

29-Sep-2017

# Tyson Foods, Inc. (TSN)

Q4 2017 Guidance Call

## CORPORATE PARTICIPANTS

Jon Kathol

*Vice President-Investor Relations, Tyson Foods, Inc.*

Thomas P. Hayes

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

Dennis Leatherby

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

---

## OTHER PARTICIPANTS

Adam Samuelson

*Analyst, Goldman Sachs & Co. LLC*

Farha Aslam

*Analyst, Stephens, Inc.*

Heather Jones

*Managing Director and Senior Equity Analyst, Vertical Group*

Jeremy Scott

*Analyst, Mizuho Securities*

Robert Moskow

*Analyst, Credit Suisse Securities (USA) LLC*

Michael L. Piken

*Analyst, Cleveland Research Co. LLC*

Thomas Hinsdale Palmer

*Analyst, JPMorgan Securities LLC*

Ken Zaslow

*Analyst, BMO Capital Markets (United States)*

---

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to the Tyson Foods Investor Update 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.

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

---

Jon Kathol

*Vice President-Investor Relations, Tyson Foods, Inc.*

Good morning and welcome to the Tyson Foods, Incorporated investor update call. On today's call are President and CEO, Tom Hayes, and CFO, Dennis Leatherby. Slides referenced in our remarks are available on our website [ir.tyson.com](http://ir.tyson.com), and on the Tyson IR app. A replay and transcript of this call will be on our website and app later today.

Our remarks today include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements reflect current views with respect to future events such as Tyson's outlook for future performance on sales, margin, earnings growth and various other aspects of its business. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our expectations and projections.

I encourage you to read the release issued earlier this morning and our filings with the SEC for a discussion of the risks that can affect our business. Because we haven't closed the books on our fourth quarter, we won't be able to be too specific with those results on this call. Those questions are best left for the regular November earnings call. We are specifically prepared to talk about the 2017 outlook, the 2018 outlook, financial fitness and our approach. The commitment to restructuring requires us to issue the decision in a timely manner. We are using this opportunity to give you other information that may help provide clarity.

You may also notice that we have several accounting, qualifying statements in the release. This is necessary because we are not in a position to reconcile GAAP to adjusted EPS guidance, with the books not being closed at this time.

I would like to remind everyone that this call is being recorded on Friday, September 29, 2017 at 9:00 AM Eastern time. 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.*

Okay. Thank you very much, Jon, and happy Friday, everybody. Thank you for joining us on such short notice. Sunday is the beginning of our 2018 fiscal year, and while we haven't closed the books on 2017, we do know that we're coming in stronger than previous guidance, primarily due to the better than expected earnings in the Beef segment. We now expect adjusted earnings between \$5.20 per share and \$5.30 per share for fiscal 2017.

So while we're pleased that we'll report our sixth consecutive record year of adjusted EPS, we're focused on delivering an even better 2018 and setting the company up for long-term success. Our fiscal 2018 today, we are issuing guidance of between \$5.70 adjusted earnings per share and \$5.85 adjusted earnings per share, representing an increase of approximately 8% to 13% over fiscal 2017.

With strong demand generation across all of our businesses and favorable conditions expected to continue, we project all segments will perform very well in 2018. Operating margin expectations for Beef are in excess of 5% while the Pork segment outlook is above 9%. The Chicken segment's return on sales is approximately 11% expected, and we expect the Prepared Foods segment to perform well with returns in the 11% to 12% range. Some of our segments have been consistently operating at margin levels at the high-end or above our normalized ranges, so therefore, we will be reviewing those ranges in the back half of our fiscal year 2018.

We're extraordinarily optimistic about our outlook, and we believe it's important to proactively control costs and drive efficiencies, especially when we're on a growth trajectory. Our approach to financial fitness removes inefficiencies, reduce costs, and is focused on continuous improvement to create that fuel for continued growth. We believe now is the best time to transform our company to meet the changing needs by dynamic marketplace.

As we discussed on previous calls, we're using integration of AdvancePierre as a catalyst to look at everything with fresh eyes. Through continuous improvement, we'll be more efficient operators, and we're gaining momentum as we're seeing paths to make processes faster and more cost effective. Partnering with customers is always our priority, and we can be even better if we consistently ask ourselves, does this create value or not.

Our growth now and in the future will be enabled by ongoing financial fitness. We believe we can achieve cumulative net savings of \$200 million in FY 2018, \$400 million in fiscal 2019, and \$600 million in fiscal 2020.

These net savings will be given – be the combination of synergies from AdvancePierre integration, technology-driven efficiencies and the elimination of unnecessary costs. The biggest impact will be in the Prepared Foods and Chicken segments, and our focus will be on supply chain, procurement, and overhead.

For flattening our organization structure to enable agility, faster decision-making and greater levels of accountability, we began with the executive leadership changes announced in August and we're continuing to streamline our structure by eliminating 450 positions, with most coming from our corporate offices in Springdale, Chicago and Cincinnati. We're incredibly thankful for the contributions of those who serve the company and wish them the best as they make this transition.

It's difficult to make these decisions affecting people's lives, but it's absolutely necessary to grow our business, deliver ever-increasing value for our shareowners and sustain our business for the long-haul. Ultimately, our customers and consumers will benefit as we improve our responsiveness and decision-making speed.

Financial fitness is not only about cost savings, it's about accelerating our ongoing efforts around continuous improvement, performance management and lean thinking. We must have a culture of accountability and stay focused on what will keep this company growing in 2018 and into the future. In our 2017 fiscal fourth quarter, we will be reporting restructuring charges of approximately \$140 million to \$150 million consisting of a \$70 million impairment for software-related costs as we transform the enterprise for more modern platform. \$45 million to \$50 million in employee termination costs and \$25 million to \$30 million in contract termination costs.

This is a time of transformation at Tyson Foods as we continue to grow our business through differentiated capabilities, deliver ongoing financial fitness through continuous improvement and sustain our company and our world for future generations.

So, at this point, I'm going to turn it over to Dennis, who will walk us through the outlook and our capital allocation plans. Dennis?

---

## Dennis Leatherby

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

Thanks, Tom. And good morning, everyone. Earlier this year, we defined our strategy to sustainably [indiscernible] (00:07:41) the world with the fastest growing portfolio of protein packed brands, and our announcement this morning builds on that strategy as we fuel growth with a financial fitness model that Tom described.

As we wrap up another record year in fiscal 2017, we expect growth in sales, operating income and EPS in fiscal 2018. As Tom mentioned, our fiscal 2018 adjusted EPS guidance of \$5.70 to \$5.85 is 8% to 13% more than our estimated fiscal 2017 adjusted guidance and represents a five-year compounded annual growth rate of just over 20%. So here are some updated thoughts on our fiscal 2018 outlook.

We expect top-line sales growth of approximately 6% with revenue around \$41 billion as we see sales growth in each of our segments, and we'll have the benefit of a full year of AdvancePierre sales. Net interest expense should approximate \$325 million. We currently estimate our adjusted effective tax rate to be around 34.5% and CapEx is expected to increase to around \$1.5 billion.

We expect to generate a tremendous amount of cash in fiscal 2018 through strong operational execution and the proceeds expected from the sale of three non-protein businesses. Our capital allocation priorities haven't changed and remain governed by our disciplined focus on driving long-term shareholder value, as we plan to use our cash

to reduce debt and grow our businesses organically through operational efficiency and capital expansion projects, along with investing in innovation and brand building.

Also, we will still have the flexibility to acquire businesses that support our strategic objectives along with returning cash to shareholders through share repurchases and dividends, while maintaining plenty of liquidity and investment grade credit ratings.

We expect to bring our net debt to adjusted EBITDA ratio to below 2 times during Q3 of fiscal 2018. When we reach this goal, we plan to resume our share buybacks at a level similar to our repurchases prior to the AdvancePierre acquisition.

This concludes our prepared remarks. Denise, we're ready to begin Q&A.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you, Mr. Leatherby. We will now begin the question-and-answer session. [Operator Instructions] And your first question this morning will come from Adam Samuelson of Goldman Sachs. Please go ahead.

Adam Samuelson

*Analyst, Goldman Sachs & Co. LLC*

Q

Yes, thanks. Good morning, everyone.

Thomas P. Hayes

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

A

Hey, good morning, Adam.

Dennis Leatherby

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

A

Good morning.

Adam Samuelson

*Analyst, Goldman Sachs & Co. LLC*

Q

Good morning. So, I guess first thinking about 2018 and the updated margin targets that you just laid out, relative to what you had outlined in August on the earnings and again reiterated in early September, the most notable change is really the Chicken business, about 100 basis points higher and a more stronger outlook for Beef. Really on Chicken specifically, can you give a little more color on where the increased confidence comes from, is it mix, food service pricing, grain, some of the cost actions that you announced today? Just a little bit more color on where the Chicken margin confidence comes from.

Thomas P. Hayes

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

A

Yeah. Absolutely. Thanks, Adam. So, we believe it will be around 11%, and we expect the business to grow importantly. So, it's not just the margin we're excited about, but the business is going to be in growth mode, especially value-added, frozen, fresh about 3% overall, which is we're very excited about. We've added additional

processing and I think you certainly know this in Green Forest that comes up next month, and the business is practically, I would say, essentially sold out.

We're expecting a relatively flat fee cost environment. I mean if you look at [indiscernible] (00:11:49), at this point, that's our expectation. And certainly, as you called out, the focus on reducing the cost structure does have an impact, as I said in my prepared remarks on the Chicken segment, and so that will be a big element, and continuous improvement. So, we are [indiscernible] (00:12:04) continuous improvement through the Tyson production system within the poultry organization, and our Chicken business continues to improve for growing in the right areas, so that's why we feel so bullish about this.

---

**Dennis Leatherby**

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

A

I'd just add a couple of other things.

---

**Thomas P. Hayes**

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

A

Yeah.

---

**Dennis Leatherby**

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

A

Remember, AdvancePierre did have a small chicken business...

---

**Thomas P. Hayes**

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

A

Right.

---

**Dennis Leatherby**

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

A

[ph] ...where there is (00:12:23) incremental operating income permit, and then don't forget kind of financial fitness that the Chicken segment [indiscernible] (00:12:28) the beneficiary of that as well.

---

**Adam Samuelson**

*Analyst, Goldman Sachs & Co. LLC*

Q

No, that's helpful. And then on the cost savings longer term, we already knew about \$200 million of AdvancePierre synergies, so really it's \$400 million kind of new items that have been identified today over the three year horizon. Can you give a – maybe bucket those a little bit more clearly in terms of the areas you're really going after and kind of how – the cadence of those by area?

---

**Thomas P. Hayes**

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

A

Yeah. Let me just back up a little bit for everybody's benefit. As I said, as Dennis and I talked about previous calls, we are using AdvancePierre, we have used the integration of AdvancePierre to look at everything. So, when we integrated Hillshire, it was largely focused on trying to make sure we maintain the growth mode, but it was procurement synergies to manufacturing. We looked at everything that would make us more efficient inclusive of making sure that we had focus on the businesses in the right areas.

So it's the reason why we changed the organization structure to prepared foods, fresh meats and poultry. Coming out of that, Adam, there was a tremendous appetite [indiscernible] (00:13:41) extraordinarily pleased with how the organization responded to this to make sure we have a really tight corporate center. So the resources that each one of those businesses need are in those businesses, and we have a very tight corporate center that's focused on enabling the growth in businesses we're expecting. But as we got into it, we realized we were making tremendous progress and we saw even more momentum now.

Now, I will hurry on to say that we're not done. We have other opportunities in manufacturing that we have not brought to the table yet, so the transition that we're going to make with some of our manufacturing facilities and consolidation is still work that's being done, we're going to take that very carefully, make sure the plans are of the absolute highest quality before we come to our investors and tell you what the plan is, so this is before we [indiscernible] (00:14:33).

Adam Samuelson

*Analyst, Goldman Sachs & Co. LLC*

Q

That's all very helpful. I'll pass it on. Thanks.

Thomas P. Hayes

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

A

Yeah.

**Operator:** The next question will come from Farha Aslam of Stephens, Inc. Please go ahead.

Farha Aslam

*Analyst, Stephens, Inc.*

Q

Hi. Good morning.

Thomas P. Hayes

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

A

Good morning, Farha.

Farha Aslam

*Analyst, Stephens, Inc.*

Q

Could we have just some more color on how much will actually come from supply chain versus procurement versus overhead? Just a little more color on that.

Thomas P. Hayes

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

A

Take that, Dennis?

Dennis Leatherby

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

A

Sure. At this point, we'd rather not break that down simply because of the impact we're having on many great people that have worked for us for a long time. As you might imagine, it's more weighted towards the supply chain and a mix of the other two categories being procurement, overhead.

Farha Aslam

*Analyst, Stephens, Inc.*

Okay.

Q

Thomas P. Hayes

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

Yeah. And I'd say, also Farha, there is some competitive elements in there. It's just not in our best interest to give you that detail. What I will share is that you should be highly confident. The teams that have delivered these plans to get the costs out are incredibly detailed and very excited about and very bullish on prospects of making it happen. So, I know that's not giving you the numbers that you're looking for but hopefully, a little bit on the [indiscernible] (00:15:50).

A

Farha Aslam

*Analyst, Stephens, Inc.*

Sure. And perhaps you could talk about procurement. This is perhaps a opportunity that's unique to Tyson because of your AdvancePierre acquisition, your Hillshire acquisition and then the legacy capability that Tyson has in protein, of how you are altering the supply – the procurement chain today versus in the past in Beef, Chicken, and Pork?

Q

Thomas P. Hayes

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

Yeah. I'll start [indiscernible] (00:16:15). One of the things that has been very exciting, or effort as we've gotten into this is that the teams have looked at what the best cost formulations are for our products, and there has been incredible collaboration with the fresh meat's team. So we are looking at things we can do differently to make sure that we have the materials that we need that are going to make the best cost formulations for our customers and consumers and deliver the right margin expectations that we have on an increasingly expanding basis.

A

And so, that I would say is not necessarily [ph] directly as a (00:16:53) procurement or indirect procurement perspective, which is significant [ph] and I'll let (00:16:58) Dennis to talk about that, but it really has accelerated the drive to get the most out of what this model – this company model can produce on an ongoing basis. Dennis.

Dennis Leatherby

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

And Farha, think about this way, we sell tens of billions of pounds, that's considerable scale that we can leverage, and when we bring in an entity like AdvancePierre in off of our rates, that it's just a pretty clear opportunity. In addition, there's always an opportunity to relook at everything, from top to bottom, [ph] whether it's any matter of (00:17:32) materials that we have in our organization and just try to tighten it up and we have a great team that steps up every time we ask them to.

A

Farha Aslam

*Analyst, Stephens, Inc.*

So, any change on your buy versus grow in Chicken? Any changes like in terms of percentage of protein you sourced internally versus externally?

Q

Thomas P. Hayes

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

A

Two different questions. No change in the buy versus grow. We're still and I'll say focused on getting more supply around us as we announced with our plant and that is what we're continuing to focus on. As it relates to the internal sourcing, absolutely, so that's the point I was making, just a moment ago. Grabbing that business or that volume that we need from the fresh meat's team into AdvancePierre or the other products we have, Prepared Foods, has really been sort of a nice opportunity for us.

Farha Aslam

*Analyst, Stephens, Inc.*

Great. Thank you.

Q

**Operator:** The next question will be from Heather Jones of the Vertical Group. Please go ahead.

Heather Jones

*Managing Director and Senior Equity Analyst, Vertical Group*

Good morning. Thanks for taking the question. Would love to do a deeper dive into your 2018 sales guidance. We've heard from a number of investors that it's difficult to get to that figure given the potential for meaningful price deterioration, particularly in the Beef and Pork segments in 2018, given increase supplies. So I was just wondering if you could walk us through that by segment and just – so we get greater clarity around that.

Q

Thomas P. Hayes

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

Yeah. Sure. So, Heather, sales will be up about close to \$2.5 billion for FY 2018. Beef and Chicken will be growing the most, so it's a blend of volume, mix, and price, but Beef and Chicken are the ones that are growing. Certainly, with Prepared Foods growing primarily from the acquisition of AdvancePierre. The other thing is Pork will be up slightly, just based on the more volume of hogs, we do have a bit of a bridge. And Dennis, maybe you can take us through that.

A

Dennis Leatherby

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

In terms of the [indiscernible] (00:19:46) start with \$38 billion and change for 2017, probably about \$1 billion or so in Chicken, about a quarter of that is the incremental APF sales that go to our Chicken segment, the rest would be organic growth. And Beef, we're looking at upwards of \$800 million and that's just quite simply more heavier cattle in our regions where we operate. Our [ph] top set (00:20:11) works up a bit in Prepared Foods, the incremental benefit of AdvancePierre less than synergies can get us to just under \$41 billion.

A

Heather Jones

*Managing Director and Senior Equity Analyst, Vertical Group*

Okay. Perfect. And wondering on your Chicken – your segment guidance for margins, they are 11%. Are you incorporating significantly lower boneless, skinless prices in that forecast or if this is downdraft that we've seen continues because that would be potential upside?

Q

Thomas P. Hayes

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

As we said, I believe it was on the last call, when we have low boneless, skinless prices, that helps Tyson, because we're so massive and prepared. So, whether it's part fried or fully cooked, that is a good thing for us. Doesn't change necessarily, we got a value added mix. What we're focused on is trying to, of course, accelerate

A

growth, but I think the biggest thing to take away when we see the boneless, skinless market come down is that we make more money. I mean that's how Tyson works.

Heather Jones

*Managing Director and Senior Equity Analyst, Vertical Group*

Q

That was my point. That was actually my point. So, what I am...

Thomas P. Hayes

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

A

Okay.

Heather Jones

*Managing Director and Senior Equity Analyst, Vertical Group*

Q

And I know it's good for you guys. So I was just wondering if your 11% incorporates meaningfully lower prices into that, because it is...

Thomas P. Hayes

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

A

Okay.

Heather Jones

*Managing Director and Senior Equity Analyst, Vertical Group*

Q

...a benefit or the downdraft that we've seen recently, could that be further upside to the 11%?

Thomas P. Hayes

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

A

Yeah. I'm sorry, that's sort of – we've got that baked in our forecast. That's absolutely one of the things that's helping us for sure.

Heather Jones

*Managing Director and Senior Equity Analyst, Vertical Group*

Q

Okay. Thanks so much.

Thomas P. Hayes

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

A

Yeah. You're welcome.

**Operator:** The next question will be from Jeremy Scott of Mizuho. Please go ahead.

Jeremy Scott

*Analyst, Mizuho Securities*

Q

Hi. Good morning.

Dennis Leatherby

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

Good morning.

A

Thomas P. Hayes

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

Hey, Jeremy.

A

Jeremy Scott

*Analyst, Mizuho Securities*

I was hoping that maybe you can split out the synergy targets with a bit more detail, maybe just on this upcoming year, you – obviously [indiscernible] (00:22:07) guidance on poultry to [ph] buy (00:22:10) 1%, so that's about \$125 million depending on your sales number. How much of that is the synergy capture and how much of that is just your better confidence in the business?

Q

Dennis Leatherby

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

Let me try this way, Jeremy, way to think about the synergies is, over 90% would go to both Prepared and Chicken with Prepared getting more than Chicken by a multiple of two perhaps. That helped?

A

Jeremy Scott

*Analyst, Mizuho Securities*

Yeah. [indiscernible] (00:22:43) for next year, because you're guiding to 11% to 12% on Prepared, so I think that might be a little bit below...

Q

Dennis Leatherby

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

Sure.

A

Jeremy Scott

*Analyst, Mizuho Securities*

...modeling for

Q

Dennis Leatherby

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

Think of it...

A

Jeremy Scott

*Analyst, Mizuho Securities*

Go ahead.

Q

Dennis Leatherby

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

Sure. Think of it that way throughout the entire program over years.

A

Jeremy Scott

*Analyst, Mizuho Securities*

Q

Okay. And then, on the new – the CapEx guidance \$1.5 billion, does that include the new poultry plant?

Dennis Leatherby

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

A

It does.

Jeremy Scott

*Analyst, Mizuho Securities*

Q

Okay. And is that – what is the run rate of CapEx going forward?

Dennis Leatherby

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

A

The run rate of CapEx beyond 2018, probably, we'll head back more toward \$1 billion, which I would add is quite [indiscernible] (00:23:22), so we're still in growth mode for years now.

Jeremy Scott

*Analyst, Mizuho Securities*

Q

Okay. And then, just one last one. I think there were some remaining synergy capture for Hillshire, should we interpret this announcement as the new deal so to speak or is this \$600 million plus any incremental? I know you have – you're looking at other manufacturing options, but...

Thomas P. Hayes

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

A

The new deal, I like that, the new deal. Yes, you should and – let me take also a shot at your questions, relates to the margins for – and maybe a bridge between 2017 and 2018. If you look at our 2017 earnings in Prepared Foods, you add APF, subtract divestitures – I mean there's a lot of moving parts here, right – and then the incremental DNA also, you got to adjust for financial fitness, as Dennis said a large portion of that is hitting the business. And then just the legacy business improvements that we continue to talk about, that's where you get the number that looks like operating income of about \$1 billion, right? And that's sort of where we are.

Dennis Leatherby

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

A

For Prepared.

Thomas P. Hayes

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

A

For Prepared, right. But that is – hopefully, that gives you a bit more where it's coming from. There's a lot going into it, but there is certainly that hopefully helps.

Jeremy Scott

*Analyst, Mizuho Securities*

Q

Okay. That's helpful. Thanks so much.

Thomas P. Hayes

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

A

Yeah. You're welcome.

**Operator:** The next question will be from Rob Moskow of Credit Suisse. Please go ahead.

Robert Moskow

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi. Thank you for the questions. For your synergies, you've been very clear that these are net synergies as opposed to a few years ago with the Hillshire acquisition, which will grow synergies and that obviously gives us a lot of confidence that that can drop to the bottom-line. Can you give me a sense of what is it net of, like what's the difference between net and gross in your definition and what's the reason why we should feel comfortable that it drops to the bottom-line and you don't have to reinvest it like you did in the other acquisition?

Thomas P. Hayes

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

A

Yeah. Thanks, Rob. Net of any other cost, we have – certainly the charge we're taking, right, so that's severance and the other cost. What we feel extraordinarily confident about is, we have the right spending levels against innovation and the brand building that Sally needs in order to drive the Prepared business, and that Doug needs to drive Chicken.

So, we feel that we're well-suited there and so there is no reason for us to up those investments. We have the right levels. And the types of things that we're going after, procurement, supply chain and overhead costs, those are things that we are creating in different model. We're going through a transformation and we're just operating more efficiently. So, there is no reason for us to spend above that. We're focused on committing to delivering those net savings, and that's a – proof is in the footing, right? We'll come back each quarter and we'll talk about it, but that's I would tell you that we have extraordinary confidence on it.

Robert Moskow

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And I just want to make sure I got my numbers right for fiscal 2018, were you giving guidance by segment for 2018 that pointed to 11% Chicken margin for 2018 and about \$1 billion of operating profit for Prepared Foods? Is that a number that I heard or have I got the year wrong?

Thomas P. Hayes

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

A

No. You heard it right.

Robert Moskow

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. Great. All right. Thank you.

Thomas P. Hayes

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

A

Welcome.

**Operator:** The next question will come from Michael Piken of Cleveland Research. Please go ahead.

Michael L. Piken

*Analyst, Cleveland Research Co. LLC*

Q

Yeah. Hi. Just saw some recent reports about the possibility that there is some resistance on the new chicken plant in the neighborhood in Kansas. How confident are you that you'll be able to get the chicken plant done by 2019 and where do you stand in terms of finding a new location?

Thomas P. Hayes

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

A

Extraordinarily confident. Yeah, extraordinarily confident. We made the decision because we needed to supply. We are on hold [indiscernible] (00:27:33) for sure, we're evaluating several other [ph] attractive (00:27:35) options. I will say there is incredible support for Tyson in a number of other communities. So, rather than just looking at other locations and that were already in the pipeline, we're actually expanding based on the inbound request we're receiving and that has caused us to have tremendous confidence about – maybe we get pushed back by a month or two, but the plans that we have are solid to be in 2019.

Michael L. Piken

*Analyst, Cleveland Research Co. LLC*

Q

Okay. Great.

Thomas P. Hayes

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

A

Yeah.

Michael L. Piken

*Analyst, Cleveland Research Co. LLC*

Q

And I guess once that plant is up, do you see some of that – I guess some of that \$600 million, is that comes from efficiency you think you can get between your value-added business and the commodity business once that comes on, is that at all incorporated in those numbers?

Thomas P. Hayes

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

A

That would be upside. We haven't considered that.

Michael L. Piken

*Analyst, Cleveland Research Co. LLC*

Q

Okay. Thank you very much.

Thomas P. Hayes

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

A

Yeah. You're welcome.

**Operator:** And the next question will come from Ken Goldman of JPMorgan. Please go ahead.

Thomas Hinsdale Palmer

*Analyst, JPMorgan Securities LLC*

Q

Good morning. It's Tom Palmer on for Ken. Wanted to ask a couple of clarification items first. First on the timing of the cost savings, do you expect the savings to benefit EBIT by the full \$200 million next year or is that the run rate by the end of the year?

Dennis Leatherby

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

A

The full \$200 million for the year.

Thomas Hinsdale Palmer

*Analyst, JPMorgan Securities LLC*

Q

It is. Okay. Thank you. And then is the new pizza topping facility included in these cost savings figures or is that separate?

Thomas P. Hayes

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

A

That's separate. So, that's a part of the base business improvement and as I called out before, so it's not a part of these numbers.

Thomas Hinsdale Palmer

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you. And then just wanted to talk on the normal outlook, you mentioned you might revisit it later next year. When we think about – I mean you've mentioned Prepared Foods potentially going 12% to 14% from 10% to 12% a couple times. When you think about when you revisit these normal assumptions, is it based on the business' current run rate and kind of its cost structure at that time, or is it more forward-looking than that? Just trying to think about how these revisions might play out.

Thomas P. Hayes

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

A

Yeah. What I would say is we don't have a definitive formula. What we want to do is make sure we're providing the proper guidance to our investors about what we think about the business prospectively for sure, but we have to have demonstrated track record of actually delivering those margin. So that's why we don't do this on a sort of willy-nilly basis. We really take a strong look at whether or not we can sustain those margins. What I will say is the reason why we're going to look at this in the back half of fiscal 2018 is we have continued to demonstrate margin improvement in these businesses that we feel like we're at that point.

Now, it will be considering how the cost savings are coming in, are they beating our expectations, do we have more demand, we're continuing to focus on the perimeter of the grocery store and the center of play to food service has really been an extraordinary growth story for us. How that plays out. That's certainly going to influence how we feel about it, the back half. We just wanted to get a bit of sort of momentum behind this year and another six months before we come back to you and share a point of view on that.

Thomas Hinsdale Palmer

*Analyst, JPMorgan Securities LLC*

Q

Great. Thank you.

Thomas P. Hayes

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

Yeah. You're welcome.

A

**Operator:** And the next question will be from Ken Zaslow of Bank of Montreal. Please go ahead.

Ken Zaslow

*Analyst, BMO Capital Markets (United States)*

Hey, good morning, everyone.

Q

Dennis Leatherby

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

Good morning.

A

Thomas P. Hayes

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

Hey, Ken.

A

Ken Zaslow

*Analyst, BMO Capital Markets (United States)*

Most of my questions have been asked and answered. I just want to make sure, on the cash flow – Dennis, can you talk about how your cash flow – given that the higher outlook both for 2017, 2018, and it sounds like also in 2019, can you talk about where you would be on the cash flow and what you would end up doing with that and how you think about that?

Q

Dennis Leatherby

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

Sure. Ken, are you talking in terms of operating cash flow or free cash flow?

A

Ken Zaslow

*Analyst, BMO Capital Markets (United States)*

Free cash flow would be great. [indiscernible] (00:31:48).

Q

Dennis Leatherby

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

Okay. Sorry. Free cash flow, the way we look at it – I'm sorry, go ahead, Ken.

A

Ken Zaslow

*Analyst, BMO Capital Markets (United States)*

It just seems like the cash flow expectations, given all the EBITDA increases and something like that, the cash flow should be stronger than your initial expectations and I'm just trying to figure out how you're expecting to deploy that. I did hear that you said on the third quarter you will be starting your share repurchases. So just kind of a little bit color on deployment of your cash flow where it's going to be.

Q

Dennis Leatherby

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

A

Sure. So, think of it this way. Operating cash flow last year 2016 was about \$2.7 billion; this year, adjusted will be similar or better; next year, well over \$3 billion. We'll have \$1 billion in CapEx this year, \$1.5 billion next year, \$300 million in dividends. So free cash flow this year \$1 billion and change; next year, probably upwards of \$1.5 billion. So, typical with our capital allocation plan as we're going to delever down below 2 times. We see that happening in our third quarter which is a nice situation to have for us, because we can start buying back stock at that point at a pretty heavy level, unless we have M&A in the meantime, which is always good. So, it's a very growth-oriented cash flow and the deployment is just very disciplined.

Ken Zaslow

*Analyst, BMO Capital Markets (United States)*

Q

And then my follow-up question is on return on invested capital. As you have worked through the Hillshire deal, you guys kind of gave out some return on invested capital. I'm assuming the return on invested capital [indiscernible] (00:33:22) is starting at a higher level. And going to a higher level, can you talk about that just generally?

Dennis Leatherby

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

A

Sure. More specifically, we tend to look at it for the entire company and not just the acquisition. As you know, when we go through our synergy programs, it encompasses the entire company, so we think it's valuable to look at it that way. This year probably, return on invested capital will return back to 16% or so, and next year, it looks like it's going to head toward about 18% or so. So, I think overall, we're managing that quite well.

Ken Zaslow

*Analyst, BMO Capital Markets (United States)*

Q

Great. I really appreciate. Thank you, guys.

Thomas P. Hayes

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

A

Welcome.

**Operator:** And ladies and gentlemen, this will conclude 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. Thank you very much. Again, apologize for the late notice. Hopefully, this was value-added for you as you've modeled our company. And just to finish with, we are extraordinarily excited about not just 2018, but beyond, based on everything that we're doing here and I do have to conclude by saying for those that are listening, of our team members, certainly, thank you for those that have served the company.

Extraordinarily grateful for all the efforts that everybody has put in to what has made the company successful in the past, and thank you in advance to all of our team members that are going to make us even stronger, going into the future. Greatly appreciate it.

Have a fantastic weekend, everybody.

---

**Operator:** Thank you. Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. At this time, you may disconnect your lines.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2017 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.