

**Tyson Foods**

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Adam Samuelson: All right. Great. I think in the interest of keeping on schedule, we'll go to the next session. I'm Adam Samuelson, the agribusiness analyst here at Goldman Sachs. Very happy today to have Tyson Foods here to present. We've got, from Tyson we've got Dennis Leatherby, their CFO; and Andy Callahan, their President of retail brands.

I think Tyson has got a few slides and some brief overview remarks. Then we'll jump right into Q&A. We'll have questions coming in from the internet as well. You can send those into [events@gs.com](mailto:events@gs.com), with hashtag staples in the subject line.

So first maybe, Dennis, Andy, you want to start off, and then we'll go into questions.

Andy Callahan: Yes, great. Thanks for having us, Adam, and appreciate being here. Real quick overview, I know, let's just go through this really quick, just to give everybody a grounding. Because I know we want to get into the Q&A really quick.

But Tyson Foods is one of the largest food processes manufacturers and branded companies in the world. We have operations globally. But one out of every five pounds of protein sold in the United States comes from Tyson Foods-- comes from Tyson Foods, period. And within that, we have-- compete within the beef, pork, poultry, and we have a prepared foods portfolio.

Of that prepared foods, we have a house of brands which gives us great capabilities to not only compete across multiple consumer segments and day parts, but innovate off of the platform to innovate with our growth engine. Three of those brands are billion-dollar brands. And our goal is to grow them in categories at a faster rate than the categories in which we compete.

As you can see, we look at that whole portfolio within-- now I'm talking about our retail packaged brands group. We look at a core nine branded portfolio. And that core nine is important to us, because it's where we have the highest amount of differentiation. We're leading brands within that space.

And therefore, when we invest our dollars, where we skew our investment, it gives us a higher value return over time, versus just being able to drive volume in the short term. So we invest both in innovation, as well as equity building in that relationship that we have with our consumer.

A good example of that is our Hillshire Farm portfolio where we've extended into the high-growing snacking arena with our Hillshire snacking business. It's just one of the fastest-growing items within all of retail. And we rejuvenated that platform for our consumers.

We're also revitalizing the Tyson brand. We just launched a national campaign under the Tyson brand. And our growth came under Sally Grimes, where we're working on building that innovation pipeline over time.

So just a big takeaway, it's not just the consumer side of the business though. It's the way that the consumer, the demand side of the business connects with our supply chain. And the big takeaway I want you to take is that we have differentiating capabilities within our portfolio. And we have those differentiating capabilities at scale.

And scale matters, because it drives efficiency throughout our plants. It allows us to have expertise within the supply chain. And we have scale at demand, which gives us deep insights in the categories in which we compete. It gives us preferred relationships with our customers, and a strategic partnership with that.

So today, we have a continuous stream of innovation. We're building our brands through innovation and differentiated. And we believe we have a pipeline of growth as we convert what was historically a processing meat company into a different company today. And it will be different tomorrow, as we like to say. Because a high percentage of our business is moving to a consumer-preferred or customer-preferred. And as that happens, it drive efficiency throughout the supply chain. And we've seen that in poultry.

Dennis Leatherby:

So let's take a quick run through the numbers that we just reported yesterday, our second quarter results, and continue to do very well. We set several records. Adjusted operating margin for the entire Company was 7.7%. That's a record for a second quarter, which is typically a very seasonally-challenging quarter. So we're off to a great start through six months.

We also set records in our chicken business or a return on sales. It was 12.7% for the second quarter. And our segment operating margin for pork was 10.9%. From an earnings-per-share standpoint, we had adjusted EPS of \$1.07, which was up 43% versus a year ago.

As we look at our outlook for 2016, the building blocks, our prepared foods segment range, we expect to be in the low end of the 10% to 12% range. We also expect chicken margin to be over 12% for the year. We did adjust our chicken segment operating margin normalized range to 9% to 11%. Pork segment, we expect it to be around 10% for this year. Its normalized range is 6% to 8%. So it's having a great year with plentiful supplies. Beef, we expect to be in its new normalized range of 1.5% to 3%.

Synergies are coming in strong. We do expect them to exceed \$500 million this year. And lastly, yesterday we raised our earnings guidance for the year from \$3.85 to \$3.95 up to \$4.20 to \$4.30 per share for 2016.

So while our goal is to grow our EPS on an annual basis at least 10% annually, I would add that with this new earnings guidance of \$4.20 to \$4.30, that would take our 2012 to 2016 compounded annual growth rate for the four-period up to 21%.

We're performing very well. We're generating a lot of cash. I would say overall that our leverage ratio is right where we want it to be. And we're able to buy back a lot of stock. Over the last 10 months, including the week leading up to the call, we acquired \$1.1 billion worth of stock. It was

about 22 million shares. And most importantly, we're set up very well for growth into 2017. And we expect it to be even better.

So that's just a quick flyby of Tyson Foods. So Adam, I'll turn it over to you.

Adam Samuelson: Great. Thank you, Dennis. And I think maybe we'll stick on that last point, and kind of some of the momentum that you saw in the business in the quarter that was really robust. And as you think about how that positions the Company for 2017, I know there is that 10% EPS growth target out there. Maybe talk a little bit-- I know you're not going to give guidance today. And I don't want you to give guidance today. But talk about how the business is set up into 2017 in chicken, beef, prepared foods, some of the moving pieces, and some of the things that you'll be watching at this time of the year as you start to look ahead.

Dennis Leatherby: Sure. I'll get us started. Then I'll let Andy wrap up. What we see going into next year is a favorable environment for beef, pork and chicken, and prepared foods. In the case of beef, we're starting to see the cattle supplies coming on, especially in the second half of this year. It could be as much as 3% to 4% over a year ago, which would be about a 2% improvement over 2015.

We would expect that to continue on into 2017 and on into 2018, coupled with less imports and a better export environment. So beef is setting up to be in a better place.

Pork is in a good place as well. There's plentiful supplies. And while there is plant capacity coming on in probably 2017, we do see the supply in plant capacity fairly well in balance, and even have additional capacity within our own business. So I feel good about it.

In the chicken business, we are in a great operating environment. We're looking at at least 12% this year. We really don't see much that would change next year, other than it's just so early. So it makes it hard to really give guidance from that perspective.

And then what can we say about prepared foods? It's been a great business. And it's really coming on nicely. And I think it would be good for you, Andy, to walk them through what you're seeing.

Andy Callahan: Yes. I feel really bullish about the back half of the prepared business. You know, we're starting to get to a stable commodity input. So our pricing and our price gaps, the way I look at the-- on the retail side and the food service side, is also healthy. But on the retail side, the way I look at it, the fundamentals of the business are really strong.

You know you have the right distribution, you have the right product quality, you have the right service to your customers, and you have the right price gaps; then all of the other long-seen sustainable growth efforts are-- they pay off more.

So I feel really good about as a starting point, the fundamentals of the business. We've been growing distribution faster than our peers in the category. Our price gaps are where we want them to be. Service levels are really good.

So what we've seen is those investments that we're making in our equity and our advertising and the innovation pipeline are really starting to take hold. Our volume was a little bit flattish as the price gaps played out in the marketplace. But over the last 13 weeks, we've seen a really, really strong response.

Our share in our core nine, that core nine I talked about up front, which is the majority of our profit and our strategic most important brands, we've grown volume share 1.6 points versus the competition. Eight out of our nine categories in which we look at are up. One of them is flat. And our dollar share is also up. So we're growing faster than the category, or we're growing faster than food and beverage.

Our innovation pipeline is really good. Our customers are really excited about some of the things we're bringing to market within Jimmy Dean's. We have our hash browns coming to market, frittatas; our Hillshire small plates, which has moved in there. We have new capacity coming onboard here in May. So that will expand, with naturals, poultry; I could go on and on.

But I feel really good about that. And then the last point I'll make is the grilling season is important to our entire portfolio across our fresh meat, and especially across some of our sausage business, hotdogs, et cetera. And we are really set up for a strong merchandising season with our customers.

You know, they're asking us to make sure we have enough inventory built to supply some of the merchandising they have. So we're seeing good volume growth here, and I expect that to accelerate through the back half.

Adam Samuelson:

That's some helpful color. Maybe we'll stay on the branded side for a few minutes. And it's interesting about the volumes. Because we try to parse the Nielsen data. We look at IRI. You look at the total Tyson reported numbers, and even in some of the categories, and it's not quite as-- it doesn't line up quite as neatly with some of the core nine growth numbers that you target. Prepared food segment itself had basically flattish volumes in the more recent quarter.

Maybe help us bridge some of that gap a little, because the optics on the outside are harder to see than maybe you guys see internally.

Andy Callahan:

Yes. And that's fair enough, Adam. Because that is true. So what Adam is referring to, if you look at the Nielsen or the IRI, if you pull total Tyson branded, our volume is flattish. And actually several periods ago, it was down. And that includes not just our core nine branded, and all of our retail, but it also includes two very large volume items, which are IF, individually frozen chicken, which is UPC branded, and ground beef chubs, which was UPC ground at branded.

And what we're doing with those businesses, they are shifting into the fresh section of the case. We do that on purpose. It's good for us. It's good for our profitability. But what happens is it comes out of a tracked scanner visibility into a non-tracked scanner part of the store. So although it's fine within our P&L, it looks like a negative delta within our scanned UPCs.

So what I was referring to, when you exclude that and you look at the packaged brand business-- which is kind of a proxy for the consumer packaged goods business-- that's where we're seeing the growth accelerate. So the quality of the growth is really good. Because it's where we make the most money. And it's where we think we have a sustainable point of difference in the marketplace.

Adam Samuelson:

And as you would look at the business, as you would try to rank order some of the growth opportunities in the portfolio, what do you think some of the-- if you rank the top three areas that you're most excited about today, what would those be? And how should we benchmark success in those endeavors over the next one to three-plus years?

Andy Callahan: Three years, okay. That's good. So first look at our Tyson brand business, I would look at. It's a terrific business. We have greater than a 50 share. And being in a high share is really important in the consumer packaged goods business. Because what it typically indicates is higher consumer loyalty, and therefore less reliance on deals and higher platforms to innovate off of, and typically a higher price premium in the marketplace.

So when you have a high share, it's a pretty good position to be in. So our Tyson brand has a high share. We're coming off where we reset the manufacturing network to drive quality, and set it up for long-term growth. But we're just building the pipeline.

So the innovation pipeline, we just launched a new advertising, as I mentioned before. But we're just building the innovation pipeline. So despite how successful that is, I think there's a good long runway for that to grow. The second piece that I'd say is our entry into the snacking space with Hillshire. That's also a good innovation. But the reason why I'm excited about that, we have a lot of innovation. We drive, for innovation launched in the previous three years, we generate 12.5% to 15% of our revenue through that. And that's what we call our vitality. It keeps our brands fresh.

But what really excites me about Hillshire snacking is we took a brand that was in the sausage category, and we've expanded it into a category that's growing, that's large, and is highly incremental to our portfolio, and builds the equity to the brand. So it's a good model for the power of keeping your brands fresh, driving growth and getting into growth segments of the store. So I feel really good about that.

And then just in general, I feel good that we have this breadth of brand-- you know, I could take about Jimmy Dean. I could talk about other things. But I guess you gave me three. So I'll go with three. I think the third point is we have a good innovation portfolio across the board. And the fact that we have this toolbox of brands in relationship with the consumers, we have multiple areas to decide where to grow.

We have opportunities to grow within some of the emerging channels and segments, and bringing different benefits to consumers across the board. And Sally and her team partnering with my team on the innovation pipeline, spend a lot of time in making sure that we have more in the pipeline than we can actually afford. And that creates a really good choice model for us. So I feel good about that pipeline.

Adam Samuelson: Great. And then maybe follow up on maybe the first point there, and take that a little bit differently. The Company, (inaudible) earlier really raised its normalized chicken margin range to 9% to 11% yesterday with earnings. And it's interesting. Because clearly there's been some fundamental change in how Tyson goes to market, how it managing its product mix. But there was also an interesting comment on the earnings call yesterday about trying to drive the chicken business for growth.

And I'd like to dive a little bit more deeply into what you actually mean by that. Because some people coming from the commodity days would hear growth, and be-- well, chicken is going to put more chickens down and more supply. And that's a problem. But what do you really mean by growth? What are the aspirations there, and how does that drive incremental shareholder return?

Andy Callahan: Dennis, I'll start, but you can build. And thanks for the way you asked that question, Adam, because I do think there is some confusion of the old growth, being supply growth, meaning bringing more birds to the market versus consumer-driven and customer-driven growth. And so if

you think about where we are today, the majority of our poultry business is grounded in a benefit to either a customer or a consumer.

So just as a starting point, a foundation, that does a couple things. When you have a reliable and good relationship with the consumers and customers, and that's about 85% to 90% of the business, it creates great stability throughout the whole system. It creates stability all the way back to supply chain of the demand for the number of birds you need. You can plan your manufacturing and processing better. And it drives efficiency. And we're seeing all that in the shift in the normalized range coming up.

But what it also does is when we have more stable margins, it gives you a platform to invest in innovation and drive innovation to the marketplace more. Because you're not focused on the volatility in the marketplace. You're focused on consumers and customers, and bringing innovation to that marketplace. So it's demand consumer-driven growth, which is very different than saying, well, how do I get a better share of supply in the market.

It's how do I satisfy consumers and customers, and therefore drive and grow at a greater rate than the market. And that creates a much better value. So when Donnie said that or Dennis said that yesterday that's what he was talking about, is we're now set up for growth. Just like consumer packaged goods business is on the retail side.

Adam Samuelson: And as you talked about kind of that reinvestment, and certainly-- I'm sorry, Dennis--the reinvestment-- you alluded to the reinvestment in the Tyson brand. In the chicken segment, is there any way to size what that reinvestment level would be, other than the normal drop through from different pricing mechanisms that you'd have? Or how much-- what are you putting back into the business that might be harder to see on the outside?

Andy Callahan: Well, actually what we're investing in at Tyson isn't really related to price. The elasticity of that portfolio is actually relatively low. What we are investing is we have a new advertising campaign to build the equity.

What we found when we did our research is the Tyson brand in total has really high awareness and really high trust. So that's a great starting point for any brand, which isn't surprising given the national distribution of it. But what it also had was low interest scores. So it wasn't interesting. It wasn't engaging, had low engagement scores. Which also isn't surprising, because we haven't innovated and we haven't talked to consumers about it.

So as consumers are shifting, what we've found we really need to do is start talking to consumers, and really contemporize the brand through innovation and other things. So most of the investment on the retail side is coming on there. We're also looking at packaging innovation and other things that that stable business model allows.

So that's where really the investments are coming in. There's also some other segments that we can accelerate and get into. So it's more about the innovation side, and the equity-building side on the Tyson brand.

Adam Samuelson: Great. And I have the CFO sitting here. So I'd be remiss if I didn't ask a question about capital allocation. There's one coming on from the internet. I'm going to paraphrase it and reframe it a little bit. Maybe talk about the balance sheet at this point. You've de-levered post Hillshire. Talk about the comfort you have with the balance sheet in terms of the capacity you think you have today, the asset type to engage in more meaningful M&A again, and where the priorities for that would be, particularly if those opportunities arise outside the US.

Dennis Leatherby: Sure. The balance and capital structure is really in a great place. It's at a leverage level of about 1.8 times. That's net debt to EBITDA. That's a nice place to be for a solid mid-BBB-rated company. We think that's a good sweet spot from a capital-raising efficiency standpoint. So we just plan to stay at this place for the time being.

We've just paid off \$638 million in notes. And so where does it leave us? It leaves us with plenty of debt capacity for M&A. But in the meantime, before M&A, I'd like to just say that our priority is for growth, and heavy CapEx, in operation efficiencies, expansion of our facilities, and innovation and brand building. So that's our first priority.

But in terms of M&A I'd say this that if the right quality asset were available, had the right stability of earnings and level of earnings, I could see us easily have debt capacity of anywhere in the \$7 billion to \$10 billion range, and still maintain our investment-grade ratings. We do have the discipline to drive those returns quickly, drive growth, and de-leverage.

A good example was the Hillshire acquisition in 2014. It was \$8.5 billion. We put on over \$6 billion in debt, took up the leverage up over 3 times, and brought it back below 2 times within a year. So that really would be a good example of our capabilities from a leverage standpoint.

And in terms of M&A, and I'll let Andy build on this, but think of where we are strongest right now. And that's in the prepared foods space. And it's in chicken, value-added, especially where there are brands and we can grow those brands using great capabilities that Andy and his team and others have brought to the Company.

But we wouldn't want to limit that just to domestic. It could be international as well. That could be a really big difference maker. So Andy, do you want to add to that?

Andy Callahan: Yes. On the M&A front, Dennis is a great partner in that regard. Because he generates a lot of cash, which gives us a lot of flexibility in the marketplace. And when we think about M&A, we do think about branded. We think about consumer. We think about protein-centric. And those areas make a lot of good sense from us, because we're in meat. So protein-centric makes sense from a consumer standpoint. It allows us to compete where consumers are. But it also, as Dennis mentioned, it leverages capabilities we had.

The Hillshire acquisition was transformational, not just from a portfolio side, but it created a platform of capabilities that gives us more flexibility and a broader aperture relative to acquisitions that we can now bring on board and drive great growth synergies with from scalability with customers, from building brands, driving innovation. The more we can apply those high-value capabilities across a broader platform, we're going to create a disproportionate amount of shareholder value, in my opinion.

Adam Samuelson: And as you think about that international component, if you think about the markets that would or would not be appealing to you; how does the market growth factor in there? I mean you've been in places in Latin America in the past. You've chosen to exit those for various reasons. How do you think about the growth part of that international ambition?

Andy Callahan: So 90-- Sally or say Donnie mentioned 96% of the world's consumption is outside the United States. So-- and there's an emerging middle class that's in certain parts of the world that is a growth opportunity that's too large to ignore.

But so we're currently in China. We're making tremendous improvements of our business in China. It will take several years to get to profitable, but under Sally's leadership and the team that's on there, we're on a great path of kind of moving from relying on supply to driving that to a demand-driven business. And that has significant upside over the next several years and beyond.

And then we look to prioritize across those markets in Asia, and we have a good partnership in India. But we look at it all. We go from the whole to where the opportunities are. And we evaluate each one individually to be able for us to add value and for us to return. But we can't ignore globally. We're going to compete there. And we're going to compete there at the right time, at the right value creation. But those are the markets that typically we look at.

Adam Samuelson: So I'm going to maybe make sure we offer [an opportunity] in the room, if there are any questions, raise your hand. There's microphones in front of you if anyone in the room has anything, I'm happy to open the floor, or I can continue.

So maybe I'll-- maybe switch gears a little bit, and just ask two questions quickly about the beef business. And first, can you talk about where we are, you think, in the beef cycle. And as the cow herd starts to rebuild, how that really will start to drive better utilization of the packing plants and the cadence of that recovery in your own business.

But more so, longer term, how you think the beef business fits in the portfolio. There's more limited opportunities for value-added in beef relative to the other proteins, considering so much of it is consumed as ground beef in the US, and how the beef segment as it's currently constituted, fits within the Tyson that you've been building over the last few years, particularly since Hillshire.

Dennis Leatherby: Like all of our businesses, we evaluate their fit in our portfolio every year. And we'll be going through that process again. I would point out that our beef business is somewhere in the \$16 billion to \$17 billion range. So we're a significant presence with our customers, and we don't take that lightly.

The margin structure is improving. We expect this year to be in the 1.5% to 3% range, with a stronger second half of the fiscal year than the first half. We expect the next couple years to be even better. And one way I like to think of it, from a financial standpoint, is when it has about 7.5 turns on capital. So if we get to a 2% return on sales, that's about a 15% pre-tax ROIC. So that's not too bad.

And of course as we move on up toward 3%, it gets even better. So it is a contributor. It's definitely structurally a thinner-margin business. But overall, we like our beef business. But I would be-- I would hurry on to say that we do look at it every year. And I know Andy has spent some time with the business, and has his own viewpoint, and that it's very helpful in terms of how we can incrementally improve the business.

Andy Callahan: Yes. I mean we look at innovating off of all business. You're right, Adam, in the sense that structurally it's different. It's not going to be growing at the same rates over the long term globally. Poultry will lead in growth. It's the highest protein output for cost of input and resources. It also has health benefits. It has utility. So it's highly efficient. It will surpass pork likely in the next two and a half years to three years as the number-one meat protein consumed on the globe. Poultry has obviously global demand as well.

So there's just the macro trends relative to consumer. And it also has lower the percent that goes into prepared, as you mentioned. But that doesn't mean it's not capable of innovating off of. We are moving more of that business into our prepared portfolio. We're also looking at the innovation

on more value-adding complete meals. It's just relative to the breadth of the opportunities we have. It's just not as high of a profit, and the macro growth potential isn't good.

So it does provide a great role. We do have great innovation ideas, but relative to the opportunities of the rest of the market, we just put our dollars where we have the highest return.

Adam Samuelson: Great. Maybe talk quickly about pork. There's been a lot of talk recently or focus about some new packing capacity coming on in the US over the next two to three years. And certainly the margins have been excellent in the last year or so. And talk about how you think the market is going to be able to absorb that incremental packing capacity, starting late this year or early next year. And also, just near-term market dynamics as China starts. The pork prices have risen pretty sharply in China in the last few months-- export market outlook and how that can impact US balances.

Dennis Leatherby: As you said, incremental capacity is going to start coming online in 2017. I think the industry is growing about at the right pace for it to absorb that capacity. I would point out that we do have incremental capacity in a couple of our plants, where we could double-shift them to take advantage of some incremental capacity. So that will be a decision we'll make along the way as we need to. Most importantly though, is that we want to have great relationships with our hog producers and enjoy continuing to keep a solid supply around us.

As it relates to China, the demand for pork is greater than supply at this point. They've had several challenges, some with disease, some with just the industry cutting back, and so it's a tighter environment in China. My understanding is that pork prices are considerably higher in China than they are here. So they are seeking more pork from the US.

We've put several of our plants into the process of being approved by China. And we have several that are in good stead there. The one thing we have to do to sell more pork to China is convert our hogs to ractopamine-free. That's going to be basically an economic decision that we have to make relative to the offer. It's not something that we can do very quickly.

But I would say this that even if we don't, there are competitors that probably will. And that's good for the industry as a whole. It's good for our business. So our pork business is in a good position for the foreseeable future.

Adam Samuelson: Okay, great. And make sure in the audience here in the room, if there's any questions before we do run out of time. Okay. So I'll keep going. And maybe time for kind of one more long-term question. As you think about the business today versus where you aspire to take it three to five years from now, how should we think about Tyson? Clearly your slide deck that you handed out today, a different company was right on the cover. How should we think about Tyson five years from now?

What would look different of the Tyson in the medium to longer term, be different than today, and what do you think the biggest steps are needed to actually achieve that goal?

Andy Callahan: The reality is already beginning there. It's a matter of continuing the path that we're on. But the majority, the preponderance of the portfolio will be grounded in the consumer. There will be a higher percentage that is branded. There will be a higher percentage that is differentiated. And therefore the growth algorithm of the portfolio will be less around the category. Although we're in good categories. We have a preferred position, as I mentioned on that slide. But it will be driven by our capabilities to be able to innovate and drive growth by satisfying consumers' needs and building brands and equity.

So the percentage of those that portfolio that is prepared, whereas that branded will continue to grow over time. And therefore, the percentage that we supply on the open market-- you have already seen it happen in poultry. And you've seen what the stability of the earnings can do when you're grounded in a consumer or a customer base, and then able to align the supply chain to that.

We expect to be able to do that across our whole portfolio. Because we have that portfolio in the front end on the prepared side-- that is pork and branded, et cetera-- to do that across the rest of the portfolio. And therefore our ability to differentiate versus not our meat protein, but across the consumer packaged goods space, it will be built on our ability to continue to innovate and build our brands. And that's a completely different company than what Tyson was five years ago. And that will be a completely different company than what Tyson Foods is today.

So that's the path we're on. And we're well onto it. And what's encouraging for me, is that we've already demonstrated the ability to do that. We have a model that's already existed that I know there was some skepticism that's working well. But that's within the poultry business that we've shown the value of having the differentiated portfolio that's grounded in a loyal consumer and customer base.

Adam Samuelson: Great. Well, I think we're just about out of time. It's been pretty comprehensive. Andy, Dennis, thank you very much.