

TysonFoodsInc.

**September 05, 2018
03:00 PM EDT**

Ben Theurer:

So good afternoon, everybody. Just a quick agenda update I'd like to communicate. Performance Food Group, they will now present at 3:45 p.m., Rose Kennedy Ballroom 5, so just that you know the agenda update whoever wanted to attend Performance Food Group.

Now with that said, I'd like to introduce Tyson, one of the world's largest food companies, recognized leader in protein, a portfolio of iconic retail brands including Tyson, Jimmy Dean, Hillshire Farm, BallPark, and the company is definitely on track for its sixth consecutive year of record earnings.

Joining us today from Tyson, Tom Hayes, President and CEO, welcome. Jon Kathol, Vice President of Investor Relations for the past seven years and nearly 35 years with the company. And so just a quick background, Tom has led the largest US food company since late 2016, spearheading its transformation to a modern food company, putting sustainability at the center of everything Tyson Foods does.

A consumer product veteran with more than 30 years of experience, Tom has a track record of growing businesses by emboldening them alongside customers and consumers. He joined Tyson Foods with the acquisition of the Hillshire Brands Company in 2014. There he served as a Chief Supply Chain Officer now executing in several acquisitions since his tenure started, Tyson, under Tom's leadership, just closed in on another acquisition adding Keystone Foods from Marfrig.

So maybe to start it off, Tom, and thank you very much for coming, a lot has happened. I mean, it's just about a month that you reported third quarter results. You've got an acquisition, there was some progress on NAFTA, we saw a little bit of an improvement in pork packer margins. Anything, like, just in the last three or four weeks has a little bit changed your outlook if you could talk us through that?

Tom Hayes:

Yes, sure. Well, thanks for listening in and thanks for being here and I will say it's been busy, but it doesn't seem like it's ever not busy. There's always a lot going on in our business, and let me start by saying that we will be making some forward-looking statements. Please refer to our 10-Q, 10-K for additional information, disclaimers about any risks that are associated with our business.

Having said that, you know, given the fact that we did just announce earnings, we had a lot to talk about at that point as well as, you know, a lot of it has changed in between.

The first thing to share is that we have had some, I think, consistent performance within our Chicken business, so I feel good about where the Chicken business is this quarter.

And our Prepared Foods business continues to be extraordinarily strong, so very excited about those two businesses.

Beef and Pork, they have continued to improve. So I think some of you may subscribe to Hedgers Edge, you see some of that performance. Our Beef and Pork business is doing well, and so those things that gave us concern going into the call, which were areas that we were primarily talking about that caused us to take our guidance down. We've felt much better about that here in the near term.

And so I'm not going to talk about that in much more detail. I'll give you the qualitative, sort of, side of that, but the quantitative part I'll leave for after we close the year, and we have our year-end call. But feeling good about where we are.

Ben Theurer: And in terms of the acquisitions -- so, clearly, I mean, Keystone was a big one, a little over \$2 billion in cash to be disbursed. Can you talk about the rationale behind the acquisition?

Tom Hayes: Yes, Keystone is a tremendous acquisition for Tyson, and on two important fronts. One is as we continue to try to develop a more value-added business in the US, they have a wonderful business with McDonald's and other customers, but continuing to drive par-fried or fully cooked volume as a greater percentage of our overall sales is an important element to our growth domestically. And so from that perspective, you know, a great addition to the family. And they have a fantastic team. In the US they are known very well by what they do for McDonald's, but I would tell you that they have just been consistently a strong player overall in the industry.

And then from an international perspective, what we really like is that it provides a platform for growth. Their team is well respected. We've had a chance to meet their leadership team. Haven't done an extraordinary deep dive, but enough to see that, based on our history, you know, what we've seen in the marketplace and then having met some of them, that it's going to be a wonderful marriage and using that to drive some synergy between our current business in China as well as using that professionalism that they have grown that business to execute against a growth agenda for the balance of our international platform with a focus in Asia.

Ben Theurer: Okay. So that's basically, I mean, in terms of the integration of that international business of Keystone, it's going to be kind of a blueprint for you, and where you're going to build off, that's something to add on to get more international exposure or how should we think about it?

Tom Hayes: I'd say both inorganically and organically there's certainly -- their business can grow with the assets they have today, whether it's expansion through CapEx investment in the current facilities and leveraging any unused capacity that they might have particularly in the South Korea plant.

But, importantly, they have done a really nice job of serving in-country demand with the assets that are there, but then using those assets to serve export demand. And something that we don't do necessarily in our current business in China, and so we're really looking forward to being a great partner continuing with the customers that they already have but using that platform to grow innovation and the products that they have started to spend a

lot more time developing that are not just for Food Service but also for retail channels to leverage the combined strength of our Tyson demand generation capabilities with that new platform for growth. And we will also be looking to acquire businesses to add to it.

Ben Theurer: Okay. You've mentioned it already, so just following up on one other commentary. I mean, obviously, Keystone was a big supplier -- is a big supplier to McDonald's. Is there any pushback on that side? Anything amongst the names, I mean, within the Food Service customers where you saw a little bit of a concern just because of the concentration that's now going to be with you or what's the sense from your customers?

Tom Hayes: The sense that we've got is that they want strong global suppliers, and they want suppliers that are going to be able to bring innovation but also bring cost and quality consistently. We have demonstrated as a supplier here in the US, so we do that for our customers. And so I'd say they are excited about the prospects of us becoming a larger partner internationally.

And we are equally excited to make sure that we continue to up the ante, so there's not a lot that we don't know about the customers that we deal with today. The most important thing, though, is that they are going to continue to drive for growth. And so they see us as a partner that given the prospects we have with overall protein demand and how it continues to be a tailwind for a lot of companies in the Food Service space, you know, retail, I think new customers will take advantage of those capabilities, too.

Ben Theurer: Okay, now, just following up a little bit and, obviously, there's a lot of moving pieces, but when we saw the purchase price, \$2.2 billion, it was actually much lower than was initially talked about. There were numbers that were about a third higher at the very beginning and then the closing came in at a pretty attractive price here.

But then, at the same time, I guess a little bit of a disappointment from the market participants in terms of the synergies. So you've guided out about \$50 million in three years. Can you talk a little bit about what you're seeing there and how we should think about the cautiousness of that number?

Tom Hayes: Certainly. We've talked, actually, quite a bit. We've had some meetings, of course, leading up to this -- some one-on-one meetings, group meetings with investors, and that has been a popular discussion point. Could you do more? I think the answer is we probably can, but we want to make sure we have a chance to connect with the team both domestically and internationally to have them partner with us to develop those plans.

We've found that when we did that with Advance Pierre, what we thought going in, the synergies were going to be the, you know, coming away from the dialog and that, you know, teamwork, was that there was a lot more to take advantage of.

They know the markets, I would say better than we do, at least in the international and to getting them to partner to say what's the best way we can make the most cost-effective company without sacrificing quality or, you know, the growth prospects. I expect the teams will come together to solve that, and it could be something more than what we've declared so far.

Jon Kathol: So along those lines, Ben, just to recap, we paid \$2.16 billion for the asset. We took synergies of \$50 million. On a post-synergy basis, that would imply a multiple of around, roughly, around 8.5 times, maybe a tick less. So we feel like the asset is high quality.

Certainly, not the least bit, would be their team. We think that's a great asset, and their plants are in great shape.

Ben Theurer: Perfect. Now, let's stay with the topic. You've mentioned a couple of things, I mean, obviously, capital allocation. We've seen a lot of acquisitions over the last couple of years. We had Keystone just very recently, but there was also American Protein, Smart Chicken, Original Philly, then a little over a year ago, Advanced Pierre. So are you looking to do more on the M&A side? Are you going to be now focused on debt reduction, leverage, and what about stock buybacks?

Tom Hayes: The answer is all the above. We've generated a lot of cash, and so we want to continue to pull those levers, whether they're acquiring companies or we're buying back stock, certainly increasing our dividend. I would say our track record has been good. In the last quarter we bought back about \$120 million of our own stock, close to \$370 million this fiscal year.

And over the last three years, over \$3 billion worth, and so that's something we want to continue. We do buy back, and I know the question is, "Well, can you accelerate that?" We think acquisitions like Keystone, when they come up, we need to have the readiness to do that for the long term. But then, also, we do have the constant discussion about how quickly can we pay down that debt, when do we need to step in to buy back our own stock, but it's nice to have the ability to pull all those levers (inaudible).

Jon Kathol: The other thing I would add is an acquisition like Keystone is a great illustration of -- these aren't just based on synergies. It's about growing a good business and freeing up capital to help them achieve the next level. So in this case, Keystone fits very well into our entire asset base, but it's about unleashing the potential of that group. So it's not just about cost savings.

Ben Theurer: Okay, perfect. Just to quickly stay within the buybacks, I mean, obviously, the multiple of the stock has come down recently. I mean, there was a level blip and then up again. But, I mean, the real buyback right now, you don't think it's, like, the best way of using capital. I mean, we're seeing Keystone as a very good acquisition. I mean, obviously, that balance but there's nothing you would go out to more aggressively buy stock, right?

Tom Hayes: I'd say we wouldn't. We always want to preserve our optionality to do that, and that is the important point is we do have optionality. We, right now, we're subscribing. We want to buy this asset, we want to pay down the debt to the extent that we see there is an opportunity in the future, we'll take advantage of it. But we don't want to give up any optionality that we have.

Jon Kathol: This would be all about taking advantage of the situation, and the fact is, the situation or opportunity of acquiring Keystone came about now. So that's what prompted the thought of let's go for this now because it fits our long-term growth strategy extremely well.

Ben Theurer: All right. Might we switch gears and then come to that very funny topic -- tariffs, trade, and so on.

Tom Hayes: It's not so funny to us.

Ben Theurer: Yes, I know. I mean, it was a little sarcastic, anyway. So how is the export business of you guys doing and what do you see, I mean, the general landscape and then I'll have maybe some topical questions into that.

Tom Hayes: Sure. I'll talk a little bit about it and then ask Jon to weigh in. He's kind of our resident expert on the Beef and Pork business, and so that -- yes, overall, I would say that things have been going fairly well. Our export business is very strong. There doesn't seem to be any hiccups as it relates to the volume that's flowing. You know, it's moving, particularly in the Pork business, at a lower value sometimes. So that has created a lot of availability in the US, which has, in turn, affected chicken pricing over this past summer, which is something we talked about on the call.

But the overall business continues to perform pretty well. The way that things work is the market will clear the products, where they will be consumed. It's just a matter of where they go and at what price, and that is what has, you know, moved around a little bit.

Jon Kathol: So year-over-year, over the last year, all of the increased production in the US has been consumed by the export market. So the assumption is that will continue to happen. As Tom mentioned, all the meat will still clear, so we need for these export markets to remain open, and a term Tom uses all the time, which I think is very appropriate is, we need that certainty of trade. Uncertainty is what hurts these markets.

And the tough part about that is, we, as a packer in our Beef and Pork businesses, we end up having to pass that back to the producer. Good news or bad news makes its way back to that hog farmer, or that cattle rancher. So within a short period of time, yes, it squeezes us. But a longer period basis, it's not good for the American livestock producers.

So we're encouraged, we're starting to hear the right things. Certainly, the Mexico discussions have gone very well. But we need for that market to remain open. Mexico is our largest export market, and a large consumer of US hams, and it's critically important to that pork market, that the hams continue to make their way to Mexico.

Ben Theurer: Okay, so, I mean, basically, I mean, if everything is still moving and was, actually, moving during the third quarter, what was it that actually pressured the margins on the pork business so much? And putting into perspective your outlook for the last quarter, I mean, you're basically looking for just a little over breakeven if we'd just taken full-year guidance, what you had in the first nine months. It's easy math -- zero point something.

Tom Hayes: Well, just to be clear, what we see today is different than what we saw three weeks ago. So things have gotten better, which is good. But, also, because of the -- just going to back to the availability, when there is more supply available, then that will, obviously, affect price. As Jon said, it eventually moves its way back to the producer. And so we're going to beat the same drum over and over that we want certainty. We want these trade deals to be done, we want them to be done in a favorable way towards the US producers and processors in that we have an amazing engine in US agriculture, and we just want to play on a level playing field around the rest of the world.

But we will see, from time to time, that noise, if you will, affect margins. It tends to be a lag before it goes back to the producer, but we're always going to make our money in the spread between the cutout and the price that we paid the hog farmers and cattle farmers.

Jon Kathol: So within the third quarter and actually into the beginning of our fiscal fourth quarter, early July, what you are seeing is not the result of the tariffs pressuring margin as much as these new harvest facilities that were coming up in the Midwest. Those new entrants

were paying more money for hogs, irregardless of the fact that pork values were coming down at the same time. So that causes the imbalance in a margin shift for us.

We've since seen that return to a more normal relationship where the value of pork is driving the price for hogs, and that's ultimately our margin is the difference between those two.

Ben Theurer: Okay, very good. Now, one of the topics, and it's come up in some of the other meetings, the African Swine Fever and the potential implications on global supply, especially on the hog side and then, obviously, subsequently, pork. Anything you can comment on with your expectations and what you're seeing in the markets? I mean, you have some business in China. That's where I think it's mostly affected. So any thoughts there?

Tom Hayes: Well, the first thought is when the news broke, there was a challenge with African Swine Fever, the cash hog price reflected it. And so there's reason to believe that there is going to be less hogs available in China; that there will be more supply moving from the US. Not so much, maybe, from Tyson, but there would be a change in the way that the market is being served, and that could create, but, you know, potentially, a price support of the situation in the US for hog farmers.

I don't know what's going to happen. It seems like it's a pretty fluid situation, it does seem pretty severe, to be honest. But what would you add, Jon?

Jon Kathol: Historically, number one, it's not dangerous to humans. But within China, you will see spots occur 700 or 800 miles apart. So the degree to which they have this in hand, we really don't know. But as Tom said, we, at Tyson, are not likely to fill this market. But somebody from the US will, and that will create disappearance, which creates an opportunity for our pork to get into more places and, ultimately, in the short run, that's very good for us. But on a longer term basis, it really helps that American livestock producer again.

So I will tell you, our piece of this is simply spread relationship management. But ultimately, that would be good for the American livestock producer but, certainly, we don't wish that upon anybody, because African Swine Fever would require a culling of a herd. So within a certain radius, the government would be likely to step in and eliminate the hog supply in that immediate area. That's what history would tell you. At this point, we hear of instances, but how widespread it is, we don't really know.

Ben Theurer: Along those lines, I mean, obviously, they're going to be, like, the second derivative implications from that if that were to happen. I mean, we've seen that the Chicken business has been somewhat under pressure because of the strong supply on the red meat side not only beef but also pork. I mean, obviously, if some of that were to disappear, maybe your Chicken business, as well, wouldn't be as much pressured. I mean, we've had the summer with the Food Service being relatively weak. Retail also not as strong as it used to be over summer. So going into coming quarters, that could be a little bit of a relief from the Chicken side as well, correct?

Tom Hayes: That would stand to reason given that what we just talked about and what we saw this past summer. As you said, you know, when the Pork prices were as well as they were and product was available we did see quite a bit of a transition from Chicken to Pork and Beef, and that is unlike anything that we've seen in the past. There's not a time in which we can go back to that looks exactly like this summer did. And so to the extent that the supply was not there certainly would, I think, abate that situation.

Ben Theurer: Now, coming back to the trades thing. I think you mentioned it earlier. I mean, with Mexico, obviously, the US has made some decent progress. They're currently sitting together with Canada to come up with a NAFTA deal maybe. It's not going to be NAFTA, it's just going to be bilateral. How does that impact you, because you've mentioned Mexico is a very important export market. But maybe you can share a couple of numbers and give us a little bit of a better sense how much Mexico actually matters for you.

Tom Hayes: To start, all our relationships are certainly important. We want to have certainty like we talked about, in all trade deals. But Mexico is our fifth-largest trading partner and so from that perspective it's very, very important to us. And I would say, from a certainly Pork or Ham perspective, the most important market that we have probably on those products.

You know, Canada is the fifth-largest trading partner, so not as significant, but we'd still like to see the entire deal be done with all of North America. It's just, to me, that our company makes more sense to have one agreement versus two. To have, you know, more of a fair trade flowing and, you know, to use it as an example to get more deals done around the world. The more that we have the ability to access those markets and have strong, productive relationships that will allow the flow, the better off we are always.

Jon Kathol: I would just add, the entire supply chain as it relates to food is better served by free trade and open markets than it is to have a tariff. Tariffs just create inefficiency, and the best way to satisfy the consumer in the long run is by free trade.

Ben Theurer: Okay, so maybe a couple of questions on the Chicken segment, which continues to be an important one. So, clearly, there was a little bit of pressure recently, but can we also talk about the buy-versus-grow strategy? And, obviously, with the integration of Keystone, which is just partially self-sufficient. How is that going to look like, going forward?

Tom Hayes: Well, so, buy-versus-grow is a tool that we use. We've been using it for the last six or seven years and, basically, what that does is allow us to stay short of our total demand and then take advantage of markets when they're low, particularly on breast meat. And it didn't play out that way this summer because our volume didn't come through. So we didn't have the ability to take advantage of that tool.

If you think about our production, if we have, you know, 90% is produced internally by Tyson, and we go on 10% of the market. If we get 10% in this on volume, or something of that magnitude, it doesn't allow us the availability to take advantage of that as a tool.

So to the extent that we get back on track, I think it is absolutely something we'll continue to take advantage of. This didn't play out that way because of the volume that we did not achieve that we had in our plan.

With Keystone, they do have some outside purchases, so they acquire from companies that are not fully integrated, so they provide an opportunity for us to serve them that way and maybe internalize some of that business or not. But they will fold into the whole buy-versus-grow strategy once they become part of the family.

Jon Kathol: I would add, on the buy-versus-grow, you know, anytime something like that happens, we do a bit of self-evaluation and say, "What did we miss?" And I would tell you, we

look back 60-plus years, we've never seen this happen before, where chicken actually lost share to beef and pork. So it's a case where the relative price gap between those proteins closed enough where Food Service operators felt they could feature burgers, retailers felt they could feature pork at retail, or ground beef.

So, you know, quite honestly, we just haven't seen a situation where chicken became out of favor for a short period of time. Now, does that return to normal? We're seeing early indications that, yes, that's probably going to happen. The timing of which we don't know yet. But, certainly, we see our way forward through this as to continue to sell and, as Tom said, we need to continue to be able to take advantage of this very inexpensive commodity meat that's on the market out there. One we could take advantage of by buying.

Ben Theurer: Okay, now, the most important topic -- Prepared Foods. That's been something that has had exactly the effect we're looking for -- margin stability. I mean, clearly, maybe not the margins yet that you might want to achieve in the long run but still a more stable level, better performance there, as well, in terms of growth and then, obviously, profitability being very strong.

What's the focus you're putting on that? How do you want to further increase share within the total Tyson company to have more within Prepared Foods?

Tom Hayes: You know, Prepared Foods, there's a number of things for Tyson. You know, the first thing that we think about is an ongoing innovation engine to drive growth, particularly with the Jimmy Dean brand, Hillshire, BallPark, as well as some emerging brands like Aidells, Golden Island, and so we are extraordinarily excited about the ability to continue to feed that engine for growth. Jimmy Dean is a perfect example of when we get it right and what that can create.

The other thing is, because of the nature of our relationships with the other parts of the company, whether it's the Pork Division, or even some of the Poultry but, certainly, the Beef Division, those feed the Prepared Foods business in a way that there's a relationship that is intertwined on just valuing up those raw materials.

The job that the team has done in the last 12 months has been remarkable. With getting to a sustainable margin business that is north of 10% is one thing, but to continue it on the growth trajectory and to continue to invest in innovation and really run this \$8 billion business to the point where we're growing EBIT and expanding margins and building a culture of winning behind everything that Sally and the team are doing -- Sally Grimes, who is our Group President -- couldn't be happier with that.

Having said that, we know we can go a lot farther, so she's always pressing the team to get more, do more. And whether it's taking advantage of the recent acquisitions that we've made and stepping into other areas of the store through Advance Pierre's business and thinking about different ways to innovate through the Innovation Lab, which is this new, sort of, SkunkWorks organization that's been established to attack new brands quickly and create new brands. Those are the things that are really generating some life in the prepared foods business. And I'd say we're continuing to press.

Jon Kathol: The one thing I'd add, if you look back four years ago, legacy Tyson Prepared Foods, selling, roughly, \$4 billion in sales at essentially breakeven because they were investing in brands. You compare that to today we're \$8 billion to \$9 billion. We're likely going to

cross \$1 billion in operating income next year. This year we're at 11%. So I would tell you we're, roughly, \$900 million in operating income.

So the things they do to continue to lead the market in terms of category growth, growth has not been absent from Tyson in the last few years, and that's because of the things the Prepared Foods Group is doing to zig when maybe others zag, and they're taking those steps just simply to drive category growth.

And I looked at the latest four-week IRI data today, and I look at some of the things that are happening there and, the areas where we're losing a little bit of share, it's because we're making a lot more money, and the areas where we really want to grow share, we're growing share.

So it's not just volume or profits, it's a mix, right? So encouraged by what we're seeing there, and it's got us in a good place, going forward.

Ben Theurer: I mean, staying on the topic of innovation and creativity, you've been quite active with venture capital, alternative meat solutions, and so on. And, obviously, innovating new products but also, like, reusing – “Yappa” is one of the things – if you could talk a little bit about that venture arm and the initiatives to source plant-based or lab-based protein instead of animal-based protein.

Tom Hayes: Yes, Tyson Ventures is, I think, changing the way that not only the company views areas for growth but also just the way that people are working together in addition to the Innovation Lab. And what it's done is put us in a position, whether it's a new technology that's really nascent, still being developed, or something that we know as a space that is starting to really grow like plant-based protein.

It puts us in a spot where we can actively disrupt ourselves in some cases, and that's something that we need to do as a big company in a space that is going to be disrupted at some point. And it puts us in the forefront of new technologies that are being made available to make our business overall better, or our industry better.

And so the investments that we have made, to date, are all in those spaces that push our thinking, allow us to take advantage of trends that are happening with consumers, and to position us to either be outright owners of the business or at least be an equity partner that is driving idea generation as well as just learning from them things that we should know in order to advance in our own initiatives.

It's \$150 million fund. We're sort of barely scratched the surface in terms of investments, but I think that, overall, we're very satisfied with where we are today.

Ben Theurer: And on the innovation side Yappa, if you can comment? I mean, that's, like, kind of, the very new thing as well and there's been a lot of talk about. And you've presented it nicely, just about half a year ago at CAGNY, so maybe a quick update on that?

Tom Hayes: Yes, so far so good. So it's YAPPAH? It's a small business, but it's a protein chip that takes products that are going to go to waste, whether it's trimmed pieces of chicken or spent grains. It could be [pulp] parts from the [juicing] industry that are available to combine into great-tasting new flavors that -- it's a chip in a can, and, so far, we've gotten a lot of great enthusiasm around it. It's a slow build, but we have high expectations for how that product will turn out.

Ben Theurer: Well, any final thoughts before we wrap it up and -- ?

Tom Hayes: I guess the things that I'm going to ask everybody to take away is that the company continues to stay focused on the long-term growth of the business. We will continue to be allocating capital to that end, and so for the long haul we're going to be focused on continuing to grow a business but differentiated capabilities, delivering what we say we're going to deliver in the way of cost savings and financial fitness. And then also focus on sustainability as we drive for long-term total shareholder return.

We're not satisfied, we're not happy with the results we've had recently as it relates to some of the issues that we've talked about, and we're anxious to continue to demonstrate that we have learnings from that, and we're going to apply them, and we're going to drive the model aggressively forward fast.

And so I appreciate your coming up to listen to us, and happy (inaudible).

Ben Theurer: If there are a couple of questions, maybe, we have five minutes before we go to the breakout and, yes.

Unidentified Audience Member: I think you used the word "consistent" when you talked about how chicken or poultry has performed quarter to date, and I was just trying to, you know, earlier you just expressed disappointment or being surprised when you said "consistent" it seemed like your tone was sort of positive, and I guess Jon was saying, too, just feeling like there's some evidence that you've turned the corner. So I was just trying to get a little bit better understanding of where you're coming from you said the word "consistent."

Tom Hayes: Consistent, yes. The idea that the business has performed consistently with how we said it would between now and the end of the year. That's what I was meaning to say. And Pork and Beef have done better, and so that's the important message. Prepared Foods continues consistent as well.

Jon Kathol: Yes, the framing of Chicken was -- it's performing as we expected it to.

Unidentified Audience Member: I was just hoping you could flesh out the smaller pork packers that your price is up in the last quarter. It seems to be better than the current quarter, driving to your better expectations for Pork. Maybe just a little bit more color on what exactly is happening there?

Jon Kathol: I'll take first crack, if you don't mind. But, you know, we can't control what the industry does, obviously. It's a very competitive industry. The Tyson approach is simply we look at what we're selling product for out there, and then we determine what we can afford to pay for hogs, and at what point it becomes inefficient or uneconomical to do such.

So as far as what other companies do, when new companies come in, typically, they're going to be aggressive if for no other reason than they've got to determine their schedules. That's not something we can control. What we do is we aren't vertically integrated, we use the term "virtually integrated." We have supply agreements with major hog producers, independent hog producers throughout the country, and we know we're going to get our hogs just simply because we've contracted to do that.

So as long as we're able to manage the spread between the value of the pork we're selling and the price of the hogs we're buying, that's, quite simply, our business model. And to the extent anybody wants to remain in business very long, you've just got revenue, and

you've got expenses so they have to manage that relationship as well. So from our perspective it's all about just managing the spread.

Ben Theurer: Oh, with that, I guess we're going to take it to breakout, and thank you very much for participating.

Tom Hayes: Thank you.

Jon Kathol: Thank you.