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Tyson Foods, Inc. (TSN)

Acquisition of Keystone Foods Business from Marfrig Global Foods Tyson Foods, Inc Call

CORPORATE PARTICIPANTS

Jon Kathol

Vice President-Investor Relations, Tyson Foods, Inc.

Thomas P. Hayes

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

Stewart F. Glendinning

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

OTHER PARTICIPANTS

Heather Jones

Analyst, The Vertical Trading Group LLC

David Palmer

Analyst, RBC Capital Markets LLC

Jeremy Scott

Analyst, Mizuho Securities USA LLC

Akshay Jagdale

Analyst, Jefferies LLC

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Ken Zaslou

Analyst, BMO Capital Markets (United States)

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Michael S. Lavery

Analyst, Piper Jaffray & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Tyson Foods Investor Update Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Jon Kathol, Vice President of Investor Relations. Please go ahead.

Jon Kathol

Vice President-Investor Relations, Tyson Foods, Inc.

Good morning and thank you for joining us to discuss Tyson Foods' acquisition of Keystone Foods. On today's call are Tom Hayes, President and Chief Executive Officer; and Stewart Glendinning, Chief Financial Officer. Slides accompanying today's remarks are available on the Investor Relations website at ir.tyson.com. Tyson Foods issued a news release this morning, which has been furnished to the SEC on Form 8-K and is available on our website at ir.tyson.com.

Our remarks today include forward-looking statements, including statements regarding the expected consummation of the Keystone acquisition. Please refer to today's news release regarding the acquisition for our cautionary statement regarding forward-looking statements. I would like to remind everyone that this call is being recorded on Monday, August 20 at 9:00 AM Eastern Time. A replay of today's call will be available on Tyson's website approximately one hour after the conclusion of this call.

This broadcast is the property of Tyson Foods, and any redistribution, retransmission or rebroadcast of this call in any form without the expressed written consent of Tyson Foods is strictly prohibited. I'll now turn the call over to Tom Hayes.

Thomas P. Hayes

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

Very good. Thank you very much, Jon, and thank you for everybody that's joining us on such short notice. Our M&A strategy, which we've talked a lot about repeatedly in the past, is focused on four criteria, and when we consider a company – whether a company is the right fit, we ask ourselves four questions. Number one, could it bring us new brands. Number two, does it have capabilities that we don't have. Number three, will it provide scale and synergies associated with that scale, and does it offer new geography access or new market. So, we need to answer yes to at least one of those key questions, and Keystone Foods is a big yes to three of the four.

We're expanding our value-added protein portfolio and adding to our capabilities. We're gaining additional scale and extending our supply chain to better serve key foodservice customers, and Keystone offers a significant foundation for international growth with operations and exports in the fast-growing Asia Pacific region, as well as exports into key markets in Europe, the Middle East and Africa. Keystone's international presence and proven track record will transform Tyson Foods' existing capabilities in the region and promote further international expansion and exports opportunities.

At this point, I'm going to ask Stewart to take us through some of the specifics on the transaction. Stewart?

Stewart F. Glendinning

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

Thanks, Tom, and good morning, everyone. Tyson Foods is acquiring Keystone Foods from Marfrig Global Foods for just under \$2.16 billion in cash, a valuation of 8.3 times its last 12 months adjusted EBITDA, inclusive of expected synergies. We expect the transaction to be accretive to GAAP EPS in the third year and accretive to adjusted EPS in the first year, excluding transaction-related costs and the incremental depreciation and amortization associated with the transaction.

We expect to generate annual synergies of about \$50 million by the third year, driven by operational efficiencies, procurement savings, distribution, supply network optimization and other opportunities. We anticipate closing in mid-fiscal 2019. Based on the trailing 12 months ended June 30, 2018, the pro forma net debt to pro forma adjusted EBITDA ratio would be around 2.7 times. It's important to us that we maintain our investment-grade rating, which we expect to do, and our ability to generate free cash flow should allow for rapid de-levering.

And now, Tom will add some additional thoughts. Tom?

Thomas P. Hayes

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

Thanks, Stewart. Yeah, just a few things before we take some questions. The acquisition of Keystone Foods is an important step in our next stage of growth. Their portfolio complements ours greatly with value-added products serving foodservice, retail and convenience store channels in addition to the retail periphery or the deli section.

Keystone has a solid foundation for international growth with established profitable businesses in fast-growing markets, and as Stewart pointed out, it's a financially compelling transaction. So, we foresee significant ongoing

benefits to Tyson and our shareholders, and both companies' customers and team members will benefit. Keystone will further promote our strategy to sustainably feed the world with the fastest growing protein brands, and we're very excited about this transaction and look forward to taking your questions.

That concludes my remarks. So, we can open up the line. [indiscernible] (05:10).

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Heather Jones with The Vertical Group. Please go ahead.

Heather Jones

Analyst, The Vertical Trading Group LLC

Q

Good morning. Congratulations on the acquisition.

Thomas P. Hayes

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

A

[ph] Thanks, Heather (05:48).

Heather Jones

Analyst, The Vertical Trading Group LLC

Q

I apologize for background noise. I'm in the airport. So, I was wondering if you could give us a sense of what the – what percentage of revenue is represented by the top five customers?

Thomas P. Hayes

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

A

We don't – well, we're not going to break out that. We don't do it for our existing business and we're not going to do it for any acquired assets. What I will say, of course, we know that McDonald's is a large customer. There are a number of other foodservice QSRs. It is fairly concentrated. But the important thing to understand about this, particularly internationally, we see this as a tremendous platform to continue to grow, not just within foodservice by the way, also into our retail markets and really a platform for us for tremendous expansion internationally. We won't give you the full percentage break-out, but it is definitely concentrated.

Heather Jones

Analyst, The Vertical Trading Group LLC

Q

Okay. And was wondering on the synergy number – and I know that you guys tend to be conservative when you provide initial synergy guidance. You've done that in the past, and this figure seems relatively conservative as well. And so, I'm just wondering, is it conservatism or does the cost plus nature of some of the business limit the synergy potential?

Thomas P. Hayes

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

A

I'll say a few things, and Stewart can add some color here. Heather, one of the things that we are known for – have been known for since the acquisition of Hillshire and then AdvancePierre and follow-on acquisitions as

being, I think, very good at and effective at delivering cost savings. We want to make sure that this business continues to grow and grow rapidly. So, we are – you could call it conservative, but I would just say it's early to understand the full synergies. Once we get into full-swing planning, as we started some planning already, we will understand what the full opportunity is. But we think that that's the right number to focus on for the moment, and I'll just finish where I started, it's all about growing the business. Stewart?

Stewart F. Glendinning

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

A

Yeah. I'd echo that point, Tom. This is a real platform for growth, particularly the Asian part of the business, which for us is a – the beginnings of something I think that we can really expand. So, I wouldn't underestimate that and the need to make sure that we've got the right organization behind it. The second thing I would point out is we are very, very focused on returns. When we spend investor money, we make sure that investors get money back. And I'm pleased to say that by – certainly by year three, we expect to see that we'll be passing our cost of capital in terms of the return coming out of this acquisition.

Heather Jones

Analyst, The Vertical Trading Group LLC

Q

Okay. Thanks so much.

Operator: Our next question comes from Farha Aslam with Stephens, Inc. Please go ahead.

Q

Good morning. This is [ph] Tim (08:40) on for Farha. I just wanted to ask what is Keystone's D&A and what's the incremental D&A that Tyson will expect to experience from this transaction?

Stewart F. Glendinning

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

A

Well, we haven't released those details yet. We'll obviously be working through our own goodwill, which we have a good estimate of. It's safe to say that the new depreciation and amortization will be higher as a result of the brand and customer assets that we'll put on our balance sheet. I would really focus on what are the returns of the business. We think there is going to be a good strong return coming from this business, and that's where we're focused as a management team.

Q

Okay, great.

Stewart F. Glendinning

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

A

[ph] What's the cash and earnings this (09:23) business is going to drive on the investment that we've made.

Q

Okay, great. And just one follow-up, can you compare and contrast Keystone's sales mix by channel versus Tyson's Chicken segment as a whole?

Thomas P. Hayes

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

A

The sales mix, [ph] Tim (09:38), is greatly foodservice, right. So, there's a very small retail business we see as an opportunity not just in the U.S., but also internationally that's different than Tyson's current business. Our business is equally divided between retail and foodservice essentially. And so, it is much more heavily foodservice dependent, and that is a growing sector, particularly internationally.

Q

Okay, great. Thanks a lot.

Thomas P. Hayes

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

A

You're welcome.

Operator: Our next question comes from David Palmer with RBC Capital Markets. Please go ahead.

David Palmer

Analyst, RBC Capital Markets LLC

Q

So, just a follow-up, I – just with regard to Asia, I assume so goes the likes of McDonald's and KFC, maybe Burger King in China specifically, that that is how this growth area of your Asia business will go. Is that fair to assume?

Thomas P. Hayes

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

A

Not necessarily. That's a – that is a growth element. I think all the customers that are current customers and by the way customers we don't have today have expansive ideas as it relates to growing in Asia. And so – but beyond that, we have assets in this deal that can serve other markets. So, we talked in our prepared remarks about Africa, the Middle East and Europe, and those are areas where we want to continue to expand. So, it's not just about China.

David Palmer

Analyst, RBC Capital Markets LLC

Q

With regard to the historic growth, could you talk about that historic growth of Keystone? And I assume your synergies do not include what revenue synergies you may be thinking of internally. But could you speak to ways that you can – that joining these two assets together can accelerate growth for your foodservice business?

Thomas P. Hayes

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

A

Yeah. So, in terms of the historical growth – yeah.

Stewart F. Glendinning

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

A

[ph] On the historic side, Dave (11:35), I'd just go back to some of the Marfrig financials. I think you've seen that this is a business that has a strong historic track record, and we expect to be able to drive that similarly on a going forward basis. Relative to the other pieces, I'd leave that to Tom.

Thomas P. Hayes

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

A

Yeah. So, the other pieces of our business are really in the Asia, there's very few – we don't talk about it a lot, but we have three plants in China and we have a joint venture in India. So, there's really not a lot that comes together, the China business, I'm sure. But beyond that, it's all upside. And the way to think about this, as we think about it, is the platform for us to build a true international business, so potentially acquiring additional assets and being in a position to have a true scaled international platform. So, that's the way that I'd like our investors to view this.

Stewart F. Glendinning

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

A

Yeah. The only other thing I'd add to that is just that when you look at the kind of business that we're acquiring, it has large global kinds of customers with whom we have good strong relationships and it is the kind of business operation that we are intimately familiar with. So, our ability to execute against that – against those customer needs is very, very strong. And in starting to build an international business, that's a great place for us to start, because we're bringing the kind of capability that's going to be necessary to make that successful, and then we can take that platform and build other kinds of opportunities around it.

David Palmer

Analyst, RBC Capital Markets LLC

Q

Okay. Thank you.

Operator: Our next question comes from Jeremy Scott with Mizuho. Please go ahead.

Jeremy Scott

Analyst, Mizuho Securities USA LLC

Q

Good morning. Just on the valuation, 8.3 times EBITDA inclusive of synergies, that's still above where Tyson trades today. So, I just wanted to ask why this acquisition made sense compared to some of your capital alternatives.

Stewart F. Glendinning

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

A

Well, I think it's not – it's sort of in the zone, I think, if you look to where our price has been and where our trading multiple has been. You're picking a moment in time, a time at which the industry is under a lot of pressure. So, that price is probably a little unfair. We think this is a great asset. We think it's a great buy, and we think it's going to have a strong return for shareholders.

We have been pretty consistent, I would say, over the passage of time in being able to execute big deals and pull the other capital levers in the business. And Tom and I have been fairly consistent on that. We've got a great set of capital – internal capital CapEx investments that are going to have a strong return. If you look back over the

last three years, there's been \$3.3 billion on buying back stock. At the same time, we've been able to execute big acquisitions. So, I wouldn't say that we're limited to any one, other than to say that we are strongly focused on making sure that this investor group gets a good return.

Jeremy Scott

Analyst, Mizuho Securities USA LLC

Q

Great. It seems to me that a major asset of Keystone is the intangible value of their relationships with the key customers that you mentioned. Is there a concern that your customers would address the risk of concentration of their suppliers and maybe pursue more diversification? What are your thoughts around that?

Thomas P. Hayes

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

A

We have great relationships today, as you know, Jeremy. I would say that what this does is build on it. Do customers get concerned about concentration? For sure, but I think [ph] that's to say that (15:09) they have a single plant focus or they don't have a supply chain that they can count on to serve them in times of distress. And so, for us, we believe that this actually bolsters our position certainly with all customers, but I think particularly with those ones that are key customers today. We are better positioned, and I think as a combined company, be a more effective supplier for all the customers.

Jeremy Scott

Analyst, Mizuho Securities USA LLC

Q

Okay. And maybe lastly is your confidence level in regulatory approval and if there is any breakage fee we need to be thinking about?

Thomas P. Hayes

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

A

Yeah. I think we – this is absolutely subject to those closing conditions and regulatory approvals. We are looking forward to engaging. We think that right now, there is no reason for us to talk about anything other than approval. But sure, we are focused on that as we always are and we'll do our best to make sure that we keep you updated.

Jeremy Scott

Analyst, Mizuho Securities USA LLC

Q

Great. Thank you.

Thomas P. Hayes

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

A

You're welcome.

Operator: Our next question comes from Akshay Jagdale with Jefferies. Please go ahead.

Akshay Jagdale

Analyst, Jefferies LLC

Q

Hello. Good morning and congrats on the deal. I wanted to ask about – obviously, international is a growth platform for Keystone. But the history at Tyson, as far as international goes, has been choppy at best, right. So, can you expand a little bit on sort of why you think this platform is viable for you guys to make money

internationally going forward? The history is really what I'm concerned about. But if you could answer that, that would be great.

Thomas P. Hayes

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

A

Yeah. Thanks, Akshay. The company makes money today in those markets. So, that is not our position today at Tyson. So, we are excited to learn why do they have a better position than we do. I would say first of all, it was designed hand-in-hand with the customers. They are focused on building the markets together. We had a bit of a different entry as it relates to our business. And so, they importantly are profitable today and we're interested in the combination of the businesses, how to make the total even more profitable. So, that's where we'll start.

Stewart F. Glendinning

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

A

I would say, just to add to that, there is a terrific management team in Asia, a really strong group of people, and they have demonstrated a consistent track record of successful growth. And that's part of what we're buying into.

Akshay Jagdale

Analyst, Jefferies LLC

Q

Got it. And then, just as a follow-up, how do you think of the value-added strategy that you have in relationship to absolute margins of either the businesses you acquire or the businesses you have, right? The beauty about, I think, the Keystone business over time has been that the volatility on their margins is very low, but the absolute margin profile is also relatively low, right. So, can you help me put that into perspective from your point of view as it relates to your overall value-added strategy?

Thomas P. Hayes

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

A

Yeah. Akshay, just think about this as an asset that does further position us in, of course, more value-added products. As we've talked about, value-added does carry less volatility. So, in addition to expanding into new geographies, scale synergy, new capabilities, this does put us in a position to have less volatility in the total Chicken business. The margin structure, we are happy with the margin structure, and it's something we want to continue to build on. We will focus on cost and revenue and scale in order to drive even better margins. But today, we are happy with the margins that are being produced in this business.

Akshay Jagdale

Analyst, Jefferies LLC

Q

And one last one with – just a follow-up to a question earlier on the synergy number. Why is \$50 million the right number, I mean, 2% of acquired company sales? I know 35% of their business is international. But even if you exclude that, the overlap in the U.S. is significant, right. You have the same customer base. The manufacturing base is similar as well. So, why is the number relatively low compared to what we see in a typical transaction that approach 9%, 10% of sales?

Thomas P. Hayes

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

A

We are starting from a point of making sure that we focus on what are the key areas that we think could be waste between the two companies that needs to be taken out, or redundancy. And right now, as we see it, there is a

tremendous opportunity, given the team that they have, Stewart pointed out, not just in Asia, but also in the U.S. to understand how we can accelerate the growth and not put a number out there that assumes that there is going to be 100% redundancy. I can't believe that there will be. So, we're very excited about getting into more conversation with the team, driving discussions around how we build collective business. And so, we're not in the position right now for us to go further than that \$50 million.

Akshay Jagdale

Analyst, Jefferies LLC

Got it. I'll pass on. Thank you.

Q

Thomas P. Hayes

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

You're welcome.

A

Operator: Our next question comes from Rob Moskow with Credit Suisse. Please go ahead.

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Hi. Thank you. Just historically, I do think this business had some volatility or some negative impact from Asian bans on leg quarters, and maybe those bans are not an issue now. But can you tell me just in light of all the export kind of tariffs that are out there, has there been any kind of pressure on this business overall from this new environment? And then, I have a follow-up.

Q

Thomas P. Hayes

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

No. I can't say that we necessarily see that, Rob. But to think about how we approach our business, currently, we do have great markets for exporting leg quarters. We are internalizing a lot of those – that dark meat for our own [ph] first run (21:46) production. We will continue to leverage that capability with this asset as we become the owners. And so, I think that is more of an opportunity, and so that's – anything to add on that, Stewart?

A

Stewart F. Glendinning

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

No. I think the only thing I would say is, look, using leg quarters is less of an issue in Asia where leg quarter is actually desirable. So, there's a big chunk of operation over there, and we'll obviously be able to use that part of the business to use up these parts of the chicken.

A

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Okay, great. So, no pressure on the business today from all that. And then, the second question was this business – from what I remember like it was the personal relationships that made it so strong like the salespeople, the management teams, their relationships with their – with McDonald's and their big customers, and as you said, Stewart, especially in Asia, were a big part of the asset value. What can you do to make sure that those assets – those personal assets stay within the business and what have you done so – what do you think you will need to do going forward?

Q

Thomas P. Hayes

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

A

As any deal that we enter into, we look at the key personnel. Certainly, we want to make sure that we retain those key personnel. And so, the way to do that is by having those individual discussions, but also talking about the reason why it's important for their future to think about Tyson Foods as a place for them to grow with their careers. I completely agree, Rob, that those folks that are both in the U.S. and in Asia have been great relationship builders.

I would say in the U.S., we have an excellent relationship with the key customers as well. And in Asia, we're looking to build upon those relationships and grow rather than just simply retain the folks in the existing business. So, I think we have a pretty strong proposition to sell them the idea of being a part of the Tyson Foods growth platform, and we are focused on making sure we do retain those key individuals that have been so important to the company's success.

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay, thank you.

Thomas P. Hayes

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

A

You're welcome.

Operator: Our next question comes from Ken Zaslou with BMO Capital Markets. Please go ahead.

Ken Zaslou

Analyst, BMO Capital Markets (United States)

Q

Hey. Good morning, everyone.

Thomas P. Hayes

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

A

Hey, Ken.

Stewart F. Glendinning

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

A

Good morning, Ken.

Ken Zaslou

Analyst, BMO Capital Markets (United States)

Q

Couple of questions. One is, how fast is the non-McDonald's business growing?

Stewart F. Glendinning

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

A

We haven't broken that out separately, Ken. I think we probably wouldn't do that.

Ken Zaslow

Analyst, BMO Capital Markets (United States)

Q

Because I was under the impression that will probably be the big growth aspect of the business. So, you have this base business of McDonald's, and then I thought that there was a – the non-McDonald's is kind of the engine there. That's why I was just trying to figure out if it's growing...

Stewart F. Glendinning

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

A

[indiscernible] (24:27).

Ken Zaslow

Analyst, BMO Capital Markets (United States)

Q

Double-digits or something like that. That's kind of how I was just kind of thinking about it. But I don't know if there's any color you can add to that.

Thomas P. Hayes

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

A

Yeah. In terms of – yeah. Sorry, Ken. Tom. In terms of how it has been growing, let's maybe move away from that, talk about how we see the model going forward that is the opportunity and not just customers, but also markets. So, there is a tremendous exporting capability that the business has today, and we are going to leverage that in addition to sales teams in country. So, yeah, you could expect that going forward, a lot of the company's growth will be with existing company – customers, but also really pushing into new markets, new customers.

Stewart F. Glendinning

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

A

Ken, the only thing I would add is I think if you look at this business relative to our own business, this business has more customer concentration than our existing business. So, our relationships there is going to be broad and I think we're going to use that, try to leverage that relationships there to broaden the platform that we have here.

Ken Zaslow

Analyst, BMO Capital Markets (United States)

Q

Okay. And then, is there a material difference between the EBITDA margins between the U.S. and non-U.S. business?

Stewart F. Glendinning

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

A

Not material difference. It really depends on geography. Some of the Asian geographies actually look very positive.

Ken Zaslow

Analyst, BMO Capital Markets (United States)

Q

Okay. And my last question is what percentage of the contracts are more similar to you guys, where you don't really have fixed contracts, right? My understanding is this business is largely not prone to the commodity volatility. Would you say like a three-quarters? Is that a fair representation that it's not influenced by the commodity end market? Is that a fair representation?

Stewart F. Glendinning

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

A

I would say, Ken, there's certainly a portion – every business ultimately is going to have some impact from meat prices and from grains. So, let's start with that. I would say that this business has more insulation than pure commodity businesses. But I would – at this early point, I'd hesitate to start breaking that apart. It's going to have a similar kind of profile that our foodservice business has in poultry.

Ken Zaslou

Analyst, BMO Capital Markets (United States)

Q

Great. I appreciate it. Thank you, guys.

Stewart F. Glendinning

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

A

More insulated than less.

Ken Zaslou

Analyst, BMO Capital Markets (United States)

Q

Perfect. Thank you.

Operator: Our next question comes from Ben Theurer with Barclays. Please go ahead.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Hi. Good morning. Thanks for taking our questions and congratulations on your acquisition. I have a couple of questions. The first one is Marfrig was mentioning early a \$2.4 billion EV value. So, I was wondering could you give us more light on the difference between this figure and the \$2.16 billion.

Stewart F. Glendinning

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

A

Yeah. Look, what we know is the amount of money that we are paying for what Keystone owns, and that is \$2.16 billion. There's some adjustments from the \$2.4 billion. Probably a better question really for the Marfrig team. But I know that one of the drivers of that difference is the minority interest that they don't own in the business. So, like I said, what Keystone owns is what we're buying and that price is \$2.16 billion.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Okay, perfect. And a follow-up question is, how are you going to consolidate Keystone Foods from a business segment perspective?

Thomas P. Hayes

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

A

So, that's talking about two different parts here. One is the U.S., and it's going to be – in the U.S., most of the sales are Chicken, and so that will go into the Chicken segment. There is a portion of fish that's also in the U.S. as well as in other countries, but that'll be largely in the U.S. part of the Chicken business that we have today and in

the Chicken segment. Internationally, it's going to put us in a position to in fact have a true international business. It is multi-protein and that would be separate. So, the integration in terms of the teams, largely separate, international, but then the U.S. team will be one over time.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Okay, perfect. Thanks a lot.

Q

Thomas P. Hayes

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

You're welcome.

A

Operator: Our next question comes from Michael Lavery with Piper Jaffray. Please go ahead.

Michael S. Lavery

Analyst, Piper Jaffray & Co.

Good morning.

Q

Thomas P. Hayes

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

Good morning.

A

Michael S. Lavery

Analyst, Piper Jaffray & Co.

So, just want to confirm, am I understanding right that the entire international piece is in Asia. And especially if so, can you just explain what is different with these assets or this business that you're talking about how you're better positioned for in Europe and Africa?

Q

Thomas P. Hayes

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

Yeah. [ph] Today (29:12), there's much more export opportunity. They're not just in China. So, there's assets in China, but also Malaysia, Thailand and Australia. And so, there's -there's an asset in South Korea. There's much more to this than just the assets that are in China, which maybe sounds like – some of you may have the impression that it's focused on just China. So, those markets export today, those plants export today into additional markets outside of Asia. And we are looking to expand how much they export and to send our teams into new customers, new countries to grow that business very aggressively.

A

Stewart F. Glendinning

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

I think if you look to the – if you look at the nature of the business, China, as you all know, is growing very rapidly. That business is poised to sort of piggyback on that growth of the country. Thailand, as a geography, is a big exporter to Europe. And if you go to Europe, you'll see a lot of product coming from there. We've got the ability to expand that operation. And Malaysia is perfectly positioned to exploit the exports to Middle East and North Africa. So, I think each of the geographies has a unique aspect to them that we'll be able to really build upon.

A

Michael S. Lavery

Analyst, Piper Jaffray & Co.

Q

Okay, great. Thanks. And then, just on the retail opportunity internationally, you said there's a little bit of it now. Could you just touch on how quickly you might ramp that up or what some of those products might be or just how you see some of that evolving? Would it be primarily organic or inorganic or a bit of both?

Thomas P. Hayes

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

A

It could be a bit of both. But I'd say today, there are three, what we call, our Discovery Center or Innovation Labs that are located internationally. They do great products for foodservice customers, but they also have a lot of innovation that they've been focusing on driving more retail expansion. So, it's leveraging that and what we know about driving retail growth and innovation, and from a company that's been predominantly foodservice focused, bringing our capabilities as it relates to retail and also maybe acquiring new talent that helps us expand. So, it's based on sort of their nascent effort in retail, expanding that through some investment and growing it inorganically in addition to acquisitions.

Michael S. Lavery

Analyst, Piper Jaffray & Co.

Q

Okay. Thank you very much.

Thomas P. Hayes

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

A

You're welcome.

Operator: Our next question is a follow-up from Heather Jones with The Vertical Group. Please go ahead.

Heather Jones

Analyst, The Vertical Trading Group LLC

Q

Thanks so much for taking the follow-up. Just two quick questions. When you talk about it's going to be accretive in year one, excluding the step up in D&A, are you going to be presenting it in that way in your press releases?

Stewart F. Glendinning

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

A

Heather, I would just say at this point, we haven't taken a specific decision on that. We just wanted to point out that there is a big D&A load that's going to come with this just because of the goodwill in the deal. As I mentioned earlier, our real focus here is to make sure we're getting bottom line return for shareholders. And then, that is going to be front and center.

Heather Jones

Analyst, The Vertical Trading Group LLC

Q

And then, my second follow-up is just, I was [indiscernible] (32:35) did this deal, you had discussions with some of these large customers such as McDonald's. And I was wondering did they give any caveats to giving the blessing [ph] or are they going to be talking about any rebidding not only (32:45) in this business or is it they were fine with this?

Thomas P. Hayes

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

A

Yeah. We don't generally talk about our customer relations and discussions. I will tell you though that our customers have been very supportive of everything that we're doing, inclusive of acquiring. And then, specifically as it relates to Keystone, we don't expect that to be any different. And so, we're very excited about our customer reaction and looking forward to getting to closing as quickly as we can, so we can add the value that they know we can add.

Heather Jones

Analyst, The Vertical Trading Group LLC

Q

Okay. Thanks so much.

Thomas P. Hayes

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

A

You're welcome.

Operator: Our next question is another follow-up from Rob Moskow with Credit Suisse. Please go ahead.

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. The Marfrig announcement said that Marfrig's retaining the beef business that was part of Keystone. Were you interested in the beef business at all?

Thomas P. Hayes

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

A

The beef – we are acquiring beef assets in Australia. The beef assets in the U.S. are not as strategic to us. [ph] It'll be a patty (33:49) business. So, that is something that – of course, as we went through the negotiation of the deal, that was something that was excluded and we were absolutely fine with that.

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Q

So, was there – they wanted to hold on to that is what you're saying?

Thomas P. Hayes

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

A

They did.

Robert Moskow

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Thank you.

Thomas P. Hayes

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

A

You're welcome.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Tom Hayes for any closing remarks.

Thomas P. Hayes

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

Okay. Well, thanks for those of you that are able to join us on short notice, really appreciate it. Great questions. We're extremely excited about this. Look forward to talking about it more as we learn more about the business and also as we move towards close, and then of course we'll keep you updated. Thanks for your interest as always and have a fantastic day.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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