Tyson

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Alexia Howard: Okay, can everybody hear me? All right, so it's my very great pleasure to welcome Tyson back to the Summit this afternoon. Tyson is obviously one of the world's largest food companies with leading brands including Tyson, Jimmy Dean, Hillshire Farms, Sara Lee, Ballpark, Wright, Aidells, and State Fair. The Company runs four segments, Chicken, Beef, Pork and Prepared Foods.

I'm sure all of you will know, in June of 2014, Tyson bought Hillshire Brands, a branded packaged meat company with higher margins and strong national brands, which added about 11% to Company sales and almost a quarter to company-wide EBITDA. The acquisition meaningfully strengthened the Company's portfolio by introducing more stability to the Company's earnings versus the upstream commodity businesses and created a great new platform for innovation.

Very happy to introduce Tom Hayes. He's going to become the new CEO on December 31st this year?

Tom Hayes: Yes.

Alexia Howard: Got that right. He is currently the President and before that was the Chief Commercial Officer, and he was also the former head of Food Service since joining the Company as part of the Hillshire Brands acquisition back in 2014.

He was also the formerly Chief Supply Chain Officer for Sara Lee North America, President of Sara Lee Food Service and before joining Sara Lee in 2006, he was Group VP of US Food Service and previously had general management and sales and marketing roles at ConAgra and Kraft Foods. So I'm really happy you're here.

Dennis and I go way back. Dennis has been CFO of Tyson Foods since 2008 and has 26 years of experience with the Company. We used to work together back in 2004, 2005 or so. Before joining Tyson in 1990, Dennis worked in corporate banking for seven years.

So welcome, and, Tom, we're going through a transition here. Maybe you could share some thoughts on the new role.

Tom Hayes: Sure. Well, thank you very much for having us, and it's a pleasure to be here and speaking to everybody that we have, so far, today, and -- well, for the balance of the day.

Yes, so as Alexia said, my background is the food business, 29 years, and I have the pleasure to succeed Donnie, Donnie Smith, our current CEO, and that happens at the end of the year. And he has been just a wonderful CEO for the Company. He took us through a period of time that's really been a turnaround for the Company. And so I am just thrilled to be chosen as the next person to take us through our next stage of growth, which is going to be really, really exciting.

So just an absolute pleasure to be here and looking forward to everything that the world is going to give us to offer, and we feel like we have a great position.

Alexia Howard: Great. So I'd like to ask a couple of questions right up front just to clarify your past and expected performance because I know that there are some things that are top-of-mind for people.

First of all, can you provide a bit of clarity on the Georgia Dock and its implications for Tyson?

Tom Hayes: Sure. I would have been amazed if that question didn't come up. It's a hot topic here lately.

First of all, what I would say is this is really, sort of, a tempest in a teapot for Tyson Foods. We have -- it's a very small part of our business is priced off the Georgia Dock. 3.5% to 4% of our volume is priced off of the Dock, and so that just gives you a perspective as to how small it is for us.

The second thing that I'd say is we take this really personally. The allegations that have been made in the media, and it's really become, sort of, sensationalized, to a degree. We view those as an attack on our integrity as a Company, and we take it personally. And so for us to continue to spend so much time talking about it, it's really a shame because it's such a non-factor in our business.

We have publicly said, through the media, that we have signed an affidavit that says our pricing practices were absolutely clear and accurate in the past, and they are absolutely clear and accurate going to be going forward. So as it pertains to our business, it's a small portion. It has a lot of attention today, it's unfortunate, but, for us, we feel great about the position that Tyson is in.

Alexia Howard: Can you talk about the fourth quarter results and how they compare to your expectations internally as well as the Street?

Dennis Leatherby: Sure. I'll take that. First of all, I wanted to say that, overall, for 2016, we had a great year. Adjusted EPS was up 39%, and when we look at the fourth quarter, if we added back the lower of cost our mark-to-market hits of $35 million, which would have been about $0.06. That was right in the middle of the range that we expected for the Street.

Now, there was a little bit of confusion around two of our segments that we're going to learn from. And then if we run into this situation next year, we're going to communicate more clearly. And so let's start with Chicken. Chicken, up through the first nine months of the year, had a return on sales of about 13.4%. We said on the call that, for the year, we'd end up around 12%, which we did, but what we assumed the Street would do is do the math and realize that the fourth quarter would be something less than -- quite a bit less than 13.4%; more like 9%, 10%.

And, in fact, we came in a little bit lower than that for some of the reasons we cited around soybean meal runup and those sorts of things. So, overall, though, it was still a great year for Chicken.

Prepared Foods, kind of in the same vein, was running about 11% return on sales through the first nine months. We said it would end the year around 10%, which it did, but that implied that the margin for the fourth quarter would be more like 8%, and it was pretty close to that. And that is, in large part, because we anticipated a heavy MAP spend, and it was maybe held back just a little bit by some of the challenges we had in Prepared Meats, but, overall, we had a really good quarter, and we were pleased with how it came through. We just could communicate better the next time.

Alexia Howard: You indicated that fiscal Q1 is off to a phenomenal start. What does that mean?

Tom Hayes: So what that means is it's a really, really strong start, a phenomenal start. So to give you some perspective, we see the first quarter of our fiscal year this year being the best quarter that Tyson's ever had in its history. So that's some quantification, I guess. And it's built on the back of everything that Dennis just talked about.

Our Beef business is going to be at margins well above the range that they would normally have fallen into. The Pork business is going to be well above the margins that they normally fall into. So Beef and Pork are having an exceptional quarter.

And then the Prepared Foods business, to be within its range again, and the Chicken business to be within its range, it puts us back on, sort of, talking about the things we want to, which is investing in growth.

Think about the core nine, we talk about a retail and, overall, our retail position is a part of Prepared Foods. We have had phenomenal, phenomenal results. In the last 13 weeks, our volume is up 6.3% year-over-year, and most of our peers and competitors are flat to down, and so we feel like that's great performance. And if you look at it from a sales perspective, our total sales are up 2% year-over-year where most of our competition is flat to down.

So we think we're doing all the right things to put the year into a really good position to start, and we just feel like it's going to be phenomenal, as you said.

Alexia Howard: Great. So the Company is primarily focused in the refrigerated and frozen parts of the store. With increased consumer interest in fresh products, have you seen a shift from frozen to fresh meat? And what's the relative profitability of those products?

Tom Hayes: Yes. So a shift from frozen to fresh -- I would say there's certainly an emphasis for retailers to focus more on fresh. They use that as a real strong pull to drive consumption and to drive just a point of difference with their consumers.

For our business, we see that frozen is also growing as is fresh. The Jimmy Dean brand is doing a great job actually growing the whole frozen category. Year-over-year, we continue to see high single-digit than double-digit growth in the Jimmy Dean portfolio, which is frozen protein breakfast sandwiches and entrees and those products.

So to say that a lot has been moving from frozen to fresh, not necessarily, but I would say, certainly, we're growing in frozen. And fresh has become, certainly, a huge growth driver not just for the retailer but for Tyson Foods, for sure.

Alexia Howard: Okay, maybe sticking with that theme, you only recently entered the natural and antibiotic free meat category with Tyson Naturals. Considering the increase in consumer demand for healthier foods and antibiotic-free meat, in particular, how quickly can you turn this business -- or how quickly can that business grow, and what are the limits to growth, and would an acquisition help to build your advantage in that space?

Tom Hayes: Sure. We're always open to acquisitions to help for our position. I think that would be excellent. But I'd say beyond that is, yes, the consumer is looking for, certainly, more antibiotic-free, and we have a line that is no antibiotics ever, and that line has been growing from a very small base, but it's been growing very aggressively.

We, at Tyson Foods, have stated publicly that by the end of 2017 our entire system is going to be free of antibiotics that are important to human health, and we are making exceptional progress on the calendar 2017 objectives. And we feel like we're in a position where we can offer customers exactly what they want when they want it.

Customers have been moving towards more NAE, and so we're happy to do that. Our margin profile is strong on our NAE products, so the growth that we see in that NAE space matches the supply chain. In fact, I would say we're a bit ahead of that based on the consumer and customer demand.

Alexia Howard: Are you worried, at all, about a slowdown in demand for animal protein following the issuance of the new dietary guidelines in January of this year?

Tom Hayes: We haven't seen a slowdown. Am I worried about it? I'd say no, because we don't have the indicators that consumers are going to want less protein. We have seen quite the opposite. Protein demand has been extremely strong. You may have seen that we just made an investment in a company called Beyond Meat, which is, certainly, plant-based protein. What we want to do is make sure wherever consumers are interested in protein, that we're providing a solution that is great-tasting and that's what we've been up to for the last several years and, certainly, within the last year.

To point to all the growth in protein, you really have to look at the periphery, you look at all the categories that we play in, and it's been phenomenal, the amount of the traction that these categories have had when, overall, grocery stores haven't been doing, particularly at the center store.

So I would say we've seen animal protein in addition to plant-based proteins being a big driver of that growth.

Alexia Howard: The acquisition of Hillshire in 2014 seems to have been a great (technical difficulty). What were the key drivers of success in that business, and what are likely to be the main drivers of sales and profit growth, going forward? Should we be worried about the most recent results? It sounds like not.

Dennis Leatherby: I think the acquisition has been fantastic. From my perspective, the synergies that we've created and brought to the bottom line and used to fund growth has been phenomenal. Our pretax return on invested capital as a Company is back up to 18%. It was just over 20% before Hillshire.

So we're heading in a good direction. We've returned, last year, about $1.7 billion in cash to shareholders through stock buybacks. We've bumped the dividend by 50%, and we bumped it again 50% this year. We have tremendous debt capacity and the ability to grow our business.

So we're well-positioned, ready to do another Hillshire-size acquisition again if it was available. So I think, overall, we're in great shape. We certainly have changed the direction of our Company, and it's really exciting to see what our future has in store.

Did you have anything you wanted to add, Tom?

Tom Hayes: That's good, yes, thanks.

Alexia Howard: You've recently ventured into the meal kit format in collaboration with Amazon Fresh. Can you give us an update on that? How do you see the meal kit delivery format growing over the next few years?

Tom Hayes: So, yes, meal kit has been growing as a space, and we feel great about it. The entry that we have, Tyson Tastemakers, is unique in that it is available. You don't have to have a subscription to buy it. They're great marinated, precooked products that are -- and, also, raw products that bring the consumer something that is already semi-finished but leaves that extra step to be finished by them in a way that is going to be, we think, very engaging. The success has been remarkable, so far. Everything that we've produced, we've sold out of. And, of course, as you might imagine, this is something that builds as we go, so there are steps to it.

But, so far so good, and what I would just add to that is beyond eCommerce, we are also looking at this format to go into traditional retail. And because of the brands' focus on that consumer, that food explorer, that's something that has crossed the entire consumer base and not just those that buy through eCommerce. We're tremendously excited about what that's going to bring for the future.

Alexia Howard: Thank you. How do you think about the long-term sales growth rates for each of your business segments? And what can drive cyclical changes in the more commoditized part of the business and where are we in those cycles?

Tom Hayes: Yes, I'll talk about growth and maybe Dennis can talk about what might drive them to be cyclical in nature.

But I said a growth profile starts with the consumer's appetite for approaching centric foods and fresh and less processed. So when we look at each one of our categories we play in, we're certainly doubling down on those that have the most growth prospects.

For us, getting into spaces that are attractive to both retailers and consumers is really helpful because retailers want us to help them grow their business and food service customers the same way, to make sure that growth is on the top of the agenda.

So the categories that we play in do well, and they continue to have been growing for us. And what we'll see is, over the future, those ones that are going to be disproportionately growing, you're only going to see Tyson in pretty strong shape.

As far as our commodity businesses go, as we often say, we manage the spread over the animals we procure, and as far as Beef and Pork go, we see additional supply coming on for the next several years of 2% to 3%. So whether the prices are high or prices are low, it's our responsibility to maintain that spread. And with the addition of Hillshire to the portfolio, we have value up opportunities that maybe those margins will show up in prepared foods, but they are certainly opportunities to expand overall margins.

Alexia Howard: Changing the approach to pricing has been an important factor in revamping your Prepared Foods and Chicken businesses. What have you changed there and is there further room for improvement?

Tom Hayes: Yes, I would start by saying there's always room for improvement. One of the things that we'd like to continue to do is focus the team on growth and continuous improvement, raising the bar on everything that we do.

As it relates to pricing, pricing is going to be challenging year, I think, across protein and maybe the discussions we've had, so far today, we've talked about it. And for our Pork and Beef business, it doesn't affect our margin structure so much as those are spread businesses. But, certainly, in Prepared Foods and Chicken they're put some stress on the system.

I would say that our guidance reflects any pricing that might be into the marketplace so we assume would have to be absorbed. And, as we get to the end of this quarter and as we started to talk about guidance for the balance of the year in February, we're going to have a lot more detail.

We're just into the first quarter by nine weeks right now and at our February call, we'll have a lot more visibility, and we'll talk about pricing as well as just the balance of the year what that looks like for us. But right now we feel like we're in a pretty good spot.

Alexia Howard: Can I go to the lawsuit question? Are you able to make any comment about the scope, scale, or timing of resolution on the recent lawsuit regarding anti-competitive pricing dynamic across the US broiler chicken industry?

Tom Hayes: So, much like the Georgia Dock, we feel like anything that is attacking us, we feel very strongly about in that it's attacking our integrity. These things, these antitrust lawsuits tend to take a very long time to get resolved.

We're anxious to defend ourselves in court. We feel like we've got a great position. We're very happy with what we do at Tyson Foods and, in no way are we going to back off of what we have been historically. What we're going to continue to be is a fiercely competitive company that focuses on driving value for consumers and customers.

Alexia Howard: You may have touched on this, but is there any way of going a little bit -- in a little bit more depth on the key drivers of profit margins across each of the major business segments? Where is each business likely to be in fiscal 2017?

Tom Hayes: Do you want to do that, Dennis?

Dennis Leatherby: Sure. The Chicken business, as we said in the call, that it would be driving our margin range of at or above our 9% to 11% range for the year. And as Tom said in his earlier remarks, we're already back into the normalized range, whereas, in the fourth quarter we were below. I feel good about that. It's down a bit from [16]. That's in large part because there's more supply and so we're factoring that additional supply into our pricing assumptions.

As it relates to Prepared Foods, we expect that Prepared Foods would be similar to 2016 around 10%. The one big difference to notice is that you're going to see healthy volume growth, and with that volume growth will be commensurate operating income growth.

Beef and Pork, as Tom said, are off to phenomenal starts. We're having exceptional quarters, and they're well above their normalized ranges currently. And, for the year, we expect that Pork would be at least 10% or more their normalized range of 6% to 8%, so that's very healthy. And then in the case of Beef, its normalized range is 1.5% to 3%. We expect it to be above 3%. And, as Tom said, when we roll around to February, we'll take another look and see if there's anything that needs to be changed.

Alexia Howard: Maybe just sticking with the Beef business, given its relatively low profitability, why keep it? What will return it to much better profitability and decent returns, over time?

Tom Hayes: Well, certainly, the margin structure that we spoke to right now that the Beef business is experiencing is a good reason to keep it and, with no pun intended, it is a cash cow right now.

And the idea that the Beef business is going to continue to have strong margin profile is going to continue through 2017, as Dennis has talked about.

The other thing that we don't talk about a lot, but we should, is that our retail customers really find a lot of value that we bring both in Beef and Pork to their total offering. And so they see us as a very strategic partner, whether it's case-ready, so they don't have to have a butcher in the back of the house. Or just bringing new offerings in new package types. They really rely on us as a strategic partner to help them grow.

That has collateral benefits as we look at the rest of the portfolio, and so we certainly will -- every year we take a look at all of our businesses and try to understand the role of it in our portfolio for future growth. But right now, I'd say we feel great about the contributions both Beef and Pork are playing.

Alexia Howard: Can you help us understand the buy versus grow strategy that's helped de-commoditize the Chicken business and avoid the need to sell excess commodity parts like leg quarters or trim?

Dennis Leatherby: Sure. What we try to do is always sell in balance, and so we set up our production to make sure we sell in whole bird increments. And to the extent there's an imbalance in parts that need to be sold, that's what we buy on the outside.

Typically, that's breast meat, sometimes it's tenders, but that's how we manage buy versus grow. And it could run anywhere from 50 to 100 loads a week, depending on the season that we're in and the demand we have for those products.

Alexia Howard: Before we jump into questions from the audience, you mentioned a year ago the Company raised the dividend by 50% to $0.60 a share and now guides to an increase of at least $0.10 annually. What's the Company strategy with regard to dividend versus share repurchases and other uses of cash?

Dennis Leatherby: Great question, and as a reminder, we did announce an increase of the dividend from $0.60 to $0.90 in 2017. So it's another 50% increase.

We are going to have this conversation with the Board every year, and we'll make a decision. We do want to commit to at least a dime a year. We think that's a healthy increase but each year the conversation will be different depending on, really, where we are, largely, from an investment standpoint.

This year, as we said, we're going to have $1 billion in CapEx, and so we see nice organic growth opportunities especially capacity expansion projects in Chicken, Prepared and, to some degree, in Pork. So those are exciting.

So, for us, think about last year, free cash flow after dividends and CapEx over $1.5 billion, and we spent all of that, $1.7 billion, in fact, to buy back shares. We're going to have the same philosophy this year. Free cash flow may not be as much because of the heavy CapEx, but you can expect we'll return the remainder to shareholders through share repurchases.

Alexia Howard: And then, just before I open it up, the Venture Capital Fund. What's that all about? Where do you expect that to go over the next few years?

Tom Hayes: Yes, so thanks for that question. The Venture Capital Fund is something that we were talking about for quite some time, and Monica McGurk has joined our team from Coca-Cola, has tremendous experience in this. And she has been leading the charge for us to think differently about our business.

One of the things that we really want to make sure that we're on the front of our feet with is -- Bowser Feed is looking at new technologies, technologies that are going to play well with our strategy.

So if we think about it would be how many more sustainable enterprise is there's a lot there for us to do, and we feel like there are some new technologies in food waste that are going to help us tremendously.

Animal protein, we spoke of briefly, that is a space where we feel like there is going to be some investments that we'll continue to make. And then I'd say that as it relates to new technologies, whether it's the Internet of food, production technologies, robotics, those are things that we feel that we want to make sure that we are understanding and that understanding could be taking minority investments in these operations that are -- have these nascent technologies that could be applicable to Tyson. And, you know, just put us in a place where there is also this point of contact for the Company.

We get tons of questions and new ideas that come from all over the place, and it really, sort of, unites us to say, all right, let's put it through one team, let's make an assessment that leverages the process that we have and to the extent that we want to invest in them, let's go do that.

So that's a really exciting that we announced. We're really thrilled to have the team that we're going to build against it, and it's exciting.

Alexia Howard: Great. Are there any questions from the floor. We probably have time for a few. Anybody? Okay, well, put your hand up if anything jumps in. I've got a couple more here.

You mentioned international as an area of focus for future growth. Do you have any geographical preference between emerging versus developed markets? And given the macro weakness in some major emerging markets, how do you rate them as an investment option at this point?

Dennis Leatherby: Yes. What I'd say as related to international, we do have, today, business in China. So we're in the process of making that business better. We have three plants there. We have a great team. We're investing in the Tyson brand in China, and we're building more products that are relevant to the current consumer. The consumer is changing quite a bit in China, almost to the way that the consumer changed in the US as it relates to the Poultry category 50 years ago.

So we're excited about the opportunity in China. We also have operations in India, and so between China and India, those are markets that we are betting on currently. And so as it relates to developed countries, that is what we're sorting through now with our -- looking at our strategy -- where should we best focus in order to get the long-term growth?

To me, our team has done an excellent job, and I think that the growth that you'll see is predominantly in the developing countries. But we are -- right now, we're not closing doors, we're opening doors as we go through the strategy development process, and you should look to hear more from us, particularly as we go to CAGNY. So for those of you that will join that, there we're talking more specifically about some of our strategic options, our purpose of the Company, things that are going to be on your mind as it relates to -- particularly the CEO transition and also just attacking the next phase of growth for Tyson.

Alexia Howard: Okay, so maybe if we wrap it up here, because you -- I know it's early days because you haven't taken over the driving seat yet, but what would you see as the major priorities to your agenda over the next three or four years?

Tom Hayes: So the first priority is to make sure that we continue on the great trajectory that we've been on. The Company has done some amazing things, and we have incredible contributions from -- it doesn't matter to me where you came from, that we're all together now as one Tyson Foods family.

So I'd say the next -- we have a big opportunity to really go to the next stage of growth with tremendous categories. We're in growth categories in Protein, and we have tremendous capabilities that can be leveraged to maximize that growth and to make great returns for our shareholders.

One of the things I think you will see differently from us in the future than in the past is more proactive approach to sustainability. We know that the conscious consumer today wants more transparency than we're giving, and we are up for the challenge, and we feel like that, as a leader, we need to take that space aggressively.

So you'll see that. You'll see us focus a lot on innovation. That should be no surprise, but the innovation pipeline is full, and we have lots of opportunities to spend again. So be prepared for some great new products to be hitting the market, and we'll be excited to talk about.

And I'd say just in general we want to continue to invest against the business in the right way. We have a very strong base to work from, and we're going to make strategic investments in order to grow, and don't be surprised if we pull in an acquisition or two.

Alexia Howard: Brilliant. Okay, thank you so much for being here this afternoon, I really appreciate you taking the time. Thank you to everybody that's in the room, and we'll wrap it up there. Thank you.

Tom Hayes: Thank you.

Dennis Leatherby: Thank you.