

Tyson Foods

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Unidentified Participant: So our next presentation will be Tyson Foods. And we are really pleased to be joined by CEO, Donnie Smith; President, Tom Hayes. Two years ago, Tyson acquired Hillshire Brands, which, in addition to proving highly-synergistic, has accelerated its portfolio evolution towards value-added packaged food. Tyson has been particularly successful in leveraging Hillshire's strong brand equities and entre into protein-centric retail portfolio as a platform for growth-enhancing innovation, which we expect to hear more about today. So, with that, I'll turn it over to Donnie to tell us more about the Company's plans going forward. Thanks for being here.

Donnie Smith: Alright, great. Thanks, Andrew. It's good to be here. Good morning, everyone. I'm going to flip past that slide. Tom's the good looking guy on the right. So, I have to mention that this presentation will contain some forward-looking statements and unless your eyes are a whole lot better than mine, I would suggest that you get on our website and read that.

Okay. So, as we look into our long-term future, our intent is to sell more branded protein-centric food than anybody else in the world. We're a growth company and I think you'll see that illustrated in this presentation.

We're also delivering higher, more stable earnings. So, as we said on our last call, our adjusted earnings guidance for fiscal 2016 of \$4.40 shows a \$4.50 a share is a 40% increase versus last year and represents a four-year compounded annual growth rate of approximately 22%. And we're confident that we can achieve high double-digit growth again next year. We're also generating significant cash flows, a four-year CAGR there of about 46%, and we're returning cash to shareholders.

So, let's talk first about dividends. Last November, we increased our dividend 50%, bringing it to \$0.66 a share, and said then that our board has approved that we would increase our dividends at least \$0.10 a share annually. And I think this indicates our growing confidence in our strength and stability of our ability to generate cash flows. We're also buying back stock in the last 12 months. As of our August call, we bought back 31 million shares at an average price of about \$56 dollars a share.

So, beyond dividends and share buybacks, though, we'll use our substantial cash flows to invest in our business either through organic growth or through acquisitions. So, let's talk briefly about our

M&A filters. First, protein-centric, branded, value-added of course. If it fit within our existing capabilities or if it filled an incremental additional capacity need, certainly it would be on the radar screen. We are open to international opportunities. And it has to be at the right value. So, in the absence of M&A targets that would fit that criteria, we'll continue to repurchase our shares because we see great value there.

So, as I look at the transformation that's happened in Tyson over the last, say, five or six years, I want to point out what I believe to be two of the most important factors for that. And first has been the real transformation in our chicken business.

How did we do that? Well, first, we optimized our cost structure. We've taken about \$1 billion worth of inefficiencies out of our business. And there we're talking about things like line efficiency, labor efficiency, and transportation cost efficiencies, that kind of thing. And we've continued to invest in our operations over the last several years to produce more efficient and a more flexible business going forward.

Second we changed our pricing structures. We utilize a variety of pricing mechanisms ranging from grain-based, it's cost-plus, to fixed price with grain locked in, to simply a price list. And I think it's important to note that only about, it's probably less than 5% of our total sales are queued off of any particular market. So, as inputs go up, sometimes it can take us a quarter or two, two or three quarters maybe, to get our pricing up on top of that new structure. But we've given ourselves a lot of ability to adapt with those multiple pricing structures to the changing environment in the protein sector.

Third, we have upgraded our mix away from commodities to certainly more value-added whether that's par-fried or fully-cooked or something that the consumer views as an increase in value. We valued up, in the last few years, a lot of our dark meat into more value-added. We've reduced our leg quarter sales by about two-thirds over the last several years and we continue to upgrade that dark meat, reducing our commodity exposure.

Fourth, we've implemented our buy-versus-grow strategy. So, this has really been a key part in de-commoditizing our chicken business. When we look at our forward demand curve, we always balance our production back to the nearest whole bird increment so that we never have excess meat to sell and we always have the opportunity to buy the extra parts that we might think, particularly breast meat or wings, something like that, on the outside market and put that into a more value-added sale. It's particularly advantageous during an over-supplied situation. And we look closely at our demand models to make sure that we're never over producing and putting ourselves in a position where we have excess commodities to sell. Think leg quarters or trim, items like that.

And then, finally, and very important, we do our best to consistently deliver high-quality food with great service to our customer. We never lose focus on being our customers' go-to supplier.

So, what have these efforts done? Well, it's led to a chicken business with much higher, more stable margins, much less commodity structure, and normalized margins in the 9% to 11% range over time. Of course, we've been performing above those expectations for the last couple of years. And, as we said in our last call, we intend to do that again in 2017.

We've also, as I've mentioned, reduced our commodity sales. Commodity sales only make up, today, about 15% of our total portfolio. So, if you look at our chicken business, think about half of

it as retail-focused, whether it's fresh or fully-cooked branded at retail. And then, if you look at the other half of the business, of course you've got about 15% that's commodity, think leg quarters, rendering that type of thing, but of the other, say, 35% or so, that's split pretty evenly between food service in national accounts and other food service value-added businesses. So, a very balanced portfolio in our go-to-market strategy. That's really important to our business.

So, the transformation of our chicken business has been a key contributor to the transformation in our company. But the other big transformation in our company has been the acquisition of Hillshire. And I'm going to let Tom come up. And I've spent a good bit of time talking about where we've been. I'm going to let Tom come up and talk about where we're headed. Tom?

Tom Hayes: Very good. Thanks, Donnie.

Donnie Smith: You bet.

Tom Hayes: Alright, Jon Kathol asked me to clarify the guidance for 2017 as high single-digit EPS growth. It isn't double. That's okay.

Donnie Smith: Oh, sorry. My bad.

Toom Hayes: Aspirational objectives. Great. Hey, thanks for the time today. Really, really excited to talk to you about our company.

First and foremost, we've got a great position. We feel really happy with where we are. We're more excited about where we're going. This is something that is bringing a lot of energy as the teams have come together. It's been two years, like Donnie said. And we're super excited. There is a lot of good things to talk about. So, the way that we're going to frame this up is talk about what we have said we were going to do and what we've done and what the results are. So, we think that's a good frame for this presentation so that's what we're up to.

You know we talk a lot about the core nine business, core nine drivers of our portfolio. Those are categories and brands, or both, that are the focus of our consumer business. It represents the most of our sales, the most of our profits in the consumer space in our retail packaged business. And rightfully so. We have number-one position in everything but lunchmeat in these categories. And so, we'll talk a bit about how we've been doing in this, but then also what are we going to do to drive growth going forward outside of the core nine, but in addition to it.

The retail portfolio in the core nine has premium margins. You should expect that, premium pricing. We invest more against these brands and these categories. So, as you look at this chart, this shows 2012 through 2015. A lot of us have been together, talking about the business for the last couple of years. We presented at CAGNY. And we talked about some of the challenge that we have as it relates to getting consistent growth against the core nine as commodity cost was deflating. We had a challenge to make sure we were getting the right price mix into the marketplace. If we get that sort of out of balance, you can see it expanding a little bit as we moved into the end of the calendar year 2015, it puts us in a position where our businesses aren't growing to the extent that we want them to.

So, we do a lot of great brand marketing. We do 360 marketing. We have fantastic relationships with our customers. If we don't make sure we're looking at everything all at once and having the right proposition in total, it can put us in a spot where we're not growing the way that we want to.

This is the last quarter's worth of data. I would say it's representative of mainly the last three quarters. This is the last quarter full. You could see, as it relates to our peers, our core nine growth has been substantial. Our volume growth is 7.6% ahead of last year. When you add in the products that aren't a part of the core nine, our growth is 4.3% year over year. We are one of only three companies that's growing in CPG right now, in our space. And we feel like we're just getting started. There's a lot that we can do to the business that we haven't yet done that we're in the process. And we want to continue to press the pedal to the metal on the businesses where we do find investment matters and we can get paid for it.

So, we are positioned for growth, for sure. Talking about where we play, we play in the retail space. We also play in the food service business. We have been growing our food service business in a substantial way in particularly the areas that we'd like to. But, if you look at where we have been choosing to play, the food service space is flat. We talked a bit about it this morning with some of our investors. It's not a growth space today in all pockets. So, we play with growing customers. We play where we can win. We play with the brands that matter. And we are growing in the food service space.

And in retail, the key thing, hopefully you've heard this and you've actually probably seen it as a consumer, where the business is growing is in the periphery. The fresh space in the supermarket is where retailers want to drive traffic, is where Tyson plays as a company in a big way to drive volume growth for our customers through great consumer action. And you can see in chicken and in meat it's a growing space, about 3%, but we're aiming to grow faster than the overall category.

So, how do we do that? I mean it's not a secret. We've got to make sure we run the base business really effectively. So, focusing on the core nine is really important to us and we have demonstrated growth there. But it's also having the right innovation mix. Our vitality index, which is the sales from products that were introduced in the last three years as a percent of our total, that needs to continue to be between 13% and 15% is what the team shoots for. We sit about 12.5% today so we're second as it relates to our peers. We believe moving up to that 13% place is the right spot for us to be. We don't want to grow too far past that because then we might be ignoring the base. We want to kind of stay in that sweet spot.

But what I'd tell you about our innovation pipeline is that, over the last two years, it's grown from about a year-and-a-half out in terms of ideas to more than three-and-a-half years out. I'm looking at Jen Bentz here. She leads our Insights and Innovation team. And they have done some fabulous work as the two companies have come together to unlock the potential of the entire enterprise.

So, some of those ideas that the team has come up with are in the Tyson brand. We reframe the Tyson brand, as we do. As a proper owner of brands, we make sure that we reframe from a product to a brand essence. Keep it real, keep it Tyson, is what Tyson means to the consumer.

We now have these products that we're introducing to the market, which are Tyson Naturals. They are no antibiotics ever. We have a grilled, cooked product as well as a lightly-battered product that has whole grains. There's a variety that is whole grains as well as ancient grains. And these are receiving some tremendous, tremendous feedback from the trade. We're just now getting into the market with them.

We also know that protein snacking is hot. Protein snacking, hopefully you've had a chance to taste some of our protein snacks. There's some Ballpark jerky right next door. Julie wanted me to remind you of that. So, if you haven't had some of that, please go try that.

But, Hillshire snacking has been a huge hit. We actually had to increase our capacity here because the base entries that we came into the market with were doing so well. And we are introducing three new varieties to the marketplace as we speak. And these are things that are taking advantage of this trend, but actually upscaling it a bit, adding nuts and adding more cheeses and some more protein overall, but in our different varieties. And we're really, really excited about these products.

And we're doing the basic blocking and tackling that we've always done. The Jimmy Dean brand has been just a phenomenal success story, I think, as everybody knows. We reframed that from just a roll sausage into frozen protein breakfasts and other adjacent categories. Frozen protein breakfast at retail is growing 4% year over year in the last 52 weeks. When you look at the Jimmy Dean franchise, it's growing 7% in volume year over year. We are driving category growth through Jimmy Dean.

Stuffed hash browns. Brand new. So this is an indulgent product and I think you haven't had a chance to taste this you hopefully will at your local retailer soon. Delicious Jimmy Dean sausage inside a hash brown. And it's something that everybody around the office has been keen to try as soon as they can get their hands on it. And then, on the Jimmy Dean Delights franchise, we have frittatas. 280 calories with 14 grams of protein in a delicious frittata that's made very quickly.

The other thing that is really exciting, we opened up the dialogue on this during CAGNY itself, is Tyson Taste Makers. So, Taste Makers is taking advantage of all the expertise that Tyson has in fresh meat. We also have expertise in making sure that ingredients combined with fresh meats, marinades and so forth, provide a great cooking experience. But what you might not know is we have good expertise in vegetables. Extended shelf life vegetables and fresh vegetables, we have some significant experience in. And the team has leveraged these into what is Tyson Taste Makers.

So, we talked about this last Feb. We're now, six months later, introducing the direct-to-consumer offering, which is the brown box that you see, that really puts Tyson in a spot to be that curator of special meals that can be something that teaches the consumer new ways to think about meats, different cuts of meats, different marinades, and combines them with just fabulous ingredients.

We also have a retail offering that's going to be hitting the retail trade. And so, we're extremely excited about this. When you think about the category of value-added meats, so beef and pork and chicken that's fresh, it's a \$4 billion space for us to play in. And we need to get our fair share of that business. And Tyson Taste Makers is an entre in to that.

China. Now, we talk about China. China has been historically a tough market for us in terms of making the income that we want to and need to. But we are now putting ourselves in a position where we differentiate with a product offering to the marketplace that meets the consumer where they want to be and really driving, from the point of demand back, what our supply chain should be. So, all of our packages that we're introducing under the Tyson brand in China now have a QR code where the consumer can scan it, know where their bird was raised, when it was processed, and when it was delivered to the store.

In addition to that, we're doing, for one of the first times ever, a 360 marketing campaign in a disruptive way to really go after that millennial consumer in China that's thinking about chicken consumption different than, potentially, their parents have. So, great news in China. It's having an impact. We are seeing more and more good things coming out of the group. We have a new team there. Very excited about the potential in China.

So, on that note, what I just wanted to wrap it up by saying some of the things that, hopefully, you're seeing from us in the market will continue to get you excited. But just to spare you the suspense, this pipeline of innovation that we have coming is going to be something we'll continue to talk about. You'll see it delivering fantastic growth for us as a Company. The over 7% growth in the last quarter in the core nine is something that everybody is extremely excited about at Tyson. But, most importantly, we just really appreciate your interest in our company and we couldn't be more happy with how the team has come together. And appreciate the opportunity to talk to you today.

So, from here, I'm going to turn it back over to Andrew for any questions that you might have and Donnie and I will take those now.

Unidentified Participant: I've got a few and then hopefully we've got time for some more in the audience as well.

I guess, first off, with all the innovation that you're bringing in Hillshire, both prior to the combination with Tyson that's been accelerated, obviously, in the last two years, can you help us maybe benchmark where you're seeing the competitive set with respect to a lot of the innovation there either bringing or not bringing? It seems like there's obviously a tremendous amount in magnitude. So, are you seeing competitive levels coming from others or are you really leading the charge here? And then, how do you balance between bringing too much versus what are the big ideas that you really want the retailer and the customer to focus on?

Tom Hayes: Sure. So, I'd say, in terms of competition, what is nice about some of the categories that we're innovating in, when you think of the fresh meat space and particularly with Tyson Taste Makers, without talking about specific competitors, you can certainly know a lot of them that are direct to consumer, but these are under-marketed categories. So, we don't have the traditional players in this space really doing the same sorts of things we're doing in the periphery. I would say as you get to more of our frozen business, certainly we have competition in some areas, but our share is very strong in the prepared poultry frozen.

What we are more concerned about is making sure that we're innovating at the pace that our retailers want. They are craving it. We make sure that we're doing the right things by the consumer and then matching that with what the retailer wants us to do as the category leader. We're category captains, I think, in 140 different instances now, which is about double what we were at the time of the acquisition. So, the retailers are really relying on us heavily.

Unidentified Participant: If we think about capital allocation, you've discussed the ability, the willingness, in addition to other uses of cash, to go back to also M&A. This one has gone incredibly well. Is there a bent towards more bolt-ons versus something more sizeable, like transformational like Hillshire? Or is it just depends on being opportunistic?

Donnie Smith: Yes. I think there's really three filters, besides the strategic fit filters that I mentioned. So, number one, is it branded? Does it fit the strategy? That's number one. Number two is really a value filter. And can we make the acquisition -- it's really important to us to progress towards an ROIC back

about at least 20%, like where we were before the Hillshire acquisition. And so, we want to make sure that whatever we buy, whether it's a small bolt-on or a larger transformational acquisition, that it creates the path to get back to a 20% ROIC. And then, the third one is, is kind of this execution piece around cultural fit; think maybe if it's an international acquisition, do we have the right personnel, etc. that kind of thing.

So, those are the really three filters that we look at about what we bolt on. In terms of the balance sheet, the balance sheet's ready for a transformational acquisition. But Tom talked about a lot of great organic growth so we'll continue to invest, say, we've talked about somewhere around \$200 million or \$300 million above depreciation in our business to grow it organically, which has proven to be a very successful strategy so far. So, we continue to do that. And in absence of an M&A that fits through all those filters, we'll return cash back to shareholders.

Unidentified Participant: Tom, how about sort of the core sort of, we'll call it, core Hillshire lunchmeat business? As part of Hillshire, before Tyson, there were some packaging changes and some things of that nature. I just wanted to get a sense of what track that's on as it represents the core and the base upon which you're building a lot of this innovation on.

Tom Hayes: Yes. So, Andrew, I'd say the lunchmeat business is something that is -- we're a number-two brand so have the number-one competitor to that space. We have been doing a lot of innovation. The Hillshire Farm Classics, which is more of a value brand, has been doing very well. We've got Hillshire Naturals that was introduced. So, the overall space is probably the one that we have to really amp up in terms of what we're going to do with innovation because that's the one category where we compete that probably retailers would say, "Hey, we need some more help. It's not doing as well as we'd like it to." Just be honest.

Unidentified Participant: Let me reach out here. We've got one from (inaudible).

Unidentified Audience Member: I had two. I mean you've said international a couple times over the last couple quarters. It's a big world out there. You guys were in South America. You're not in South America anymore. You're in Asia. I was wondering if you could just help us narrow it down between processing assets or processing plus branded assets. Like how would it fit in the 20% ROIC? It would have to be meaningful to have a big enough platform to get decent returns.

Tom Hayes: Yes. I would just echo to what Donnie had said. As it relates to international, we have a business that I talked about in China that is doing better because we're focusing on the consumer. We've got certainly a long way to go there, but making great traction. We've got a small, but profitable, business in India that we want to continue to grow.

And, as it relates to other parts of the world, yes we've pulled out of South America and Mexico. We are looking at being a global protein-centric food company. And so, that means we will be looking for what is the right space for us to play and acquire around the globe that fits brands, risk profile, consumer-centric. I don't know if that --

Unidentified Audience Member: And just a separate track. Is there any impact on your company from the chicken collusion kind of issues that came out earlier this week or over the weekend?

Donnie Smith: We can't and won't comment on any pending litigation.

Unidentified Participant: Could you talk about the prospects for the beef division that's doing better this year? But how does that fit into your portfolio in terms of being value-added and non-commodity longer term?

Tom Hayes: So, yes, the beef business is doing much better. And so, the Tyson Taste Makers that I referred to, that's taking raw cuts of beef, marinating them, combining them with vegetables, other ingredients, and creating a brand-new product. So, it's not just beef, beef and pork, but with Tyson Taste Makers. So, we are trying to take historically under-marketed categories, applying the good thinking, consumer insights and R&D and marketing, to create brand-new products that consumers are going to crave.

As it relates to the balance of the beef business, we have tremendous relationships with our retailers in the case-ready, case-ready beef and pork business. So, that is where we take sort of the butcher out of the retail environment and provide a service that is ready to serve in the case. And that has been a tremendous growth platform for us, a nice margin platform. So, I'd say those two things specifically are where we intend to margin up in the beef business.

Unidentified Participant: Given the impact of commodity volatility, it's definitely very helpful that Tyson sort of frames the guidance relative to sort of normalized ranges.

Donnie Smith: Did I mention upper single-digits in 2017 EPS? Did I get -- clean up on aisle nine, right? Sorry.

Unidentified Participant: And you talk about it relative ranges so that investors could have a sense of where the business may be over-earning versus under-earning. But how should we think about the potential for these normalized ranges to move higher over time, through mix improvements, cost structure efficiencies? And I guess, in this vein, is there any particular segment where that type of upward momentum in the normalized range is more likely than another?

Donnie Smith: Let me take a quick shot about the why and then let Tom kind of cover the how. Being a protein-centric food company, we have an opportunity to grow. And with the relationships that we have with our customers, both at retail and food service and now in the B2C channel, we have an obligation to help them grow and therefore to grow our business.

So, we want to make sure that when we look at the balance between expanding margin and growing the business that we keep a good balance so that we can always take advantage of the opportunities we have within the categories where we participate to grow at a responsible and reasonable rate that our customers expect. So, I think maintaining a posture towards growth is very important to us. As any kind of normalized range around the segments could expand? Yes, over time, sure. But the main thing right now is for us to capitalize on the ability to grow because our customer needs us to do that. Tom, you want to just kind of talk about the how or --?

Tom Hayes: I would just hitchhike on exactly or tag on to what Donnie says as it relates to the customer. The customer, I would think, heretofore has not been as present as they are today across the entirety of the business. We have been very consumer-focused on one end, extremely customer-focused on another. The customer we're sort of relaunching as; look, this is the place where we need to really intersect in the right way to make sure we're balancing how much money we're making, how those margins are going to expand, how we're reinvesting in their growth that's good for us for our growth with all those consumer insights.

So, if we continue to get the same sort of ROI, like we do on Jimmy Dean, across all the other brands, of course we're going to continue to invest. If we find that we can do that and continue to

expand the margins over time, we might reset the ranges on a specific segment. But the first and foremost is we want to be a growth engine for our own company and for our customers.

Unidentified Participant: If I'm not mistaken there were reports maybe a couple months ago of a large club store looking to sort of create its own poultry farm to produce a third of its chicken needs. I guess some have interpreted a move to kind of have more control over the supply chain. Maybe you can just remind us of your thoughts on this situation. Any direct risk this might pose or just, more broadly, what it means in terms of your customer relationship.

Donnie Smith: They're a great customer. We've got a great customer relationship. Sell a lot of groceries across the country in a lot of categories. No threat at all to our business.

And I think if you look over time, whether it's sometimes retailers looking back maybe sometimes into dairy, looking back into meat cutting, looking back into commissary and prepared meals, I think this is just one more example of a retailer looking upstream into their business. But no impact.

Unidentified Participant: If there's any more out here, we've got a couple minutes remaining in here or we can certainly take it to the breakout. Any other ones for the room? Okay, we've got one more over here from Bill.

Unidentified Audience Member: It looks like we're going to have very large crops again this year. Are you well-positioned to take advantage of that?

Tom Hayes: Yes.

Unidentified Audience Member: So, you're not too hedged?

Donnie Smith: We're in good shape.

Unidentified Audience Member: Good.

Unidentified Participant: Okay. So, with that, why don't we take it to the breakout room for any questions? And please join me in thanking Tyson for being here.

Donnie Smith: Thank you.