

TysonFoodsInc

**September 06, 2017
10:30 AM EDT**

Ben Theurer: Good morning, everybody. I would like to introduce next Tyson Foods, one of the world's largest food companies, a recognized leader in protein. With a portfolio of iconic retail brands including Tyson, Jimmy Dean, Hillshire Farm and BallPark, the company is on track for its fifth consecutive year of record earnings. Today joining us from Tyson are Tom Hayes, President and CEO, Sally Grimes, Group President for Prepared Foods, as well as Curt Calaway, Senior Vice President, Controller and Chief Accounting Officer.

Just a little bit of background on Tom Hayes, he's a consumer product veteran with over 30 years of experience and was appointed to his role as CEO last year, December. In addition to leading the company to what appears will be another year of growth, Tom successfully acquired AdvancePierre Food Holdings to build on Tyson Food's strong position in the food service channel. Tom? Please.

Tom Hayes: Very good. Okay, thank you very much, Ben, I really appreciate the introduction and we're very excited to be here today. On this slide you see three key words. And we're going to keep coming back to these throughout the presentation, not only today, but ongoing. This is our theme. We have to continue to grow the business. At the same time, we have to deliver results and that's also through cost improvement. And then we have to sustain the enterprise for the future, the company as well as making sure we're having the right impact in the world. So those three words, Grow, Deliver and Sustain, will frame the presentation today.

I will say I am here with a fantastic team with Sally that leads our business in the Prepared Foods group, Group President. And then Curt as Ben had mentioned. And I will say we're going to make some forward-looking statements today. We have a lot of good stuff to talk about, so some of this is forward-looking for sure, so go to IR.Tyson.com and you can read all the risks associated with our business, but this is something that I ask you to do and everything that we file with the SEC, certainly take a look at.

So how do we start off today? We want to talk about we're a diversified food company. As Ben had mentioned, we are one of the largest, we are the largest food company in the United States of America. And we are very proud of that fact and we are very diversified. We play in protein. Protein is a hot space. We're going to talk a lot about that. And we have a really strong portfolio, I would say an enviable portfolio that consists of three billion-dollar brands with Tyson, Jimmy Dean and Hillshire Farm, some

iconic brands that aren't yet billion dollar brands but are headed that direction, and then some emerging growth brands. You'll see Nudges on there, which is a pet food brand we have been doing extraordinarily well with. So we are really excited about the brand stable we have and we are also simultaneously focused on customer brands.

We deliver. We deliver EPS, we have delivered EPS over the last 5 years. When we reach our guidance, the midpoint of our guidance for 2017, it will be 20% CAGR over the last 5 years EPS growth. And we aren't stopping there of course. We are going to continue to grow and next year will be a growth year for us as we have guided.

We are leading. We are leading for tomorrow. It's not a short term play that we're interested in at our company. We are very purpose driven. As we focus on driving the right behaviors within the company, we are keenly focused on making sure we continue to raise expectations. Raise the expectations you have for us as investors, raise the expectations internally that our team members have with how we're going to act, and then importantly, raise the expectations for how the world sees us as we continue to be a growth company doing the right things.

We're going to talk about the strategy today more in detail, really focused on those three themes I talked about, Grow, Deliver, Sustain. And importantly, we're organized to execute. We recently named Sally the Group President of Prepared Foods, so a lot of our discussion is about Prepared Foods today. But also, we are squarely focused on the commodity side of the business with our beef and pork business which is doing very well, and our chicken business which we say, Prepared Foods and chicken together are our value added growth drivers.

So when we say grow, we mean we've got to continue to grow and our businesses will grow through differentiated capabilities. Not having Me, Too capabilities, but things that are specific to Tyson and leveraging the supply chain. We have the country's largest temperature controlled distribution network. We have fantastic control of our inputs based on the fact that we are a protein company and we have a commodity protein business. And we drive exceptional returns that I think are putting a premium on where supply chains need to head as it relates to assembly and some of the things that we have acquired with AdvancePierre.

We've got to deliver. At the same time that we're growing, we're going to be simultaneously talking about how we can deliver an ongoing cost structure that's best in class. And we'll be talking in a couple of weeks more about that. There's a lot more to do there as it relates to how we believe we can be a more efficient company and we're going to leverage continuous improvement to drive that better result.

Lastly, we want to sustain the company and we want to sustain it for future generations internally, but also being that good partner to everybody that we need to externally, all of our stakeholders, so we leave it in a better place than we found it.

The bulk of the discussion today will be on growth. So we're going to talk, at the tail end I'll come back and mention about our cost programs and things that we're doing there and also a bit on sustainability. But you're going to hear from Sally today some exciting things about where we're growing, how we're growing, and why you should have confidence that we are different for sure than any other food company today, being one of the only that is growing, but simultaneously, how do we maintain that and then continue to build our margins to drive differentiated result on the bottom line. Sally, I'll turn it over to you.

Sally Grimes:

Thanks Tom. It is great to be here today to share perspective on why we believe we are so well positioned to grow at Tyson Foods. But I'm going to start with some brutal facts. Growth is not something that much of the food industry has been able to talk about lately. We're seeing a highly dynamic industry with modest growth and over the last 7 quarters, total volume has been flat to declining. So you can see here that the peak was in that July to September period of last year when food and beverage volume was at 1.9%. Since then, the space has really softened and we've seen two straight quarters of volume declines. So food in total has been tough and growth has not been easy to come by. So how does a growth company thrive in this kind of environment?

Well first, playing in a growth space is an advantage. Where you compete is just as important as how you compete. I've spoken about this before. Compete effectively in a well-positioned, growing space and you're simply more likely to grow. Which brings us to protein. Over half of us are actively trying to add more protein into our diets. And protein has now risen to the top of all desired health attributes. So this is a pretty powerful tailwind and growth for food with protein, as you can see here, looks a lot different than volume growth for food in general. High protein category volume is growing over two percentage points faster than total volume over the last year. So that is step one if you want to get to growth. Play in the right spaces. And it's this mix that is giving Tyson a growth advantage.

Now the second part of the growth equation is bringing differentiated capabilities to these spaces. This is the way we create demand, the way we innovate, and the way we leverage scale. So doing this gives us a performance advantage. And it goes back to our model. At Tyson, we believe we are a very different kind of food company. We deeply understand consumers across all channels, occasions and dayparts. And we're delivering growth far ahead of food CPG. Our retail Core 9 volume growth is 540 basis points higher than total food and beverage over the last year. That's driven in part by our really impressive and proven track record of innovation.

Our Tyson Discovery Center brings together scientists, our chefs, our innovators and even our customers. And they are delivering pretty impressive innovation outcomes. Food Processing Magazine just named us R&D Team of the Year. And we're delivering top tier new product vitality rates. We look at vitality because that's an indication of innovation stickiness. We follow innovation over a period of 3 years to make sure it's sticking in the marketplace. We're delivering best in class vitality at 13.4%.

We just got some new news. Two of our most recent launches, Jimmy Dean Frittatas and Hillshire Snacking, were just named by IRI as two of their top ten new product pacesetters.

Next, here's an example of how we use scale as an advantage. As Tom mentioned, we have the nation's largest temperature controlled network. And in addition to that, we have IP for both packaging and ingredient technology. What that does is it ensures quality and shelf life. So putting that together means that we can deliver end to end quality and efficiency.

So finally, our brand assets and their position within our categories is also a growth advantage. Here you see each of those categories and our primary brand in the space. Our brands are the number one share player in 8 of the 9 categories that we play in. And now with the recent AdvancePierre acquisition, we have new capabilities and a new focus on growing our customer brands as well as our own brands. This is going to allow us to

really maximize category growth and profitability.

So the cumulative advantage, the cumulative impact of all these advantages is a much different growth story for our company than for food in general. Our Core 9 volume growth has consistently outperformed food and beverage. We have averaged 4.7 percentage points above the total over the last 7 quarters. And over the last 2 quarters, we've been growing volume 3% to 5% while total food has been in decline. So we believe that this is the outcome of pretty simple but meaningful strategic growth advantages.

What I want to do now is just take you through this a little bit more specifically in two of the primary places in which we compete. First is the perimeter. These benefits that I just mentioned, or these advantages that I just mentioned, really benefit Tyson in this really exciting venue for retail. The retail perimeter is an area of retail where consumer and market trends are completely colliding. Channels are blurring, grocery stores are becoming grocer-aunts and convenience stores are becoming QSRs and fresh food destinations. At the same time, the demand for fresh, less processed food is leading to growth in many raw and chilled and freshly prepared categories. So these trends are really converging and the fresh perimeter is really retail's growth frontier, far outpacing the center of the store.

This is great news for Tyson because the perimeter of the store and what it represents is the center of our business. We skew to the retail perimeter with 62% of our retail volume versus 33% for total growth rate. Then next, within the perimeter, we're in great categories. Categories where Tyson plays are growing 200 basis points faster than the total perimeter. Then within the categories, we are leading. So our sales growth is 70 basis points ahead of the categories in which we compete. So you can see and the results show we have a mix advantage and we have a performance advantage.

We're building upon this advantage with more innovation wins. Now we just introduced Jimmy Dean Simple Scrambles in the refrigerated section in May. It's a disruptive new product and it's all about fresh convenience. It's actually creating a whole new breakfast category. It's got two real eggs, it's got a pouch of Jimmy Dean meat and cheese, it's over 20 grams of protein, it's low-carb and it comes in a microwavable to-go cup. We like to call it Sunday morning taste with Tuesday morning effort. So the initial results have far exceeded our expectations with strong distribution, exceptional repeat and incrementality.

And here's another one, Hillshire Snacking. It is proving to be an expansive growth platform for us with our latest extension a pairing wine. It's wine-infused dried meat complemented with natural cheeses. And again, it's growing the category.

Next, we continue to build brands and innovate in fresh raw food. Tyson Tastemakers, which we've talked a lot about, continues to be a success story as we expand beyond eCommerce and we are now in a test in retail. Now the repeat rates for Tyson Tastemakers are among the strongest that we've seen.

We've also announced that the entire Tyson consumer brand is chicken raised with no antibiotics ever. So that means we're going to sell more and feed more people with no antibiotics-ever chicken than anyone else in the world. Now this is a key attribute for the Tyson consumer brand and it's also part of an expanding portfolio of attributes like vegetarian fed in our Nature Raised Farms line. And that allows us to differentiate fresh chicken, create pricing tiers, and offer consumer choice.

We're also expanding our line of value added fresh chicken, like ground and pre-diced fresh chicken and butterflied petite birds, previously known as Cornish hens, for the grill. We're designing solutions in fresh chicken that really make it possible to go from package to plate more efficiently and really in a more interesting way.

Here's another one. When we launched BallPark flame grilled burgers in the frozen section a few years ago, we learned that this iconic brand can play and thrive in burgers. So we're going to capitalize on BallPark's beef and grilling credentials along with the really high cross consumption between fresh ground beef and hotdogs, and launch a line of BallPark fresh burgers.

And then finally, we're going to leverage our food service expertise to grow prepared foods in the grocer-aunts. Now that's ready to eat or heat foods that you'll find in your retailer's delis, in C-stores in the prepared food section, or on the delivery or to-go sections of a restaurant menu or app or their website. So with the acquisition of AdvancePierre, we have gained pretty incredible capabilities in handheld foods including assembly expertise and best in class carrier technologies that are really going to fuel growth in this space.

Next I want to talk about frozen. The growth story in this section of the store has not been as exciting as the perimeter. But actually, at Tyson we've seen much success. When you think about it, there's no reason that frozen food can't capitalize on the move towards fresh or less processed food, because breathing is a natural way to lock in freshness. We just need to keep reimagining the possibilities for this space. Total frozen food sales have declined over the past 52 weeks. But again, Tyson plays in categories that are advantaged. Protein breakfast and value added poultry, they're doing far better. The volume change in the categories in which we play are 70 basis points ahead of the section. Our performance is up. We're up 3.4% or 460 basis points ahead of the frozen category. And two of our largest brands are driving this with Tyson Frozen Value Added volume up 4.9% and Jimmy Dean Frozen volume growing 7.2% over the last year.

To keep the momentum going, we are going to be bringing something new and fresh to frozen with two new Tyson platforms that are launching in the next 6 months. The first is Tyson Premium Meats and Vegetables. This is going to allow anyone to prepare meals like crispy chicken Pomodoro or citrus roasted chicken with crispy garlic. It's prepped, it's portioned for two people, and it's paired with sauces or toppings for the skillet or the oven.

The second is tailored for those that want to be more engaged in their meal prep. It's a Tyson frozen meal kit that includes four components that are frozen at the peak of freshness, like raw seasoned chicken strips, vegetables, a starch and a sauce. The entire team is really excited about these platforms and the customer acceptance is going really well.

Now in Jimmy Dean, we're going to continue to tap into trends. We'll be launching frozen frittata breakfast sandwiches where the bread isn't actually bread, it's eggs. Actually, frittatas with ingredients like sundried tomato and basil and roasted red pepper. And then finally, we're going to offer a line of all natural, fully cooked frozen breakfast sausage with the modern attributes that the consumer is looking for today. No nitrates, no nitrites, no MSG, gluten or preservatives. But again, plenty of protein.

We believe there is continued growth for us in frozen and we're just going to continue to reimagine this space.

Before I pass it back to Tom, I want to share some perspective on the prepared food segment. I've had the privilege of assuming the Group President role for our Prepared Food business about a month ago and the more I get into it, the more confident I am about the value creation potential of this business. As I see it, the model is pretty simple. We will do the work and make the choices to continuously create the mix and the performance advantage that I just discussed. And that advantage position will allow us to grow demand with a new and aggressive focus on expanding our margins. So the margin expansion is going to come from optimizing our footprint, continuous improvement in automation, while leveraging the AdvancePierre synergies that are going to come from procurement and optimized production capabilities and a significantly increased emphasis on efficiency and cost control.

So some of that margin is going to fuel continued growth and some is going to fall to the bottom line, creating significant value over time for our shareholders. So with that, I'm going to turn it back over to Tom.

Tom Hayes:

Great. Awesome job, Sally. I think mission accomplished. I saw Ben say I'm hungry, right? Sorry to call you out there. We're going to talk about delivering, because we have, as Sally said, just enormous growth opportunity. We couldn't be better positioned. We're playing in categories where the consumer wants to shop. So much of the consumer business is playing in categories where the consumers are vacating. We have tremendous brand assets, we have tremendous supply chain assets, and we will continue to deliver long term growth for our company and for our investors.

As we talked about the 2017 outlook, here's what we talked about on our call. We'll finish this year about 5% margins on beef, pork about 12%, chicken around 10% and prepared foods around 9%. You can see the Q4 projections, where that puts us. Sales of \$38 billion. Like I said, the largest food company in the US, it gives us a lot of scale and a lot of chance to push even harder for more growth. CapEx of about \$1 billion. This is what we had said we'll do and we are going to spend \$1 billion. And that adjusted EPS range of between \$4.95 and \$5.05, if we land in the middle, we've got 5 years of 20% CAGR EPS. So a great 2017 and in fact, if we hit these numbers, as we expect to do, we will have yet another record year behind us.

So how do top that? You have to top it with another record year. So this is what we're out to do. The 2018 outlook looks to be very strong. \$41 billion in sales and that will be a 6% improvement year-over-year. I would ask you to bench that against other companies that you have been listening to today and yesterday and tomorrow that you'll listen to, and put us up against anybody in terms of the growth of the business. We'll spend another \$1 billion in CapEx. Our operating margins in beef will be around 5%. We have a very strong beginning of the cycle setting up in beef, which we talked a lot about. Pork will be above that, 6% to 8% range. Chicken about 10%, and importantly, the chicken business is growing. Some of you may have heard that we announced that we are building a plant in Kansas, an actual whole complex with the hatchery, feed mill, plant, growers to surround it. And we are extraordinarily excited about that. We are growing and we need more supply. So for us, that's something that we had been thinking about for a long time. We did some tremendous planning. It will be just west of Kansas City, strategically positioned, and we couldn't be more thrilled about what that's going to mean for us in terms of future growth.

Then in Prepared Foods, as Sally talked about, we're setting up nice to be in a position of delivering between that 10% to 12%, more so on the upper end of that. And there's a lot

that goes into making those numbers happen, not the least of which is growing with the great brands that we've talked about.

So let's talk about costs for a second because this is really important to us because different than our peers and competitors, we want to continue to focus on growth while simultaneously focusing on costs. So we are very focused on delivering the synergies. We said \$200 million over the next 3 years with AdvancePierre. We are extraordinarily confident that we'll deliver more than that number. We're going to be having some discussions here with our investors within the next few weeks likely, and talk about not only solidifying that so we can give you a receipt there, but also talk about growth enabled by financial fitness.

So financial fitness, what is this all about? We believe that in order for us to be the best food company ongoing, not just over the next few years, we have to continually have a focus on being really financially fit. So being in a position where as we're driving growth, we're taking the opportunity to actually reduce our cost structure. That is something that with the AdvancePierre acquisition, from an operations perspective, we're learning a lot. And I would say with the addition of Scott Spradley, he's our new Chief Technology Officer, came from Hewlett Packard Enterprises, we are going to leverage his technology experience to bring to bear a different cost structure through technology. Not just information technology, but also automation. The plant we are building will be highly automated. It will employ a lot of people but be highly automated. And we're putting automation and robotics throughout our whole system on a gradual basis, but we're really, really excited about technology and what that will bring to the cost structure over time. Again, like I said we'll be talking more specifically about that in the next couple of weeks.

So lastly, I want to wrap up with sustaining the business. This is something for us we take very seriously. We've been in business for 82 years and our intention as a management team is to continue to make the company even stronger so we can be a participant in a world that's even stronger. So we will talk about all three of these themes, Grow, Deliver and Sustain, every time we get together. On this, I want to say just couple of things briefly. We are taking a holistic approach to sustainability. There's a lot of non-government organizations that will ask us to focus on one thing in particular. We are not going to do that. We want to take a holistic approach because we know that healthier animals, a healthier environment, a healthier workplace, healthier communities put us in a position where Tyson Foods can earn a healthier bottom line. But it has to be in full context. We can't take one issue and double down on that. We want to be a total, total supply chain and sustainability focused company end to end, not just on one node.

We've made lot of progress on sustainability. I won't go through each one of these, as you can go to IR.Tyson.com site to see this, but I will say that we have been consistently upping the ante of what it means to be a sustainable food company since this team got together. Importantly, we also know that this can't be at the expense of having a healthier bottom line. So we are doing these things in tandem, making sure that the sustainability agenda actually improves our cost structure and makes us a better company for everything that we're doing with our communities and for the impact that we have on the overall world.

So to wrap up before I turn it over to questions, we will grow. We will grow our businesses, we'll do it through differentiated capabilities, whether that's brand building innovation or supply chain. We will deliver. We'll deliver consistent financial results and that will be square on the back of continuous improvement and technology as I

spoke to. And we will sustain. We will continue to sustain that growth and we'll sustain our company for future generations as well as having a positive impact on the world as one of the world's largest food companies. So I'll stop there and ask Ben or anybody else, any questions that you might have, we'll be happy to take them.

Ben Theurer: Thank you very much. I'll kick it off with an initial question. Actually it's more for Sally. With the recent AdvancePierre acquisition, you've talked really a little bit about it in the presentation, but can you share a little more where you think the synergies are likely to come from? I mean you mentioned the \$200 million, but if you could shed a little more light on which area, is it on the Tyson level, it is on the AdvancePierre level, is it on both levels? So where do you think the majority can be generated? And with that in mind, where do you think longer term margins in the Prepared Food business could somewhat end up?

Sally Grimes: Let me start by answering the second part of your question which is over time we actually believe that this is a 12% to 14% business. Tom mentioned our guidance for next year in the upper end of the 10% to 12% range, but we actually think it's 12% to 14% over the long term. So in terms of the synergies, this has been a great month I would say as the AdvancePierre and the Tyson businesses come together. And we're actually looking at it from a holistic standpoint, a combined portfolio standpoint. Tom mentioned financial fitness, that's a huge theme, but an optimized network is a big one. So George Chappelle is our new Chief Operations Officer for Prepared Foods who was previously the Chief Operating Officer at AdvancePierre. So he's already getting in there and making plans and is already sharing kind of phase one of an optimized network. Obviously procurement synergies. Another one I would say is an approach that we're calling design to value. So don't think of it as least cost formulation, but best cost formulation. How do we take this entire Prepared Foods portfolio and ensure that we are designing the formulas to the best value, the best costs? So that's another key initiative. At the same time, that growth engine that you saw earlier, it's going to continue. So no better time to drive efficiency in your business than when you've got the growth going. That's the situation we're in right now.

Unidentified Participant: Tom, despite your great success recently, the market seems very skeptical about the sustainability of your margins when you look at your valuation. What can you do to assure people that you're not over earning? And would you consider realigning your portfolio at some point if the market doesn't give you a proper valuation?

Tom Hayes: Thanks for the question. It's something that is continually sort of asked of our company because we are different. We have about half of the business is commodity, so pork and beef, what we call commodity. Half is valued added which is chicken and prepared foods. The market doesn't know how to value us because we do play in both. What I would say is we are undervalued in any case. I think what we have to do is continue to perform. When we drive the growth that we want at the margin structure that we have talked about and we continue to set the tone and set the pace for what a growth food company should look and feel like, that's when I think we'll get sort of that multiple re-rate. We always look at all the parts of the portfolio and if there was something that we thought we should be actively engaging in, we would do that.

What I tell you is, as I said at the end here, the beef business is set up to deliver some extraordinary margins and the cash that is generated by that business is amazing. Same on pork. So we're in the early stages of an expanding cycle on beef and the pork margins continue to be extraordinarily strong for us to reinvest. So I think those questions will always be asked and I think it's certainly something that's on our minds. But I'll tell you

that we're using that cash, those cash cows to drive really healthy portfolios.

Unidentified Participant: So there's been these up and down cycles in the commodity side of the business and part of the chicken business. Is there any reason to because that in the future we're not going to have those type of cycles or is it inevitable that we have it?

Tom Hayes: You're asking the question about chicken specifically?

Unidentified Participant: Commodity side.

Tom Hayes: Yeah. Beef has gone through a cycle, it went through a really poor cycle. I would say that the cycles tend to be 5 to 10 years in length. We are at the front end of what seems to be a really strong cycle. There's a lot of supply. We can see how much cattle there's going to be in 2020 today. So I would say the cycle, certainly the business goes through it. There could be a massive shock. There could be something that happens with grain or something that we don't, can't forecast. And that would be something that would drive it to another cycle. But today, from what we see, we feel like we're in pretty good position, both with beef and pork. And on chicken, it does go through cycles. There is certainly right now, the breast meat prices are high, we're in a high commodity cycle. A company like Tyson that focuses on value, we won't go very high in these tough markets and we won't get very low in the very strong markets where breast meat is a little bit lower. So you should expect our margin structure to increase over time but to continue to remain more stable than the commodity players on chicken. Prepared Foods, it's a matter of making sure we price to things like bellies. Bellies have been taking off here lately, you might have seen, come back down a bit, beef 50s. Input costs, making sure we get the right value for our products in the marketplace based on the slope of the change on some of the input costs. Any other questions? Okay, Ben?

Ben Theurer: I have one more. You had it as well with the -- in the Prepared Foods business, like the Tastemakers and everything, and clearly there's been a lot of talk about what Amazon is doing with Whole Foods and so on. So where do you want to position yourself in that kind of disruptive environment where a lot of consumer companies are kind of exposed to the threat of Amazon doing funny things.

Sally Grimes: Yeah, I would say we don't see it as a threat, we see it as a tremendous opportunity. So we were one of the first to design a product with the eCommerce shopper in mind. It's been a great success. I mentioned that the repeat rates of Tyson Tastemakers are among the best in our portfolio. And with the new collaboration, we see that as an opportunity to grow our business, to grow distribution and to continue to trajectory that we're on.

Tom Hayes: Okay. Well I see -- is there another question? Okay, so I think we're at the end. Thank you very much for your time today, we really appreciate it.