

Tyson Foods Inc.

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Ben Theurer: Good morning, everyone. Let's get started. Next on stage, Tyson Foods. You may have all seen yesterday Tyson Foods announced a guidance revision for fiscal 2019, so definitely something we're going into the details. Before that, I'd like to make some general remarks. We've all seen, despite the revision, Tyson still had a strong stock performance. We had results heading still into the right direction and there's been a lot of activity on the M&A side that the company has been done over the course of the last couple of quarters. Now, there's also been interesting product launches and we're going to elaborate on those as well. Joining us today from Tyson are Noel White, President and CEO, as well as Stewart Glendinning, the Executive Vice President and CFO.

Noel has run Tyson Foods for just under a year now. He's building on the company's successful strategy to grow, deliver and sustain. In his role, he leads a team of more than 130,000 people and familiar brands including Tyson, Jimmy Dean, Hillshire Farms, Sara Lee, BallPark, Wright, Aidells, ibp and State Fair. Bringing over 35 years of experience with the company to his role as President and CEO, Noel most recently also served as Group President for Tyson Fresh Meats and has served as President of Poultry along with numerous sales, marketing and operations positions.

Stewart is responsibility for the worldwide finance and accounting functions for Tyson. He also leads corporate strategy, identifying organic growth and M&A opportunities. Stewart joined Tyson Foods in December of 2017 from Molson Coors Brewing Company where he served as President and CEO of Molson Coors International. Before joining Coors, since 2005 Stewart worked with KPMG and then the Hackett Group, both professional service companies where he held various senior audit and consulting roles. With that, I'd like to turn it over to Stewart for some cautionary remarks.

Stewart Glendinning: Thanks, Ben. Good morning, everyone. Before we get started, I'd like to remind everyone that our remarks contain forward-looking statements and I'd like you to refer to our website at ir.tyson.com for a full listing of risks that affect our business. Also, worth repeating what Ben just said that yesterday in a press release we issued, we noted that our guidance has been revised. 2019 adjusted EPS guidance now is \$5.30 a share to \$5.70 a share and that's a reflection of some of the challenges that we've been seeing in the quarter.

Ben Theurer: All right. With that, I'd like to kick it off and you just mentioned challenges, so maybe Noel, you can explain a little bit and go into more details on the different topics and what

the drivers are and what's actually impacting that revision of midpoint \$0.40 per share?

Noel White: Sure. Well first of all, before we start, Ben, I'd like to thank you for hosting this conference. It's a pleasure to be here again. The adjustment that we made last night was approximately \$220 million. I'm going to provide more detail than what I typically would in this type of a setting. So the \$220 million was made up of about half poultry adjustment, so a little over \$100 million which represented right at 50%. Then the other, there's about 30% that is made in the mark to market adjustment. We wrote up some derivatives in Q3. Since then grain has come down sharply, so this is a reversal of what we wrote up in Q3. The other 20% is made up of a couple of different areas. One, we did have a great deal of market volatility in the month of August in particular that had an effect on some of our Prepared Foods products. Since then the markets have come back down, so that was a temporary event. And then we had a fire in one of our larger beef plants in Kansas which was a one-time event as well. So that comprises nearly all of the \$220 million. So for the most part, it was extremely unusual to have that number of events within one quarter. Typically, we'll have something that will happen during a quarter and we can overcome them. The fact that we had a number of events all in the same quarter presented particular challenges.

Ben Theurer: The range still seems fairly wide. There's \$0.40 between low end and high end. Can you add some more color on why the range remained as high as it was previously?

Noel White: Certainly. Because there is still a great deal of volatility. If grains would adjust from where they are currently, that could have an impact on our EPS. Whether they go up, whether they go down. So we still have roughly 5 weeks, 4½ weeks before the end of the quarter, and that's impossible to predict what the derivatives might do. The other is the markets. We think we have a good handle on where the markets are. However, there has been tremendous volatility in some of the raw material markets that can have an effect on particularly our Prepared Foods group, both to the positive and to the negative.

Ben Theurer: How much of that is actually going to somehow spill over into 2020? Because one of the things you've mentioned is operational challenges on the chicken segment. Clearly you elaborated a lot about a month ago on your conference call about potential of improvement on your side operationally. So clearly, there seems to be some sort of a delay. But how much of that is going to impact your outlook for 2020 or at least a preliminary one given?

Noel White: Some, Ben, but not a great deal. And the reason I say that is the operational issues that I've talked about in the last couple of calls, there's been a couple of events that have happened. We had several product recalls during the quarter. And we in fact slowed our line speeds down, our production volumes, to make sure that the product that we were producing and shipping was as safe as possible. And that came at a pretty significant cost. Since then, we've implemented corrective measures that is getting our plants at full production and we've made a number of management changes within our Poultry business to get it back on track. And we are seeing improvement as we go through the balance of our Q4. So I think there will be some. It doesn't happen all at once, but I think that by the time we get through Q1, perhaps into Q2, a significant portion of the opportunity will be corrected.

Ben Theurer: Just to stay for one moment on that segment, how do you think about the opportunity more in the medium term? So where do you think you yourself should end up?

Noel White: It actually is very positive I would say, Ben. As we came into our Q4, which is July,

volumes were somewhat soft through the early part of the month. Since then, volumes have been very strong. I think anybody that follows Nielsen data would see that on our Prepared Food side, which Noelle O'Mara leads, volumes have been very strong, particularly compared to others in the industry. Secondly, other parts of our business, particularly on the Food Service side, volumes have also been extraordinarily strong. So we are running our plants as hard as possible right now to fill orders.

Ben Theurer: Okay, now what we've seen is some sort of like a slower margin recovery compared to some of your peers in the chicken segment. So what's different how you manage the business or how you've been managing the business in the chicken segment? And why have margins somewhat lagged peers, but at the same time, what we saw towards the end of 2018 calendar, peers were much more under pressure than you were. So if you could elaborate a little bit on your strategy how you manage the chicken business?

Noel White: Sure. Our structure is different than many others in the industry. We've done it purposefully to design a business that doesn't have the volatility that's impacted by the commodity markets. So we do have a great deal of further manufacturing that we take the raw materials in, and that stabilizes our earnings stream. So as commodity prices go up, such as chicken leg quarters, we don't see the benefit like others do. On the other hand, when markets are depressed, we don't see the down either. So our realized sales value across poultry in particular tends to be very stable. So we're not going to see the highs and we're not going to see the lows.

Ben Theurer: Okay. One last question I have within the chicken segment, it's around the DOJ investigation. So clearly there's been a lot of noise on that lately and we got some comments from your peers that presented yesterday. So not sure how much you can comment, but if there is anything you can share on what the status is, how you think it's going to turn out, that would be much appreciated.

Noel White: That's the one area I can't comment on, Ben.

Ben Theurer: That's okay, we'll take it from there. One of the other issues, and you mentioned it in the initial remarks, there was the impact from the plant fire at the beef plant. Can you elaborate a little bit on what the impact actually is, how it's going to turn out, and how you think it's going to impact your beef operations over the course of the next couple of quarters as you start getting a rebuild?

Noel White: Sure. Well first of all, we're thankful that nobody was injured in the fire. And the community of Holcomb, Kansas, Garden City, Kansas, the response was tremendous in limiting the damage to the plant. So not only was everybody safely evacuated, but they were successful in minimizing the damage. The greatest impact was actually in the electrical system in the plant. Where the fire started, there is 2 large panel rooms and that is where most of the time is going to be taken in rewiring that portion of the plant. Timing is still not defined exactly what that's going to be, but over the course of the next couple of months, we expect to be fully back online. There were, there was only a portion of the plant that was damaged. The further processing side of the plant was untouched. We are operating that portion of the plant in doing some further manufacturing from some of our source plants and shipping product to Finney. So we are working on essentially the front half of the plant.

Ben Theurer: So when it comes to the revision of guidance, and you've mentioned partially the beef plant, you should still get some offset from insurance coverage. Is there a timing lag or why are you seeing now a negative impact? Or is this just because of you losing out on

being able to process cattle, or what's driving it?

Noel White: We've actually made up most of the volume in the plant of Finney County in our other plants. I would say the volume loss has been somewhat minimal. Now there is a cost in moving cattle a long distance. We are able to service our traditional suppliers in that area and we also have a number of very long-term loyal customers that source from that plant and we've been able to move those programs, those orders to a number of our other plants. Obviously, that's a cost that's involved to us. And we also decided that we would continue to pay our hourly team members a 40-hour wage through the duration of the plant being closed, so that's a cost that we're absorbing right now as well. By the time we get through our Q1, which would be December, we expect the issue to be behind us and we'd resume business as usual.

Stewart Glendinning: It's probably important also to note, Ben, we do have to bear a deductible which is pretty substantial.

Ben Theurer: Is there CapEx associated that's not part of your 2020 initial outlook that you need to spend for the rebuild that we should start considering?

Noel White: No, not that would be material.

Ben Theurer: Not material, okay. Perfect. Now, one of the things and clearly which has caused a lot of the market volatility is the hot topic around African Swine Fever. There could be benefit, there could be some headwinds at some stage. Could you kind of give us a little bit of a rundown where you would expect to see tailwinds and a little bit of timing in what you've been seeing in the markets, how the situation is on the pork business?

Noel White: There's really not been any surprises, Ben, with what we expect. And I think the most recent reports, we'd say that the death loss has probably been greater than what most originally assumed that it would be. In our last quarterly call, I talked about the inventories in China being fairly high at that point in time. We do believe that those inventories have come down substantially. We are seeing the price of pork rise pretty significantly, most recently in China as well as poultry and other protein prices. So no surprises on that front. I think the impact will be sometime during our fiscal 2020. Don't know if that is going to be our Q1, which is October/November/December, or Q2, but anytime that there is that amount of protein that is lost from a global perspective, there is going to be an impact on price. And whether the United States is a direct supplier to China or whether they source from other countries to the extent that they can, it might be from continents in Europe, it might be South America, it might be in other countries. But that creates backfill opportunities for us. So net disappearance is going to remain the same I think on a global basis. Supply is lower which translates to higher prices. Not only in pork, but I think across the board in our other proteins.

Ben Theurer: On pork, would you expect there could be some input cost volatility just because of speculation on how the situation about the global hog herd is that could actually have more of a negative impact maybe initially and then until you start getting it through on the pricing side to offset that?

Noel White: We're actually seeing that now. And that's one of the reasons I think that our pork earnings are down somewhat this year relative to last year. As we came into the spring, March/April time period in particular, there was a rapid escalation in not only the futures prices, but cash hog prices. The product was not leaving the country, so product prices didn't move correspondingly. And then over the course of time, that corrected, but there's

still an expectation in the marketplace that there will be product disappearing and therefore, hog prices are higher than what you would expect them to be relative to the supply. But the product is not leaving the country to a great extent at this point. There is some product being shipped, but not in the quantities I think that would have a meaningful impact on product prices.

Ben Theurer: So fair to say what you mentioned with commodity market volatility and your guidance revision is partially around this?

Noel White: Absolutely.

Ben Theurer: Perfect. Now obviously you have the Prepared Foods business which sources from some of your commodity side. Back in May you said that higher pork and beef prices could have an impact on your Prepared Foods operation. And then you actually kind of lowered the guidance initially and then took it back up. So what's your confidence for the Prepared Foods business to actually achieve the 12% return on sales over the next year?

Noel White: I believe the opportunity is there. As we came through 2019, there was pricing action that was planned on our behalf in reaction to ASF, so there was a number of conversations that took place with our customers preparing for them. As we didn't see the markets move like we expected, we backed off that. But we've had ongoing discussions with those customers that as we move into our fiscal 2020, that that's likely going to be the case and we will have to take price when that occurs. So is there going to be a lag? Yes, I think there will be to some extent, but the conversations have been had ahead of time that we are going to need to move in reaction to those markets.

Ben Theurer: To stay for a moment in the Prepared Food segment, Raised & Rooted, obviously a new launch, we got that right a week before your Investor Day back in June. By the way, thank you very much for the tasting back then, it was quite interesting. Now what do you expect from the recent launch and all the hybrid offers and which subcategories do you actually think are best exposed to have an alternative meat offering if you want to call it that way? And where do you think this space is going to go and where is it going to grow within the next 3 to 5 years?

Noel White: The initial launch took place this summer. We're in over 5,000 stores currently. The product is moving as expected. Consumer reaction has been positive. The targeted market is the flexitarian market. All of our research would say that that is where the consumption is occurring. It is not targeted at the vegan market. And there are a host of products that are in development in the pipeline behind our initial launch which was a nugget. Our R&D Group, our Insights Group has a series of products lined up for launch during 2020.

Ben Theurer: So that's I guess domestically for now. Do you expect to also at some stage roll some of the product out internationally? If so, where?

Noel White: Absolutely, yes. It's not -- it will not only be a North American launch, but it will be global as well. And we are working with a number of customers on a global basis today. Exactly where that's going to be, Ben, it's too early to tell.

Ben Theurer: One last question I had on that, we just had yesterday Burger King announcing that they are going in Brazil with the offering Marfrig is doing together with ADM. So question is, you said you had the launch and you mostly go for retail channel, but as of now, is there any thought process into food service as well or trying to partner up with some of the more global chains?

- Noel White: Yes. We're not targeting just retail. It includes food service as well.
- Ben Theurer: Perfect. So you just mentioned the nuggets. It's interesting, because Beyond Meat, which is going to present tomorrow, you were an investor at early stage in the company. They used to have a chicken nugget, they weren't all that successful, so they pulled it back. Now they are somehow trying to get back in. What's like the decision process behind trying to have a meat alternative in something like chicken which is perceived anyway as healthier, less environmental issue, and maybe not the right product to target the flexitarians compared to beef. But you've done chicken, so why that?
- Noel White: We believe that – two things. One, that we have to provide a superior product in the marketplace. So that includes both taste and nutritional value. So we believe that we have to beat, and it doesn't matter if it's the company that you mentioned or if it's any of a number of other competitors, we believe that we have to deliver a superior product. Which is the reason that we are not rushing to market. Now, from initial product development to product launch, it was roughly 9 months, so relatively fast launch on the nuggets. But we're going to make sure that the products that we bring to market are the right products. So we're not targeting one specific competitor, we're looking at the broad array of who is bringing products to the market. And there are obviously a number of competitors that are entering the space, which we welcome.
- Ben Theurer: Where do you think within that segment is a bigger growth potential? Is it within the retail or is it within food service? Like targeting the retail customer to prepare it at home or just the convenience and go for food service? Where do you think there's more growth?
- Noel White: I think it's in both, Ben. It's in both. I wouldn't say that retail is greater than food service or vice versa.
- Ben Theurer: Now we've talked about international launch of those products in international markets, that you've done some changes to your strategy on how to think globally and how to think internationally. And there was just an announcement a couple of days ago as well by the JV with the poultry operation down in Brazil which is still pending regulatory approval. But that put aside, what has changed and how does your global approach now is different to what it used to be in the past and where do you think the advantage from that comes from in order to serve? Because you've mentioned all the backfill opportunities, other sourcing, and so on. So on that side some light?
- Noel White: First of all, we are now of scale I think that enables us to be successful. Our international business represents about \$7 billion in sales, so there is roughly \$5 billion in exports from the United States to various markets that we've been in a very long time. Secondly, the other \$2 billion is in-country production. So we have a solid production base now in Asia. We have further manufacturing in Europe now. And the most recent move, our JV with Vibra, Brazilian company, long term partner of ours, we've known them for many, many years. That provides sourcing opportunity for us for our other global operations as well as enabling them to grow in the market as well. The basic change however though is that we are approaching this very much from a demand standpoint rather than a supply standpoint. So we look at the different markets and where the demand is going to take place, and then we build or buy assets to fill that demand rather than looking at business purely from a supply standpoint, which is one of the I would say mistakes that we made a number of years ago. So this is purely demand based.

- Ben Theurer: Purely demand based. Now, you've done, and you just mentioned you now have assets in Southeast Asia, also Europe, so we know you've been very active through M&A, some through last year and into beginning of this year, Keystone Assets initially, then the Brazil Foods assets that were sold in Thailand and Europe. Can you give us a quick update on the integration of that within your existing platform and where we stand here and what are the advantages of those 2 assets now giving you that presence internationally?
- Noel White: The integration has gone very smoothly. The synergies are exceeding expectations. The teams have come together nicely. We had our integration management office involved early. They've done a tremendous job in the integration process. Donnie King that leads our international business has selected tremendous leaders in different parts of the world and they are managing the business, the integration in both Europe and in Asia as well. So we have strong team in place. Not only did we acquire great assets, we acquired some great people as well.
- Ben Theurer: Perfect. Now, you have a still this year relatively elevated CapEx because of the new chicken plant in the US. How do you think that's going to turn out in terms of ramp up costs and how long it's going to take until you've going to be fully up on speed? How much cost is associated with that? And how much of that is already somewhat baked into your outlook for next year for the chicken segment and some of the improvements you mentioned earlier?
- Noel White: You want to take this one?
- Stewart Glendinning: I think, look, we know we're going to have some ramp up costs as Humboldt comes online. I think the good news is that we're managing CapEx in a real return-focused way. In fact, I'd just go back perhaps to the M&A comment, we were really pleased during the last quarterly call to point out that the roughly \$4 billion we spent over the last year or so is now returning its cost of capital on an after-tax basis. And that's a really good new story. And our CapEx approach is the same. So we said that next year we expected CapEx to be sort of even or down and we expect to try to manage that CapEx down over time. That will create more opportunities for us. But when you look at our base CapEx, it's always going to be influenced by the kinds of projects that are available to us. And the projects that you're seeing in Humboldt, the projects you're seeing with our new case ready plant, these are projects that are going to bring more capacity to our business and allow for increased growth. So you can count on the fact that what is going to be included in the ramp up costs will be included in the commentary that we provide.
- Ben Theurer: One of the comments we got yesterday from your peers is about the challenges of growing out and building new plants, is labor. Just labor shortage in areas. You may as well find a great spot where to build a plant, but then there's nobody to work at the plant. How has that been an issue for you and how much of a challenge do you think this is for the overall industry in ultimately driving that there hasn't been as much capacity expansion as maybe one would have expected considering the labor shortage and the cost associated?
- Noel White: Labor is certainly an issue. Not only in the poultry business, but I think in many industries. And we're seeing it across the spectrum of businesses in which we operate. Labor challenges are not a surprise to us, it's something we've dealt with literally forever. But what hit it has created is the opportunity for us to further advance our efforts in automation and technology. So in August, early August, we opened a brand new automation center where we're taking and developing automation processes to take a lot

of the manual processes that we've done in the past and automating those. So I think in the course of time you'll see us actively moving towards much more automation. Particularly as labor continues to be tight, labor costs are continuing to escalate, which means the feasibility of the technology, the financial feasibility, makes it that much greater.

Ben Theurer: Next is actually I guess more a question for Stewart now. You've mentioned a target of 2x leverage and obviously if things start to improve into 2020, also getting some of the tailwinds maybe from ASF, maybe earlier, maybe later, we don't know. But ultimately balance sheet is looking better, so what's next? Is it dividends? Buybacks? More M&A? What should we expect from a capital allocation point of view?

Stewart Glendinning: Look, I'd start by just saying being investment grade is important to us, and that's the reason ultimately for driving down to the 2x. But fundamentally we already have a very healthy balance sheet that's only getting healthier. One of the things that I think has been pretty terrific about Tyson is our ability actually to pull all of the levers all at the same time. So just think, we invested a lot of money behind CapEx over these past few years to add capacity, to drive profit improvement projects, projects that have driven kind of double-digit returns. So that's been a positive. We've had a huge amount of buyback in the last number of years and I think if you looked at the value that's being created by buyback, it's been substantial. But at the same time, we've increased our dividends substantially. So I think what you're seeing is Tyson in a place where we're pulling all the levers at the same time and I think having a stronger balance sheet will do nothing more than allow us to do more of that exactly.

Ben Theurer: If there were to be a great M&A opportunity, how much leverage would you be willing to take on short term? Because remember back Hillshire, you nicely levered up, it was a smart acquisition, it very much fit the purpose of diversifying, get into prepared foods. So if a similar opportunity like that were to come up, how much leverage do you think you could handle short term without putting at risk the investment grade status?

Stewart Glendinning: I don't want to put a number on that, because that's a job for the rating agencies. But what I can say is that if you look back to Hillshire, the company took a pretty savvy approach there balancing both debt and equity and almost all of those shares that were issued were actually repurchased. So our shareholders should feel good about that. What we feel bad about of course is the brands that came with Hillshire were tremendous and they're really doing so well in the market today. The thing with M&A is it's lumpy. You don't sort of arrive to somebody's door and say right now I'm ready. They sort of say we've got something for sale, are you interested? So we want to make sure that we manage our business in a way that the balance sheet is healthy at all times. Which gives us the kind of optionality to look at deals that might be interesting.

Noel White: Ben, I would tell you, there are some opportunities on the table today. But we are taking a very disciplined approach and if we were to move on any one of those, it would have to be very compelling from an opportunity standpoint.

Stewart Glendinning: I'd go back, Ben, because sometimes people get a little bit worried when they hear M&A, our management team is very focused on return. Return is the primary measure for us. And that's why I quoted you the returns on the money that we've spent. We want to make sure that when we spend money, that shareholders get their money's worth.

Ben Theurer: Okay. Now, Hillshire was about 5 years ago, so it was definitely transformational and you mentioned the way it got managed. So if we think what all happened and the amount

of M&A you've been doing and how you've diversified away from basically pure play commodity into somewhat a quarter in prepared foods, at least of operating income, where do you see yourself in 5 years? So what's the strategy? Where do you want to grow in the different segments? Because we're seeing obviously organic growth in chicken. That's obviously something more on the commodity side, but where do you think you're going to end up in 5 years' time when we sit here on stage again?

Noel White: You want to take a shot at it and then I'll --

Stewart Glendinning: Sure. Look, 5 years from now, I think you've got a business that from an operations perspective no doubt is going to be in a totally different place. If we're talking about chicken and its internal efficiency 5 years from now, then you've got the wrong guys. That's not going to be the case. I think the big shift you're going to see in our business 5 years from now is that our Prepared Foods business is going to be deeper. That business is growing, the innovation platform there is very strong, and you're going to see a business that is broader. You are also going to see a business that has a much more stable and profitable international platform. I mean the fingers have gone out internationally now and the benefit of this company and its assets is the supply of protein, but also the customer base. You think about the customer base this company has and its ability to travel with those customers around the globe, it gives us a sort of base that we can then build on. So I think 5 years from now you'll see a real global protein player that doesn't exist so much today.

Noel White: So my view is not much different. I think that in our Prepared Food space, we have tremendous organic growth opportunities. And we had that discussion yesterday, we had it a week ago, we had it a month ago. We can and will grow in the Prepared Foods space organically. We do not see any opportunities right now inorganic. It would have to be very compelling to fill in some space that we don't fill today and we don't see that gap right now. But there is a significant amount of growth that's on the table for us in the Prepared Foods space. Internationally, we have the platform that's set. We will add to that in a very disciplined way and grow systematically over the course of time. And then in our more commodity-oriented business, the plan is to stabilize the earning streams of that. So whether it's beef, pork, or raw poultry, there is processes that we connect such as the case-ready plant that Stewart just mentioned, who provides an earnings stream that's much more stable in what many would consider a value-added space. So primarily Prepared Foods, International, stabilize our commodity businesses.

Ben Theurer: So a bigger, but less volatile company?

Noel White: Correct.

Ben Theurer: Perfect. Well, we'll leave it here. We're at the end of the time and we're going to go over to the breakout session so if people have questions, please join us for that. Noel, Stewart, thank you very much for being on stage and also for clarification of the updated guidance.

Noel White: Very good. Thank you, Ben.