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# Tyson Foods, Inc. (TSN)

BMO Capital Markets Farm to Market Investor Conference

## CORPORATE PARTICIPANTS

**Thomas P. Hayes**

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

**Dennis Leatherby**

*Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.*

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## OTHER PARTICIPANTS

**Kenneth Bryan Zaslou**

*Analyst, BMO Capital Markets (United States)*

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## MANAGEMENT DISCUSSION SECTION

**Kenneth Bryan Zaslou**

*Analyst, BMO Capital Markets (United States)*

Tyson has kicked off our conference for the past 12 years. In those years, Tyson has undergone among the most dramatic transformations within the industry. With the acquisition of Hillshire in 2014, Tyson transformed its business profile into a top-tier multi-protein company with long-term strategic and growth targets. Tyson gained a level of depth to its management team as well its new CEO, Tom Hayes.

With a proven track record to enhance internal growth, Tom was elected as Tyson's CEO to lead Tyson into the next chapters of growth. Tom took over his new role as CEO just five months ago, and did not waste any time making a strategic impact with the acquisition of AdvancePierre. We are privileged today to kick off the morning with a discussion with Tom Hayes, President and CEO of Tyson; and Dennis Leatherby, CFO. Welcome, guys.

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**Thomas P. Hayes**

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

Thanks, Ken.

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**Kenneth Bryan Zaslou**

*Analyst, BMO Capital Markets (United States)*

We're going to kick off the discussion.

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**Dennis Leatherby**

*Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.*

Ken, before we get started, can I remind everyone that we are going to make forward-looking statements and that could be seen in our tyson.ir.com (sic) [ir.tyson.com] (00:55)? Where we'd be without our iPads?

## QUESTION AND ANSWER SECTION

Kenneth Bryan Zaslou

*Analyst, BMO Capital Markets (United States)*

Q

Exactly. Just in case anybody ask questions. So, over the last several quarters, the market's response to Tyson's earnings and outlook have been probably softer than you would have expected. So, I wanted to start today kind of go and directly addressing what we see as potentially key concerns both on a high-level, but also on a more operational level. So, I'll go through three of them, and if you can address each one of them.

First, Prepared Foods and Chicken are not showing sequential improvements, despite solid industry fundamentals. Second, we're not seeing the synergies in Tyson's financial performance, and it seems like moving pizza toppings from one plant to another had a far greater impact on Tyson's overall performance than we would have expected. And then third, the timing of AdvancePierre seems somewhat oddly timed, and what is the progression of the opportunity? So, those are the three topics that I believe that most people are somewhat concerned about. If you can address each of them.

Thomas P. Hayes

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

Okay. So, Chicken, Prepared Foods, and APF?

Dennis Leatherby

*Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.*

A

AdvancedPierre.

Kenneth Bryan Zaslou

*Analyst, BMO Capital Markets (United States)*

Q

Yeah, and the timing of APF and...

Thomas P. Hayes

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

All right. Well, as Ken said, I'm Tom Hayes. And I apologize right up front, I have a bit of a cold, so I'll try not to cough in between. And if I do, maybe Dennis can pick up, and answer some of the rest.

Yeah, let me start by saying the first thing, as it relates to Chicken, we couldn't feel better about our Chicken business. It's been performing extraordinarily well. The sequential decline, as it relates to the margins, that is something that, for us, we feel we're going to always be in that 9% to 11% range. That's what we're going to be targeting. If you look at our fiscal 2014, we're about 8.5%; fiscal 2015, 12% – a little above 12%; in fiscal 2016, 12%. So, 12% will be sort of the peak earnings of that Chicken business.

And so for us, what we're attempting to do is continuously grow, like fill the value-added side of business which we are, in addition to having the right margin structure. And there were a couple of things that affected the start of 2017 here, which, no excuses, those are things that we don't like to have happened whether it's plant fire or something of that nature. But what I'll say is that Chicken business is not only extraordinarily healthy, but we like where we sit because we have many channels, product categories that we can attack simultaneously in order to continue to grow the business.

One area that we've had a bit of a challenge has been in the small bird business. Small bird has been a very attractive business for us, from a margin perspective, for a number of years, and that is because an attractive business, certainly garners a lot of attention from industry players, and it has become more competitive. So, small bird deli-log business, whole bird business has certainly had some margin compression there.

But beyond that, let's say, for how we feel going forward, we feel Chicken setting up to be a great, great business for us, continuing to be a great business. On the value-added side, the cooked capacity that we've built, we have sold out, we are building a new cooked capacity and we continue to do great things, as it relates to the Tyson brand itself. So, we have no antibiotics ever. That's hitting the marketplace in June. The entire Tyson retail brand will be in a – we're also launching into organics. Organic is a very small space today, but it is growing and we're launching in July, NatureRaised organic chicken. And then beyond that, we have a lot of foodservice innovations on cooked chicken.

So, one of the things that investors have been asking is, hey, how does that – how do you feel about your margins over time getting competed away. And we feel like we have to be constantly innovating in order to make sure that doesn't happen, and it's something that the company has been extraordinarily strong, and we want to continue to up that game. So, I'm happy to take any questions as it relates to Chicken, but that's number one.

Number two, as it relates to the Prepared Foods business, as Ken mentioned, as we've talked about on our calls, we had a plant in Jefferson, Wisconsin, a pepperoni plant that we could not keep open. It was a plant that has been in that same place for over 100 years, since like 1860 actually. And it was in a tough condition, and the decision was made, we had to close it. We didn't have a choice to keep it open, frankly. And so, when we closed that plant, what we did was we moved some of the production inside and we went outside with other parts of the portfolio. What happened was we had a higher cost structure.

So, that is the majority of the challenge that we have when we talk about, it's going to take us to build that capacity internally, and then bring – repatriate the external volume into the plants, and that'll take about 18 months is what we said, through roughly fiscal 2018.

And so, that is under way and things are going well there. But the second part of it is, we also have these challenges that relates to the overall foodservice Prepared business, where we have dedicated plants to major national accounts to be like a three or four national accounts within a plant.

We have had – we've been trying to make the business run like a top and have all those plants fully utilized; at the same time, come up the curve on safety and quality. And as we've tried to do those things simultaneously, we realized that it's hard on those businesses. And so, that's another item that we're addressing that kind of bridges to, I'll talk about, APF.

But the work there is not done. We have more work to do. It's a better customer mix. It's a stronger approach to running the plants from a continuous improvement perspective. And so there's people crashing on it. And I believe based on what we talked about, we're going to be in a position where our margin structure gets back to where we should be on that base Tyson business in fiscal 2018.

We also have to continue – we love the foodservice business. We've been talking about Prepared Foods. Chicken has been doing fantastic in foodservice. And foodservice is a channel that we do really well at. So, Prepared Foods will get better on its own. However, we are adding AdvancePierre to do something that is tremendously powerful for Tyson, which is to really change the portfolio in the foodservice. We're divesting our businesses that

aren't go-forward areas of strengths for us, and we're adding businesses that are. And so, the foodservice business will become extraordinarily powerful with the addition of AdvancePierre.

There's been some questions about so why AdvancePierre, why not a brand. And I know I get too critical about other brands. But as we look for brands that were growing, it was hard to find those and also find brands that we can get significant synergy out, which we will with AdvancePierre.

The last thing I'll say on AdvancePierre is the way in which the team operates is very flexible. They're very focused on driving new growth, new products in the marketplace. And we are going to leverage that for our retail business. So, they have great assembly capabilities. They are in protein stacking in all things ready to eat, sandwiches and otherwise, indulgent proteins, healthy proteins. Mid-tier predominantly is where they play, not premium, but mid-tier. And we're going to leverage that to grow Tyson, Hillshire, Ball Park and Jimmy Dean.

And so, that will – new products will show up in the pipeline that come from the capabilities that we acquired with AdvancePierre. The synergies that will come out of this combination will be significant. We said \$200 million. I think that number, from everything that we've seen so far, is going to be a number that we feel outstanding about. And hopefully, we have a chance to come back to and beat that. For us, we feel that is going to be built on the back of having a better combined company. It won't be just APF. It will be also the Tyson side of the equation that we're looking at to get – make our cost structure a lot better.

So, that's lot said, but I'd just say – anything to add, Dennis?

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### Dennis Leatherby

*Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.*

A

A couple of things. One on Chicken, as a reminder, we said the Chicken would be in the 9% to 11% range. When we went into the year, we expected this, going into the pricing season and the landscape that we saw. So, other than the plant fires and a few other things, we're performing in the Chicken business like we thought. And then on the synergy side, as it relates to AdvancePierre, we see those synergies coming from both companies, from both AdvancePierre and Tyson.

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### Kenneth Bryan Zaslou

*Analyst, BMO Capital Markets (United States)*

Q

Excellent. Just talking about Chicken, so just to further go on, in the last three quarters, Tyson generated an average Chicken margin of 8.5%. In the preceding seven quarters, Tyson generated 12.5%. So, I understand that the – how much of that is now structurally changed because of the impact from small bird competition? And how much can you move and structurally improve it yourself? And potentially, is there an opportunity to one day actually increase your long-term margin structure?

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### Thomas P. Hayes

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

Yeah. Good question. And everybody – I shouldn't say everybody, a lot of investors ask that question about what are the ultimate ranges on each one of these businesses. A little more difficult in our commodity businesses – and when I say commodity, it's Beef and Pork, those are true commodity businesses – versus value-added Chicken or Prepared Foods.

Chicken and Prepared Foods, we don't have a limit. We don't have an artificial limit that says, hey, if this gets up to 13%, we're going to pull that out and spend more money. We want to simultaneously grow. And we're wide

open to having a margin structure that's better than any CPG [ph] like (11:07). That is not a constraint for us. It's an opportunity to continue to expand, and then grow the company. And that's the idea as we'll be focused on growth and we will open up those margin ranges to the extent that we feel like we can deliver that.

But it does get me back to growth. And maybe, Julie, if you can flip on the growth slide, we continue to show this slide. Food in the U.S. is continuing to be challenged, particularly at center store, but brands are challenged. So, we have brands, and we are very happy about our brands and extraordinarily proud of the brand growth, but we also see that there's an opportunity to be strong with our customers to help them grow in the retail perimeter, convenience stores as well as anything as it relates to where people want to consume food and do it in different ways.

Fresh and convenient as trends, are not going away. Those are always going to continue whether it's meal kits that are shipped to the home or in the periphery or the perimeter of the grocery store, picked up and brought home. This is something that we will not sacrifice. So, we want to continue to grow, this is the Core 9 retail brand and our total retail businesses end. That is going to be an emphasis.

So, if in fact, we think we have a year, it's going to be a little bit tight on margin. We are not going to give up on growth. We want to continue to make sure our brands are relevant and growing for the future. And so I'd say as it relates to – as we look at long-term margin guidance, sure. If we can go to a higher end and maintain our strong growth rates, we'll certainly be open to doing that.

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**Dennis Leatherby**

*Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.*

**A**

I think the one thing I would add from a financial standpoint is this retail-branded business has consistently grown top-line sales, volume, operating income, and improved its return on sales while we are investing very heavy in the growth. Not only in [ph] map (13:13) but also in new product launches.

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**Thomas P. Hayes**

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

**A**

Yeah.

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**Kenneth Bryan Zaslou**

*Analyst, BMO Capital Markets (United States)*

**Q**

So, while you're spending on growth, sticking with the Chicken business, while you're spending on growth, is there inherent opportunities to expand the margins or will that come at the expense of margin expansion in 2018, 2019, and 2020?

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**Thomas P. Hayes**

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

**A**

I think they won't come at the expense of growth. As we expand the margins, we want to continue to – first thing is growth. The second thing is, okay, can we do it at a margin that will be – continue to be increasing. So, we wouldn't take a move to have a cost exercise that would be just all about getting more margin improvement and sacrificing growth, take the growth number down as a result of taking resources out to support growth.

I'll tell you though that there is an opportunity as we acquire AdvancePierre to look at what they've done, the value they have created through the model that they implemented over the last couple of years. Now, I know they're not extremely familiar to everybody here, but Tyson has looked at the components of this business in the past,

whether it's the Advance business in Oklahoma, the Pierre business in Cincinnati, Barber Foods in Maine. Those are all companies, that prior to us acquiring, that Tyson have looked at because they are admired for how effective they are.

Together, the combination has been extraordinarily successful. They have had new business practices as it relates to pricing, new business practices in terms of how they operate the plants, how they coordinate activities together with [ph] SNOP (14:45) . And so the unlock for getting the margin structure improved, it could be for Tyson to take advantage of some of that, that they've done. They call it the APF way and we want to make sure that we're not leaving anything on the table, that we'll use it as an opportunity to look at our overall cost structure at Tyson and not just the Prepared Foods I'm talking at Tyson overall.

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**Kenneth Bryan Zaslou**

*Analyst, BMO Capital Markets (United States)*

Q

How much due diligence did you do on AdvancePierre? How do you compare and contrast this to the Hillshire synergy opportunity and how much of their margins are related to the lower commodity prices?

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**Thomas P. Hayes**

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

Starting with the last thing first, I'm sure their margins were not – it would certainly help – if the commodities are coming down, it's going to be helpful, but they have put in a pricing management structure similar to what we have on our retail-branded business. So, years ago, at Sara Lee on the retail business and also it had been on the, I'd say, the Tyson value-added prepared frozen business, the pricing was really considered from a supply back model. And so I got to push through either on a formula basis a way to capture margin once we have raw material, inflation, deflation, and we'll pass it on to the customer.

The pricing modeling that they've done at AdvancePierre is very similar to what we've done in our retail business at Tyson. So, I think that certainly there could be an opportunity because they're gapping a little bit of margin, but they're very competitive too. So, I think if you're out talking to the customer base, which we have, they'd say they're very competitive.

So, I'm not concerned about that overall. I'm not going to dismiss that it may be a part of it. But I'd say moreover, as it relates to the diligence, for us having part of what was the – looking at the component pieces of AdvancePierre and then also being engaged with as a – before they even became public, talking to folks that had certainly inside knowledge of what the company was about, we had done a lot of work. And then, frankly, the customer end, looking at how our customers view the relationships with AdvancePierre, that was significant diligence, because we have a lot of respect in the trade, so...

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**Kenneth Bryan Zaslou**

*Analyst, BMO Capital Markets (United States)*

Q

And how long did you do due diligence on this?

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**Thomas P. Hayes**

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

I would say that diligence was probably ongoing. I don't know when Tyson first started looking, but years anyway. Yeah.

Kenneth Bryan Zaslou

*Analyst, BMO Capital Markets (United States)*

Q

And when you think about the opportunities that's associated with AdvancePierre and you discuss the margin potentials of the new Prepared Foods business, look, I look at it fairly straightforward, right? I look at your Tyson business must be 9% to 11%. I add about 200 basis points for mix benefit from AdvancePierre just mathematically. Then I add in the external synergies of another 200 basis points. Gets me at least 13% if not closer to 15%. You said that you're reviewing the margin structure. Can you help us out, is that math in line with what you're expecting? What do you expect to find more and how does that all play out in terms of when you're going to be able to provide greater guidance to those [indiscernible] (18:05).

Thomas P. Hayes

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

I'd say it's in line with what we're expecting, Ken, because we are not into 2018 full guidance and 2019 certainly, then the synergies are going to come over the course of a three-year period. I think your math is right. In terms of prepared margins, I don't see why we couldn't be in the low teens with the combined entity at some point in time. That seems to make sense. And I don't know why we couldn't even go higher than that as we continue to execute all of the plans that we want to make the business optimally as strong as it can be.

So, I think that you're thinking about it right.

Kenneth Bryan Zaslou

*Analyst, BMO Capital Markets (United States)*

Q

Have you analyzed the buckets for cost savings and how much of the synergy opportunity would be reinvested for growth versus dropping to the bottom-line?

Thomas P. Hayes

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

So, I'd say most of the broad majority of the synergies are going to drop at the bottom-line. So, unlike with Hillshire where there is a lot invested in innovation and brand building, most of that, what we see here is making the company that much stronger together. So, the buckets are the typical buckets that you'd find.

I've spent some time with the AdvancePierre team, there's probably some listening to this call. And we've been very open that we think there needs to be cost coming out of the combination. And we know that it's going to be in some cases a smaller organization because we don't need two people doing the same role. It's going to come from distribution for sure, manufacturing.

Look at the network, where do we have plans that we could consolidate opportunities or efforts. And so it's all the buckets you would normally consider procurement. And what we need to do is when we have the full integration team come back to us with a set of here's some more specificity around that, share that with our investors so we can hold ourselves collectively accountable to delivering those synergies.

Dennis Leatherby

*Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.*

A

As far as the revenue comment goes, this \$200 million is predominantly all cost. We see revenue synergies not only keeping AdvancedPierre going like it is and blending up with Tyson, but also on the retail side as Tom said earlier.

**Kenneth Bryan Zaslou**

*Analyst, BMO Capital Markets (United States)*

Q

Is there an opportunity for you to accelerate the top-line growth from both companies? So, you're kind of at a 2%, 3% there, also in that low-single digits.

**Thomas P. Hayes**

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

Yeah.

**Kenneth Bryan Zaslou**

*Analyst, BMO Capital Markets (United States)*

Q

Where are the opportunities to potentially come out and say look, Prepared Foods should be growing at 4% to 5% or something like that? And what's the potential of that and where do you see it going?

**Thomas P. Hayes**

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

Certainly, we know that there is opportunities in this retail store perimeter as that continues to grow and retailers are looking for help there because the center store is declining. But you can see – but that's also very profitable for retailers. They are struggling with that because it is such a big part of their engine.

Scott Rouse, our Chief Customer Officer, is here today and probably could share in some of the breakouts more perspective on that. But I'd say as it relates to innovating in the perimeter, they're all about it. They want to make sure that companies are coming with a lot of the solutions to take advantage of the consumer trends and they want to do it at a rapid pace. So, adding AdvancedPierre will certainly create some new opportunities.

And I'll just go back to the capabilities, so as we have looked at all of our innovation platforms there is a lot of opportunity outside with co-manufacturers to go faster. This takes away a lot of that need. So, there is capabilities that AdvancedPierre brings so we can move quicker to accelerate innovation within the current brand stable of Tyson.

**Kenneth Bryan Zaslou**

*Analyst, BMO Capital Markets (United States)*

Q

Just moving on to Pork, your margins in Pork have way outpaced your normalized margins. There is competing fears here. One, there is the fear of new capacity coming online and then that the optimism of saying, why not raise your long-term margins. When do you push and pull on those two factors and how worried are you about the capacity coming online and why not raise your margins? So, two completely opposite questions.

**Thomas P. Hayes**

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

Yeah, yeah. We're always – we want to make sure on Pork and Beef because they are hard to estimate and they do fluctuate. They are cyclical commodity businesses. And so, we want to make sure that as we are thinking about guiding our investors, that we're just really careful about that. Certainly what we're seeing, if you go back maybe to a year ago during conference calls, you've asked of Donnie, and myself, and the team, what do you think about the capacity coming online? And [ph] part of it is a (22:34) 2017 issue; clearly, it's not going to be a 2017 issue as we see it. And then there is also the question about how quickly does it come online in 2018.

And so, the other thing to talk about is exports. Exports have been extraordinarily strong. And so, to the extent that that continues, that is very helpful and we'll have more domestic [ph] disappearance (23:03) to the extent that we have more being exported. And so, for our margin structure, we feel great about where we are this year. We feel that it would be certainly above the range again next year and we have some more – we need to see more information about how these plants go online. Certainly, it could be a negative move and I think we've talked about that because the margin structure is not going to be the same as this year. But we'll just tell you as soon as we have a bit different view on that.

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**Kenneth Bryan Zaslou**

*Analyst, BMO Capital Markets (United States)*

Q

And what about the potential to raising the margin structure?

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**Thomas P. Hayes**

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

That is something that constantly gets asked because it's been functioning above the range for a long time. Maybe, Dennis, why don't you talk to that?

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**Dennis Leatherby**

*Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.*

A

I think, really, Ken, we need to see when the capacity comes on how that affects the margin structure as we get into it and continue to perform, that would possibly be an opportunity.

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**Kenneth Bryan Zaslou**

*Analyst, BMO Capital Markets (United States)*

Q

Maybe just we can take one from the audience. What does the recent trade agreement with China allowing imported cooked chicken mean for your business? And I'll broaden out also what about China potentially reopening the Beef borders and will they also take into account potentially U.S. Chicken as well through China basically?

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**Thomas P. Hayes**

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

Yeah. So, a good question. One that immediately, as this became a reality, we started talking internally as to what we think the full implications are. And I wish I could tell you it's going to be a massive boon for Tyson. That's not the case. Today, as it relates to – starting with Chicken – cooked chicken from China coming into the U.S. market, so that could be seen as a potential maybe negative, I guess. It depends on how the consumer reacts to buying cooked chicken from China.

Our thoughts are that there probably is not going to be a huge consumer pull for that. But we'll see what happens. But more importantly then I think what'll be helpful for China is they'll be able to maybe sell it in other countries [ph] now they've got sort of (25:06) stamp of approval for selling into the U.S. So we'll see how that plays out. But in terms of negative impact on our volume, I don't see it.

I'd say as it relates to Beef, anything that is helpful to create a more domestic [indiscernible] (25:20) we're all about it. So I think that's going to be certainly supportive of pricing in the U.S. However, today we have a lot of product going export through Hong Kong. And so we don't know that that would change our outlook dramatically, although we do like it and we think it will be overall supportive of the pricing. What would you say?

Dennis Leatherby

*Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.*

I'd agree.

A

Thomas P. Hayes

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

Okay.

A

Kenneth Bryan Zaslou

*Analyst, BMO Capital Markets (United States)*

And we are entering potentially the first up-cycle in cattle supply in at least a decade.

Q

Thomas P. Hayes

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

Yeah.

A

Kenneth Bryan Zaslou

*Analyst, BMO Capital Markets (United States)*

So, when you see that, how do you think about your Beef margins going forward is kind of my first question on that?

Q

Thomas P. Hayes

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

Yeah. Well, certainly, Beef margins, we feel like going into 2018 we're well-positioned. And so actually very similar to where we were going to finish this year in Beef. The long-term sustainability, that's hard to predict sitting here where we are in May of 2017. But I would say that that as we look and see continued expansion, these things tend to be in long cycles and so it could be a very long cycle in Beef. We just don't have that view yet, but we'll – absent the shock to the system, it feels like it's setting up to be very strong for the next several years.

A

Kenneth Bryan Zaslou

*Analyst, BMO Capital Markets (United States)*

What is the relevant or how do you envision Beef fitting into Tyson's overall long-term strategy? Is there an option for you to take Beef and Pork and potentially spin it off, sell it, or does it make sense within the operation of Tyson?

Q

Thomas P. Hayes

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

It's a question that is constantly asked of us. Of course, people look at models and try to say, here's what will be the best thing for our company. What I would share is that as we continue to drive the business and be the most efficient we possibly can, we have a great position to continue to generate a lot of cash from that business and have the Fresh Meats business be as effective as it possibly can through the right allocation of capital.

A

The team is extraordinarily focused. We have increased the focus, given them more authority to do what they need to do. And I would say that given the Fresh experience that retailers want for their consumers, it's really important for them that particularly the case-ready Beef and Pork which is, you take away the butcher from what

was normally in the store and we have products that we shifted are replaced right into the case and looks like it came from the butcher, but it's directly in the case.

Those items have been very, very well embraced by all retailers and it's increasing as a percentage of the total volume. So, it's very helpful for the customers to have a seat at the table talking about that. And so I think [indiscernible] (28:22) will constantly be a question that investors and everybody will ask about, hey, you've got two sides of the portfolio and we might value these differently. The commodity side might trade at this value and the value-added side at this value, and those separate are they better value creation or not. So, right now we're thinking about it does it make sense to have them in the portfolio. Yes?

Q

[inaudible] (28:48-28:57) RTC broiler production 2017 versus 2016 and what's your split on head versus weight?

**Thomas P. Hayes**

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

Yeah. So, the question was Chicken production, what do you think. We've got sales like around that 2% growth, which is our value-added business continues to grow well above that, but that feels like that's about the right number. And, frankly, if you look back, I think in the last 20 years of history [indiscernible] (29:20) marching along above that same expansion, but right now it feels about 2%.

Q

Would you say it's mostly heads slaughtered as opposed to weight?

**Thomas P. Hayes**

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

I'd say it's both, but also we have mix. There's some customers that are looking for lower weights as we've had challenges with woody breast and so forth as an industry. So, I'd say it's both.

Q

Well, on the heads slaughtered, I was just curious what your thoughts are on the fact that the layer flock is close to or beneath a year ago and the eggs produced per 100 layers is down. So, how do you have a smaller flock producing less eggs and you have more heads slaughtered. Alchemy, it seems to me or the data is wrong. [ph] What's your all's (30:04) opinion on that [ph] data (30:05)?

**Thomas P. Hayes**

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

Yeah. I don't know.

**Dennis Leatherby**

*Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.*

A

Must be more livability.

Thomas P. Hayes

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

Yeah. I think for us [indiscernible] (30:10) and for our purposes, we are continuing to grow. We do have a mix in our business, just a bit of a shift. And to the extent that we don't continue to have the internal production that meets our needs, we always have the ability to go outside and purchase. But we don't see the same thing that you're talking about.

Kenneth Bryan Zaslou

*Analyst, BMO Capital Markets (United States)*

Q

So, as we put all this together and we kind of think about the Chicken, the Prepared Foods, can Tyson drive earnings growth off a \$5 base in 2018? And what are the key drivers to make that happen?

Thomas P. Hayes

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

Yeah. So, the answer to that is we can and the question becomes around what is the Fresh Meats part, the commodity part going to deliver as a part of that equation, right? And so we want to make sure that we're giving as much visibility as to what we think it's going to deliver as well as a visibility of how we're going to drive the value-added, the Chicken and Prepared Foods business. Certainly, we believe that it could set up to be a base to build from. And I would say, again, absent the massive shock to the system, which is always something that could loom out there, but we have been, I'd say, historically very good at dealing with those things. But yeah.

Dennis Leatherby

*Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.*

A

We expect Beef to be as good as...

Thomas P. Hayes

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

Yeah.

Dennis Leatherby

*Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.*

A

...2017. Pork, while down from the 12% range, we're talking about this year still would be above the normalized range of 6% to 8%. We're going to see a lot of improvements in Prepared Foods not only in the Tyson business, but obviously adding AdvancePierre. And then the Chicken business should still be in the range, but should get sequentially stronger if only on the volume growth side, especially on the value-added and further processing side.

Kenneth Bryan Zaslou

*Analyst, BMO Capital Markets (United States)*

Q

And what about paying down debt? That seems like that is something that shall be done at a fairly aggressive level...

Dennis Leatherby

*Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.*

A

Absolutely.

Kenneth Bryan Zaslou

*Analyst, BMO Capital Markets (United States)*

Q

...particularly given your assets. So, what do you think you're – how do you think the progression of your leverage will move throughout the year and into 2019?

Dennis Leatherby

*Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.*

A

Sure. Great question. Well, pro forma net-debt-to-EBITDA at the close of the AdvancePierre acquisition will be about 2.7 times. We'll throw off, gee, \$1.5 billion in free cash flow that will all go toward debt in the first year. We also are divesting up some assets, carrying value is \$800 million, we expect to have a gain. So, there will be more cash to apply toward debt repayment.

I would expect that our net-debt-to-EBITDA be close to 2 times by the end of 2018 and then in 2019 certainly below 2 times. That's kind of the higher watermark we've used in the past to start buying back stock. I hope we get there quicker.

Kenneth Bryan Zaslou

*Analyst, BMO Capital Markets (United States)*

Q

Great. My final question will be, when you – Tom, taking over in five months. In three years from now, how will you measure your success and what is it that you – the milestones that you would need to say, hey, I've accomplished to say I've done my job?

Thomas P. Hayes

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

A

Yeah. I would start with are we growing the business for the long term. So, do we continue to build a stronger business, and are we doing it at a margin structure that's better than what we have delivered. So I want to have the company growing and being in a margin structure that's stronger.

I'd say simultaneously we need to make sure that we are doing it in a way that connects with what consumers and customers are expecting us to do as the industry leader, as they see it in proteins and as we see it as protein to consumer base. And that means things like sustainability. And that's a challenge sometimes. When you take about sustainability, isn't that just going to mean more costs? Well, the answer is no. We can get more sustainable, more focused on the future and, at the same time, have an amped-up continuous improvement process that allows us to pay for those developments.

So I'd say to have a growing company, growing margins and a sustainable enterprise that delivers, at the end of the day, outstanding total shareholder return. So, that's how I'm compensated, frankly, that's how the team is and that's what we're looking to do. What we're going to be focused is on the long term. So, we are looking 3, 5, 10 years down the road. And so not quarter-to-quarter, frankly. And so that will be something that continues to be an emphasis for us. But I feel like on that measure, we have strong business that the next CEO continues to run into the future at a really strong and rapid pace because we've done the right things to build it for success. That's what I'd be happy about.

Kenneth Bryan Zaslou

*Analyst, BMO Capital Markets (United States)*

Great. With that, we're actually perfectly timed. Thank you very much.

## Thomas P. Hayes

*President, Chief Executive Officer & Director, Tyson Foods, Inc.*

All right. Thanks a lot.

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## Dennis Leatherby

*Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.*

Thank you.

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## Kenneth Bryan Zaslow

*Analyst, BMO Capital Markets (United States)*

Thank you.

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