call are provided pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all comments reflecting our expectations, assumptions or beliefs about future events or performance that do not relate solely to historical periods. These forward-looking statements are subject to risks, uncertainties and assumptions, which may cause actual results to differ materially from our current projections. Please refer to our forward-looking statement disclaimers on Slide 2 as well as our SEC filings for additional information concerning risk factors that could cause our actual results to differ materially from our projections. We assume no obligation to update any forward-looking statements.

Please note that references to earnings per share, operating income and operating margin in our remarks are on an adjusted basis unless otherwise noted. For reconciliations of these non-GAAP measures to their corresponding GAAP measures, please refer to our earnings press release.

Now I'll turn the call over to Donnie.

**Donnie King**
Thanks, Sean. Fiscal 2025 is off to a solid start. The strong results in the first quarter increase our confidence in the year ahead, enabling us to raise our full year guidance. Our results this quarter were driven by another robust performance in chicken, highlighted by the best first quarter adjusted operating income for the segment. We delivered better than expected results in beef and significant improvement in profitability in international and other, while prepared foods continues to generate solid profits and margins.

Our first quarter performance sets the tone for what we anticipate will be another year of growth for Tyson. This marks our third consecutive quarter of year-over-year increases across key metrics, including sales, adjusted operating income and adjusted earnings per share.

First quarter adjusted operating income increased by $248 million, a remarkable 60%, while our adjusted operating income margin expanded by 170 basis points versus last year. Adjusted earnings per share grew by an impressive 65%. We ended the quarter with our net leverage ratio at 2.3 times, a notable and deliberate accomplishment from 4.1 times at the end of 2023. In total, our first quarter delivered the best quarterly performance in more than two years while we have managed through ongoing challenges posed by the current cattle cycle.

Protein remains at the forefront of consumer preferences based on both per capita consumption data and consumer surveys. While the consumer backdrop remains dynamic, one thing is clear to us. Consumers remain focused on prioritizing protein in their diets, recognizing its nutritional benefits and its role in supporting a healthy lifestyle.

A recent study by International Food Information Council revealed that 71% of U.S. consumers in 2024 sought to increase their protein consumption. This is up from 59% in 2022. Our diversified multi-protein portfolio delivered results, with chicken helping to offset the ongoing challenges in beef. Through disciplined execution and improved operational performance, we have demonstrated the power of sticking to the fundamentals, fortifying our foundation and controlling what we can.

Turning to cash flow and financial strength, our first quarter stood out once again. Our disciplined approach to capital expenditures and working capital management has enabled robust cash flow, which we are deploying prudently through investment in the business and dividends. When combined with improving profitability, we sequentially lowered our net leverage ratio and took another step towards our long-term target of less than 2 times. This strategy ensures we are building financial strength and reinforces our commitment to shareholders.

Now let's take a closer look at segment performance. Prepared foods is on track for fiscal 2025. We have built our full year improvement plan almost entirely by controlling what we can, such as optimizing our operations, expanding distribution and launching winning innovation. Operationally, we made tremendous progress on our initiatives in the first quarter by outperforming our planned throughput and yield improvements, reducing the impact of distressed inventory and lowering overhead costs. We grew share quarter-over-quarter in our core nine categories, driven by bacon, snacking and smoked sausage.

Growth from innovation continues to drive momentum, as well. While the timing of input cost inflation put pressure on margins in the quarter, our market performance, coupled with our improved operational execution, gives us confidence going forward. Our outlook for the year is unchanged.

In chicken, we achieved the best adjusted operating income of any quarter over the past eight years. Year-over-year growth in adjusted operating income was driven in part by ongoing improvements at live and plant operations, along with lower grain cost. One core component of our strong performance has been the evolution of our commercial relationships to build long-term win-win partnerships, allowing us to jointly grow the category and improve order fill rates for the second consecutive year, all while stabilizing our earnings. Our customer and consumer obsession will continue to be a cornerstone of our success as we work to exceed their expectations.

We have also returned to volume growth in this segment. Importantly, we grew volumes in food service where momentum continues to build. We feel good about our leading position in the marketplace and our ability to meet customer and consumer demand. With a healthy start to the year, we are raising our full year adjusted operating income outlook.

In beef, first quarter results were better than expected. We continue to align all aspects of our operations from procurement to distribution with customer and consumer demand while managing spend, enhancing yield and shifting our mix to more value-added products. Challenges from limited cattle supply remains, which, along with typical seasonality, are expected to impact the second quarter and the year. Therefore, our expectations for fiscal 2025 are unchanged for this segment.

In pork, performance was in line with our expectations. Higher haul costs led to compressed spreads versus last year. However, our operational improvements around yield, mix and spend continue to deliver results.

As we continue through fiscal 2025, our priorities remain clear. First, we will continue our focus on cash flow and operational execution. This includes driving innovation and strengthening customer partnerships across all segments while enhancing product mix, reducing inefficiencies and expanding our market presence. Operational excellence is at the core of our strategy. We are scaling the enterprise, driving cost savings and addressing inefficiencies boldly to deliver exceptional performance. And we will continue to deliver on taking more cost out in 2025 as the year progresses.

Our iconic brands like Tyson, Jimmy Dean and Hillshire Farms continue to resonate with consumers, even amidst high inflation and softer category consumption. In fact, nearly 75% of U.S. households purchased a Tyson product in the past year, and we see significant opportunities to grow our presence in underpenetrated segments as consumers seek to add more protein to their diets.

Digital transformation is another key enabler. We continuously work to improve how consumers and customers discover our products by leveraging the power of generative AI. As an example, in our foodservice channel, we implemented a more intuitive browsing and search experience that delivers highly relevant content. This enhancement goes beyond influencing purchases. It offers Tyson Foods invaluable insights into the evolving needs of our customers.

Capital allocation remains disciplined with a focus on sustaining free cash flow through prudent management of CapEx and working capital. Finally, our team members are our greatest asset. By fostering development and encouraging growth across the organization, we ensure that the right talent and skills are in place now and for the future.

Before handing things over to Curt, let me say that we are confident in our fiscal 2025 outlook and our long-term strategy, powered by the strength of our diversified multi-protein portfolio and iconic brands. Our first quarter is another indication of strong execution as we commit to controlling what is within our control as we seek to drive profitable growth over time. We continue to push ourselves to do more and to leave no stone unturned as we strive to be best-in-class operators. Through innovation, marketing and operational excellence, we are well positioned to generate shareholder value and continue our legacy as a leader in protein and a world-class food company.

With that, I will turn the call over to Curt to review our financials in more detail.

**Curt Calaway**

Thanks, Donnie. First quarter total enterprise net sales grew 2% year-over-year, driven by growth in beef, pork and chicken. Our adjusted operating income increased 60% year-over-year, and adjusted earnings per share grew 65%. It is important to highlight that both adjusted operating income and adjusted earnings per share reached their highest levels in the past nine quarters, underscoring our team's ability to execute with discipline and deliver results in a dynamic environment.

Looking at segment performance, in prepared foods, volume in our food away from home channels was relatively flat versus last year. We, like others in the industry, continue to navigate a dynamic consumer environment, which primarily impacted our retail volumes and drove the decline in sales. Adjusted operating income decreased primarily due to higher raw material costs, particularly with the sharp rise in deli and sow [sp] prices in the quarter. We anticipate recovering some of these increases through price pass-through.

As Donnie mentioned, we made progress on operational improvement initiatives, and we continue to repurpose inefficient marketing and promotion support cost while lapping the impact of start-up costs last year.

Chicken also continues to be a bright spot in our portfolio, with sales increasing due to higher volumes in the foodservice channel, where our value-added products are gaining traction. Adjusted operating income almost doubled year-over-year, making this a record first quarter performance and the best quarterly performance in the last eight years. This was driven by lower input costs, continued strong execution in live operations and improved plant performance.

In beef, revenue increased primarily from higher volume, highlighting increased carcass weights and higher head throughput. Adjusted operating income improved due to an increase in our value-added mix and an inventory valuation adjustment impacting first quarter last year.

Meanwhile, in pork, revenue grew, driven by a higher cutoff, though adjusted operating income declined due to compressed spreads partially offset by ongoing operational improvements. International and other delivered record quarterly adjusted operating income, supported by strong results in Asia along with favorable raw material costs.

Turning to our financial position, our disciplined capital allocation priorities remain unchanged. We are focused on maintaining financial strength, investing in business growth and returning cash to shareholders.

In the first quarter, we generated $1 billion in operating cash flows. Capital spending remained disciplined and in line with expectations at $271 million, leading to free cash flow of $760 million. We returned $175 million to shareholders through dividends, which our board increased to a quarterly rate of $0.50 per Class A share, reinforcing our commitment to shareholder returns.

Our net leverage declined to 2.3 times, our fifth consecutive quarter of improvement, and we continued our focus on disciplined cash management. We ended the quarter with $4.5 billion in liquidity.

Given the cash generation of our business, in January, we paid off the $750 million term loan that was due in 2026 as we prioritize financial strength, our investment-grade credit rating, and long-term shareholder value creation.

Now let's take a moment to review our updated outlook for fiscal '25. Looking ahead, we remain confident in achieving improved financial performance compared to fiscal '24. We are raising our sales guidance and now expect to be between flat to up 1%, driven primarily by volume, highlighting healthy demand for protein. Total company adjusted operating income is now raised to be between $1.9 billion to $2.3 billion, building on our strong performance in the first quarter. We anticipate interest expense of approximately $375 million and a tax rate of around 25% while maintaining tight CapEx controls between $1 billion and $1.2 billion. As for free cash flow, we expect typical seasonality in the second quarter, and we have updated our full year free cash flow expectations to be in the range of $1 billion to $1.6 billion.

Now to provide more color on our segments, we are maintaining prepared foods adjusted operating income guidance at $900 million to $1.1 billion, driven by efficiency gains. Unlike typical seasonality, we expect a more balanced first and second half, with the first quarter being the lowest quarter of the year, due to timing-related factors and the ramp-up of operational improvements. As a reminder, our forecast assumes double-digit growth at the midpoint, enabled by internal initiatives without factoring in or assuming significant changes in consumer behavior.

In chicken, given the strong first quarter performance, we are raising adjusted operating income guidance to $1 billion to $1.3 billion as we sustain operational improvements while reinvesting in our value-added portfolio and marketing. Our beef guidance remains unchanged with an expected loss of $400 million to $200 million, balancing operational improvements against tighter spreads throughout the remainder of the year. Our pork guidance also remains unchanged at $100 million to $200 million with ongoing operational improvements offset by tighter spreads.

Finally, our international business continues to show momentum in profitability. Following approximately $50 million of adjusted operating income last year, we expect international and other to be between $50 million and $100 million this year.

Now I'll turn the call back over to Donnie.

**Donnie King**
Thanks, Curt. I'd like to thank our 138,000 team members across the globe for their hard work and dedication, which drives our success. I'd also like to thank our customers and suppliers for their partnership. By operating as one team, One Tyson, we're off to a great start in fiscal 2025 and have optimism for the year, highlighted by our guidance raise.

With increasing consumer focus on protein combined with our market leadership, strong brand portfolio and operational discipline, we are positioned well for the future. As always, we remain committed to financial strength, shareholder returns and operational excellence as we execute our strategy.

With that, I'll turn things over to Sean as we move to your questions.

**Sean Cornett**
Thanks, Donnie. We will now move to your questions. Please recall that our cautions on forward-looking statements and non-GAAP measures apply both to our prepared remarks and the following Q&A.

Operator, please provide the Q&A instructions.

**QUESTION AND ANSWER**

**Operator**
Ladies and gentlemen, we will now begin the question and answer session. To ask a question, you may press star and then one on your touchtone phone. If you are using a speakerphone, we do ask that you please pick up your handset prior to pressing the keys. To withdraw your question, you may press star and two. We do ask that you please limit yourself to one question and one follow up. If you do have further questions, you may reenter the question queue. At this time, we will pause momentarily to assemble the roster.

Our first question today comes from Heather Jones from Heather Jones Research. Please go ahead with your question.

**Heather Jones**
Good morning. Congratulations on the quarter.

**Donnie King**
Thank you, Heather.

**Heather Jones**
You're welcome. First thing, I was wondering, it was a strong quarter, and I was just wondering if you could just outline the things that you're wanting investors to most take away from the call today, and then I have a follow up.

**Donnie King**
Sure, and thank you for the question. We're pleased with our Q1 results. We continue to see the benefits of our multi-protein, multichannel portfolio. Q1 was the best quarterly performance in more than two years, and the third consecutive quarter of year-over-year increases in sales, adjusted operating income and adjusted earnings per share. Our strategy of fortifying the foundation and growing our branded and value-added business is clearly working.

In terms of the enterprise priorities for the balance of the year, we will continue to shift our mix to branded and value-added and increase household penetration. Protein is part of every healthy diet, and consumers are increasing consumption. In fact, 71% of consumers are seeking to increase their protein consumption. We will continue to improve return on invested capital, creating shareholder value. And we will continue to execute with excellence in everything that we do.

In terms of the individual segments, chicken - chicken had the best Q1 adjusted operating income performance ever and the strongest quarter in eight years. We are winning with customers and consumers, and we've returned volume growth, particularly in food service.

In the beef segment, we had better-than-expected results. Our view on the year remains unchanged. We are focused on operating efficiently from procurement to distribution while shifting our mix to more value-added. In pork, pork was in line with expectations, enhancing plant efficiency and fortifying the foundation while shifting their mix to more value added. In prepared foods, we're on track for the year. Despite Q1 timing related commodity impacts, we expect counter-seasonal performance due to planned phasing. In international, we had the best ever adjusted operating income, supported by strong results in Asia.

So, five key takeaways for you in terms of 2025. Number one, we are growing profitably. Both chicken and prepared foods in FY '25 adjusted operating income growth at double-digit rates at midpoint. Number two, we have reduced gross and net debt while driving net leverage from 4.1 times to 2.3 times over the last five quarters. Number three, we built $4.5 billion of liquidity, enabling another $750 million debt reduction in January. And we're doing all this while managing an unprecedented beef cycle. And five, finally, we are focused on controlling the controllables [sp], and we're also adapting with agility to manage the impact of tariffs, immigration and market dynamics. We considered these impacts as we raise our guidance by $100 million to a range of $1.9 billion to $2.3 billion.

And for your follow up, Heather?

**Heather Jones**
Thank you for that. And I actually did want to ask on tariffs. So, nothing has come out -- no specifics have come out of Mexico yet, but there's been reports that they're going to put tariffs on U.S. pork, and then obviously, the import tariffs in the U.S. has put in place affects cost of hogs and cattle. But -- I mean, we send roughly 10% of every hog to Mexico.

So just -- if you could just go through your operations and how you're thinking about how this net impact is going to play out for you guys? And I think you did say that your guidance gives effect to this. But if you could just flesh that out of how you're thinking about the net impact on Tyson?

**Donnie King**
Sure, Heather. Let me start off, and there may be someone else in the room that would want to add something, but I did mention we considered these risks when we did our R&Os in raising the guidance of $100 million.

Just how we're approaching this, our teams continuously engage in contingency planning to minimize business disruption from trade or supply chain changes. As we've done in the past, we'll leverage our global expertise to identify the best markets for our products amid evolving conditions. We've been doing this for 90 years and been navigating various administrations. We remain confident in our ability to adapt and succeed. We look forward to working with the new administration and congress to support the U.S. economy, and we'll continue to monitor and respond to new policies accordingly.

**Heather Jones**
Okay, thank you.

**Donnie King**
Thank you, Heather.

**Operator**
Our next question comes from Ben Theurer from Barclays. Please go ahead with your question.

**Ben Theurer**
Yeah, good morning, and thanks for taking my question. Congrats, first of all; this was a very strong first quarter.

**Donnie King**
Thank you.

**Ben Theurer**

So actually, my main question would have been the one on tariffs, so pretty appreciative. I think a lot of people had that online, so thanks for the commentary.

So, as we put those aside, and you've obviously flagged, as well, the challenges in the current capital cycle being unprecedented. And we had, obviously, an initial update from USDA just a few days ago, and it doesn't feel like there's much hope maybe in those numbers. But just wanted to understand what are your first take -- what is your first take as to the report and what -- how you think the conditions are for [inaudible] retention potentially happening and how that then would impact your beef results lower versus higher end of that $200 million to $400 million loss for the year?

**Donnie King**
Sure. Thanks for that question around beef. I think I will flip this over to Brady and let him give you a detail as it relates to our beef business.

**Brady Stewart**
Thanks for the question. And I think it's really important to understand that the beef business has cyclicality in it. And at the top side of these cycles, we see a curve, and at the bottom end of these cycles, we see a curve, as well. And it really feels like we are at the absolute bottom of the cycle here relative to curve. And there's a few leading indicators that I think are really important to continue to evaluate, and it's what we add into our model.

And first and foremost, pasture conditions are in an improved state versus the last several years. And so that definitely provides an opportunity for us to increase the herd as we move forward. Second, relative to the fact that we have record high live cattle prices and record high live feeder prices, there's profitability to be had by cow cap [sp] operators. And so that certainly provides a tailwind, as well.

The third indicator is what are we actually seeing from a cow harvest perspective. And we're seeing cow harvest numbers down nearly 19% year-over-year, which provides some solid base in terms of the beef cow herd as we move forward, as well.

And then the last thing I think that's really important to acknowledge is the pastures that beef cows graze, their best use has been and will continue to be used as pasture for beef cow production. And when you couple all of those things, I think it's just really important to understand that we're at a point in time relative to these inventories, but we have several indicators that are providing us some support that we will see rebuild here in the future.

**Benjamin Theurer**
Okay, thanks for that, Brady. And then just a quick follow-up -- more like as you think about the cadence, and I think you mentioned the usual seasonality into 2Q, but you also said maybe first half, second half a little bit more balanced. Could you give a little bit more detail as to the seasonality on the four major segments and the balance between the four major segments as you think about it for the year?

**Donnie King**
I'm having trouble hearing your question.

**Ben Theurer**
Shall I try it again? It's better now?

**Donnie King**
Yeah, much better.

**Ben Theurer**
Okay. Sorry, mic moved a little bit. No, the question is, you said to expect the typical seasonality into the second fiscal quarter. But more or less a more breakeven kind of first half, second half. So, could you help us maybe understand on a per segment basis the four major segments as we think about it, what goes into 2Q and how to think about the second half, if there's any particularity you would like to highlight so we're aware of that into 2Q as we update our assumptions?

**Curt Calaway**
Hey, thanks, Ben. This is Curt. I'll answer that. So, I think the most specific one we provided some guidance on was really prepared foods where we said that would be a little counter the normal seasonality where we typically would see stronger performance in the front half versus the back half. But this year, we expect to be more balanced across the year really. As some of our plans -- we implement some of the plans relative to efficiencies, it'll really tilt that a little unusual more to a back half year.

I think if you look at the guidance that we've provided and particularly the midpoint of each of the ranges, you can come to your own conclusion relative to specifically how Q2 versus a second half would lay out. But broadly speaking, generally, chicken is the strongest in Q1 and Q3. Across our chicken and beef segments and pork, we would expect a more normally kind of a little bit of a seasonal challenge in Q2 just as we manage through weather.

**Ben Theurer**
Okay, perfect. Thanks for that, Curt.

**Curt Calaway**
Thank you.

**Operator**
Our next question comes from Andrew Strelzik from BMO. Please go ahead with your question.

**Andrew Strelzik**
Hey, good morning. Thanks for taking the questions. I had two, and the first one is digging in a little more on what you were saying on the prepared kind of layout for the rest of the year. And I think input costs will continue to be a headwind or maybe even more of a headwind as you go forward, so I'm just kind of curious, if you could dig in a little bit more on the pieces or the levers to deliver the guidance that you talked about in terms of pricing and the elasticity that you've been seeing or would anticipate to see and any color that you can give on kind of the flow of productivity through the year to offset some of those headwinds?

**Donnie King**
Sure, good morning, Andrew, and thanks for the question. I'd just remind you, in prepared foods, we continue to grow distribution in our prepared business. We have the largest innovation pipeline we've ever had at Tyson in prepared foods, and we continue to optimize our operations. So, with that, Q1 was -- we saw a rapid increase in inputs and certainly had an impact, and I talked about that a little earlier. But let me pass it over to Kyle Narron, and he can give you a little greater detail as it relates to the balance of the year.

**Kyle Narron**

Yeah, thanks, Donnie, and thanks, Andrew, for the question. As Donnie mentioned, we built our full year improvement plan on controlling the controllables surrounding growing distribution, launching winning innovation and optimizing our operations. And I would tell you that, in Q1, we made tremendous progress in all of those areas. We grew distribution or share 40 basis points quarter-over-quarter in our key categories.

We continue to be pleased with the performance of our Jimmy Dean Bacon and Hillshire snacking items as both remain two of the fastest growing brands in their categories. And we had another great season with consumers on our Jimmy Dean roll sausage, where we continue to realize share growth as the category leader.

Our second initiative was launching winning innovation, and I would tell you we're doing just that. Jimmy Dean Griddle Cakes has surpassed $100 million in the last 52 weeks, which is the first of any launch we've had in the last six years. And our chicken biscuit is growing distribution and actually has higher trial and repeat purchase rates than Griddle Cakes did six months through its launch. We're also excited about the pipeline of additional items that we'll be launching in the back half of the year.

And then the third initiative around optimizing our operations, I would tell you we're off to a great start with those initiatives. We remain focused on operating with discipline and establishing standardized processes that allow us to be world class operators. So, although we had simply some timing of input cost inflation in the first quarter that put pressure on margins, demand for protein remains strong, and we are controlling the controllables. What we're doing is working, and I'm confident in our ability to deliver within the guidance range the balance of the year.

**Andrew Strelzik**
Okay. Great. Thank you for that. And my other question was on the chicken business and the chicken outlook, and it was great to see raising the top end of the guidance range there on the back of the strong quarter that you put up. But I was a little surprised that you didn't -- that you left the bottom end of the range unchanged. And so, I guess can you just kind of walk through some of the factors that kept you from lifting the lower end of the range or maybe some of the risks that you see that would drive your scenarios that would drive you to the lower end of the chicken guidance range? Thanks.

**Donnie King**
Sure, Andrew. As I mentioned earlier, I'm very proud of what we've been able to do in our chicken business. I also pointed out that, when we did -- built our plan, we considered all the R&Os that you do as it relates to tariffs, market dynamics and as well as immigration. We've built that in to our model, but we did raise guidance in our chicken business on the top side.

And so, let me flip that over to Wes, and I know he's been here. He's ready to respond to something. So, Wes?

**Wes Morris**
Yeah. Good morning, Andrew. Thanks for the question. Let me start by saying I feel really good about the mid-point of the range. Q1 was on plan. We see solid demand going forward. We're well balanced supply and demand, and the industry looks more well balanced than it did earlier in the year, so strong fundamentals, strong customer service and a strong consumer reach program for the balance of the year. It would take a major extraneous event for us to be on the low end, whether it be major weather or bird health issues.

**Andrew Strelzik**
Got it. Okay. Thank you very much.

**Operator**
Our next question comes from Peter Galbo from Bank of America. Please go ahead with your question.

**Peter Galbo**
Hi, good morning. Thanks for the question. Just wanted to follow-up on Andrew's questions around prepared foods. And, Kyle, just having been in the seat now for several months, kind of as you take a look at the division with fresh eyes and obviously some of the optimization plans, are you satisfied with kind of the state of the current portfolio, whether that's legacy brands or legacy categories that you may be in that maybe need reevaluation? Just trying to understand really what the optimization kind of might look like over the next 12 months and whether there's some reshape activity that needs to happen in there? Again, just as we kind of consider the margin profile in the business, while it's on the right trajectory, it's still trailing the peers pretty meaningfully, so would appreciate kind of more detail there.

**Kyle Narron**
Yeah, thanks for the question, Peter. Yeah, let me just start by saying I'm very pleased with our iconic brand and product portfolio. Having three of the top 10 brands in protein and having category leadership in eight of the 10 categories we play in is what I would call a world class portfolio. The reason I would remain confident for the balance of the year is because of some of the new distribution gains we have in retail that will begin to materialize in the back half of the year.

Our performance in food service continues to outpace the industry, and we continue to see growth in broadline distribution and commercial chains. And as I mentioned previously, we continue to see the benefit of our robust innovation pipeline, and we expect to continue to build on the remarkable success of our Jimmy Dean Griddle Cake and Chicken Biscuit.

So, yes, as mentioned before, we did see some margin pressure in Q1 due to the input costs, but as stated, we're controlling the controllables. We're executing the plan that we've laid out as part of our multiyear strategy. We'll continue to focus on growing quality share with consumers and customers. We'll continue to launch world class innovation, and we'll be world class operators in our assets.

**Peter Galbo**
Got it. Thanks for that. And, Donnie, I think probably the market this morning is looking for a bit more detail as it relates to tariffs. I know Heather asked the question, but anything more you can provide just how you see the moving pieces, and there are quite a bit of them by protein across beef, pork and chicken, even if it's at a high level? And it's encouraging to hear you're going to work with the administration, but just how you see the trade dynamics kind of unfolding even if it's in the very near term? Thanks.

**Donnie King**
Sure. I will take another shot at that. And in terms of Mexico, the product that we have going in there, the concern, and what we've been contingency planning on is pork. We also have chicken -- really a couple parts of chicken. We have mechanically separated chicken. We have chicken leg quarters going into Mexico. Mexico is a large trading partner for us.

So essentially, what we would do, whether it be pork or whether it would be chicken is we would find other markets, we would leverage our global knowledge and expertise to try to move those products if necessary. But we saw the information over the weekend. There's still some details to be worked out in that from what I have seen.

But what I would tell you as it relates to Mexico -- and you could say the same about Canada. In Canada, you have some -- we have some chicken products, but it's very small going into Canada. It's predominantly heavy file going into Canada. We have some feeder cattle and some hogs coming into the U.S. out of Canada. So, depending on what happens there, we would adjust accordingly.

But we've been preparing for this, making adjustments. We now have to execute some of those things and -- but we think we have risk adjusted in our guidance the implications of all of those. But I think I would leave it there and, Brady, anything you would add to it from – or, Wes, from a chicken or pork perspective?

**Brady Stewart**
Thanks, Donnie, I think you really covered the situation well. So very, very early in this process, we've seen tariff instances in the past, and they can be very dynamic as the two trade entities continue to work together. I think the real call out relative to pork, and that's one of the big question marks that sits out in front of us is the fact that we really operate as a supply chain. And when we have pork producers, pork packers, and then our trade partners that are in Mexico, as well, it really operates as a true global supply chain. And where that value gets pushed back and forth within the supply chain is certainly something that we will keep an eye on.

**Wes Morris**
Yeah, Peter, this is Wes. On poultry, I would say, look, we shipped over 3 billion pounds in our Q1, and less than 80 million pounds of that went to Mexico. And then as Donnie said, Canada is predominantly heavy hens. But if you think about a global level supply and demand dynamic, what you're really talking about is a disruption of who is selling and who's buying and when.

**Peter Galbo**
Awesome. Thanks very much, guys. Appreciate it.

**Donnie King**
Thank you.

**Operator**
Next question comes from Thomas Palmer from Citi. Please go ahead with your question.

**Thomas Palmer**
Hey. Thanks for the questions, guys. I wanted to first ask, in the 10-Q, there's reference to a network optimization plan that began during the fiscal first quarter. Just any detail on the changes that might accompany this plan and which segments will be impacted? And then, is there a targeted cost savings figure associated with this program?

**Curt Calaway**
Hey. Thanks, Tom. This is Curt. So, yeah, we did disclose in the quarter the new network optimization plan, and we provided some more details in the Q, as you did point out. And the charges we took for Q1 were really just actions that we have already discussed or talked about that occurred earlier this quarter. But really more importantly, right, we, as Donnie has said

multiple times, continue to review our network with an absolute desire to continually improve on that network optimization across all segments.

And that's what you should expect in that network optimization plan. There is not a specific target that we have, but really just as we continue to evaluate the network and moves necessary, to be as optimal as we can around the entire product, moving our products around in production and where they get distributed to.

**Thomas Palmer**
Great, thanks for that. And then on the beef segment, look, industry data might have suggested something a bit weaker than what you ultimately reported. You noted the higher weights, but also the increased value add sales. Could you maybe give some added detail on the value add piece? What products comprise value add, and is there a specific channel to highlight where you're really seeing strength?

**Brady Stewart**
Yeah, thank you for the question. And first and foremost, I want to thank our team for brilliant execution in the first quarter. So we laid a plan out to ensure we have continuous improvement and control what we could control within this beef cycle, and the team did a great job of delivering that in the quarter. You mentioned volume, and certainly, we're seeing heavier cattle weights relative to the fact that we have less expensive input cost and really high live cattle values, as well.

So, it's really promoting that feeder to continue to put weights on. But when we actually talk about what we control, our team did a fantastic job of taking the type and kind and mix and grade of cattle that we are procuring and making sure we translate that into greater value in the quarter. And you can really see it come through relative to our numbers and how we delivered.

From a demand perspective, demand has been strong, and where we've seen abnormally strong demand has been on the end cuts and in the grinds. And continuing to provide value-added solutions for our customers and the consumers that tailor to that demand driven impact is extremely important to us, specifically in the grind complex, as well. And so, we've seen really good demand on lean beef grinds. We've seen really good demand on patties and other value added products that come out of our grind stream, as well.

**Thomas Palmer**
Thank you.

**Donnie King**
Thank you.

**Operator**
Our next question comes from Michael Lavery from Piper Sandler. Please go ahead with your question.

**Michael Lavery**
Thank you. Good morning.

**Donnie King**
Good morning, Mike.

**Michael Lavery**
Just wanted to unpack chicken margins a little bit more. They're the strongest in about eight years or so. And you touched on the feed costs being favorable, but you also mentioned plant performance and execution. Can you just maybe elaborate a little bit on some of what that is and how sustainable we should expect that to be, as well?

**Wes Morris**
Yeah. Good morning, Michael. This is Wes. Let me start by saying thank you to the team that I'm pleased with our Q1 performance. We're focused on the right work. Foundationally, we're a good chicken company, and we continue to look for ways to get better. But I think the genesis of your question is really in this next part, and it's around winning with customers and consumers. And so, we had the best order fill that we've had in eight years at over 98%. Both protein and convenience continues to win with consumers, and we're the market share leaders there.

Our value added growth rate is two times our total. We have the number one share in retail and foodservice, and both are growing. And one of the biggest unlocks is shifting our mix to align with consumer demand. And so, over the last year, through a lot of different moves, we've accomplished that -- and then aligning with strategic customers to create win-win solutions, and then the one I'm really excited about, creating tailwinds as our Q1 relaunch of our retail fully cooked is progressing well.

So, I would say it this way - we fortified our foundation, we're winning with customers, and we're meeting consumer demand at a different level than we have in a long, long time.

**Michael Lavery**
And just a follow up on the order fill rates, is there -- how -- process that's changed or something kind of structural, and could that translate to any other segments in terms of improving fill rates more broadly?

**Wes Morris**
Yeah, Michael, that's a really good question. Last year I referenced this as one of our three strategic pillars; really doing a good job at our supply and operations planning. And so, our demand planning has gotten much better. Our forecast accuracy has improved. Our scheduling and execution at the plants have reduced waste and put products in the right place at the right time, and so that's really driving a lot of value.

**Michael Lavery**
Okay. Thanks. I'll pass it on.

**Operator**
Our next question comes from Alexia Howard from Bernstein. Please go ahead with your question.

**Alexia Howard**
Good morning, everyone.

**Donnie King**
Good morning.

**Alexia Howard**

So, I think most of the specific meat questions have been answered. Can I ask two things? First of all, on labor, are you seeing any impact of the broader deportation activity that's recently begun on worker attendance or worker availability, your ability to recruit, if that labor market is tightening up, any impact that you're anticipating on that front? And then I have a follow up.

**Donnie King**
Thank you for the question, Alexia. Let me take that one and start out by saying that everyone that works at Tyson Foods is legally authorized to do so. We're confident that we'll be able to continue to successfully run our business. Maybe to remind everyone that there are different statuses for immigrants. For example, you have DACA, refugees, parolees, and temporary protective status, and we're in complete compliance on every one of those. There have been no immigration or ICE visits to any of our facilities.

We led the way as a company with e-Verify and the mutual agreement between government employers, the Image Program. We provide a competitive compensation benefit package to attract and retain frontline talent. We've also done scenario planning depending on different potential changes coming from the new administration. And even today, we're tracking absenteeism across all plants and to date have not seen any changes in attendance. And so, I think I'll leave it at that.

**Alexia Howard**
Great. Thank you. And then as a follow up, could I just dig into the free cash flow coming down a little bit from last year? What was the driver of that, because on the CapEx side, we're seeing an uptick. And I guess on the CapEx side specifically, I know you pulled that back quite a bit over the last couple of years because leverage was trying to be brought down. Are there projects on the capital side that need to come back? Should we expect an increase in CapEx over time? Thank you, and I'll pass it on.

**Curt Calaway**
Thanks. This is Curt. Let me start on the free cash flow question. Really, on the change versus prior year, you are correct, right? We were about $946 million first quarter last year, $760 million this year. But I will hurry on to comment that we did update our guidance on overall free cash flow for the year to be a range of between $1 billion to $1.6 billion.

Really, the delta almost exclusively for this quarter versus a year ago was just change in working capital. We had some timing effects that were more favorable to us last year, less so in this particular quarter for this year. But hurry on to make reference to still a very supportive free cash flow overall with a guidance range of $1 billion to $1.6 billion.

With respect to your CapEx, certainly, it's been a very focused effort for us to land a CapEx range that's right for us. And certainly, the last -- the couple of years in '22 and '23, right, we were fairly high at about $1.9 billion in each of those two years. But the longer term average for us is really more in that 1 to 1, 2 range. And remember that -- those years high in '22 and '23 were really driven by double digit number of new facilities that we put on during that time that definitely inflated it.

But I would applaud the team. We have taken a very disciplined approach in capital, not only for the projects you're seeing roll through now but as we're planning over the next three years to ensure that we're getting the return that we expect with that capital level of deployment that we have. And even at that, even at the rate that we pulled it back, we are still trending in excess of a normal depreciation level.

**Alexia Howard**
Great. Thank you very much. I'll pass it on.

**Operator**
Our next question comes from Pooran Sharma from Stephens. Please go ahead with your question.

**Pooran Sharma**
Great. Thanks for the question and congratulations on the exceptional quarter.

**Donnie King**
Thank you.

**Pooran Sharma**
Just wanted to start out, I know everybody -- a lot -- everybody here has kind of asked about chicken already, but wanted to dive into it a little bit further. You've done a lot of work. You said there's more left on the table. I think on the last call, you mentioned there was about $500 million to $700 million of self help opportunity. And on this call, you mentioned there's cost to take out for just fiscal '25. Just wondering if you have an update to this number or just kind of help us think about how much opportunity is left within chicken?

**Wes Morris**
Yeah, good morning. This is Wes. Yes, we continue to deliver lower controllable cost, and continuous improvement is part of what we do every day. I'd ask you to think about the Fortified foundation and the operational improvements. It's really how you invest in insights, innovation, and message to consumers. So, it's the -- being the low cost producer and drive revenue at the same time. And so, I'd say it this way - we're well positioned to offset the increased consumer spend in 2025 through operational efficiencies. The full year outlook looks neutral on markets, and so you can calculate the differential as operational improvement.

**Pooran Sharma**
Great. No, I appreciate that insight. I guess my follow up, I wanted to ask about pork. The USDA is projecting higher hog supplies, particularly in the back half of the year. And given the results that you kind of just posted and with the cadence of higher hog supplies in the back half of the year, do you think you could see material improvement in pork margins, particularly in the back half of the year when you do see higher hog supplies?

**Brady Stewart**
Yeah, thanks for the question. And I think it's really important, first and foremost, before we get into the macroeconomic environment we're operating in on the pork side is to commend the team on really, really solid performance relative to our operational improvements. We have significant efficiency gains year-over-year that the team has realized; extremely proud of the world class team that we have here in Springdale operating our pork business, as well.

And we've seen improvements really across the board from a plant operations perspective in terms of cost to operate, from a margin improvement in terms of converting and converting margins, really, really solid performance, as well. So, we feel really comfortable with our team. We feel comfortable with our plan as we move forward, as well.

From a macro standpoint, I think it's important to point out a few things. Number one is, versus the last several years, we have lower input costs, and that's really providing an opportunity following the liquidation cycle that we saw in 2023 and part of 2024 from a sow [sp] perspective to provide stability to the producers to have appropriate margins as we move forward, as well.

So, I think that really provides the tailwind to the foundation for potential expansion or at least stability within the numbers we have, as well. In terms of actual margins, we'll continue to monitor that. But as we all know, we've got a good supply situation in front of us, really good disease impacts, so low disease impacts in the industry that certainly helps provide that incremental supply that you mentioned.

**Pooran Sharma**
Great, great. Appreciate the color, and congrats again on the quarter.

**Donnie King**
Thank you.

**Brady Stewart**
Thank you.

**Operator**
Once again, if you would like to ask a question, please press star and then one.

Our next question comes from Manav Gupta from UBS. Please go ahead with your question.

**Manav Gupta**
Thank you for squeezing me in. Your leverage continues to drop. It was 2.6 last quarter. It's now 2.3. By all estimates, it should be below the target by the end of the first half. So just trying to understand where we go from here. Sometimes companies then revise the leverage target lower; sometimes they continue to operate a lower number. And in some cases, companies come back and say going ahead as we have hit our leverage target, excess cash goes to shareholders. So, I'm just trying to understand how the management is thinking about that.

**Curt Calaway**
Yeah, thanks. Certainly, appreciate taking note of the improvement we made in leverage from 4.1 times down to 2.3 across the last five quarters. And I'll reiterate from the earlier comments, right, that was really driven by operational excellence, the commercial execution, focus on working capital, focus on our CapEx, tight controls and getting returns, as I said to an earlier question.

But our financial capital priorities really do remain unchanged around maintaining financial strength, investing back across our business, and returning cash to shareholders. And as Donnie pointed out earlier this morning, in January, so that was a subsequent event to this quarter, we did pay off a $750 million term loan. It was a term loan that was due in May of '26. That will further reduce our gross debt and reduce cash, but obviously, that would be net debt or net leverage neutral.

You did make comment to our long range target of at or below two times. So, while we're very pleased with the journey from 4.1 to 2.3 times across the last five quarters, we do still have a little ways to go. But we -- it is not unusual for us to also maintain leverage below that target. But our financial capital priorities will remain the same around maintaining that strength, taking opportunities to invest in our business as we see them either for growth or profit improvement, and then lastly, returning cash to shareholders. I would just add, as I finish, we did announce on the November call and paid recently our dividend increase, so that makes 13 consecutive years of a dividend increase.

**Manav Gupta**
Thank you.

**Operator**
And ladies and gentlemen, at this time, we'll conclude today's question-and-answer session. I'd like to turn the floor back over to Donnie King for any closing remarks.

**CONCLUSION**

**Donnie King**
Thank you. And so, I have an announcement to make this morning, and as you remember, a little over two years ago, I asked Wes Morris to come out of retirement and get our poultry business back on track and develop a strong succession plan. At the time, I asked Wes for three years, and we're now in the final year of the three-year commitment.

So, over the balance of the year, Wes will be transitioning out of the company and back to his ranch with his wife, Carrie [sp], their happy place. I think Wes has clearly gotten our business back on track and developed a great team, and I am forever indebted to Wes and thank him for his leadership and his friendship.

In the coming weeks, I'll announce the new President of Poultry, and we will have a seamless transition over the balance of the year. So, thank you, Wes, for your time. Thank you for your talents and thank Carrie for allowing her to let us have you for the three years.

So, with that, thank you for your time today and interest in Tyson Foods. We look forward to updating you on progress in the next quarter.

**Operator**
Ladies and gentlemen, the conference has now concluded. We do thank you for attending today's presentation. You may now disconnect your lines.