

07-Feb-2019

# Tyson Foods, Inc. (TSN)

Q1 2019 Earnings Call

## CORPORATE PARTICIPANTS

Jon Kathol

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

Noel W. White

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

Stewart F. Glendinning

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

---

## OTHER PARTICIPANTS

Adam Samuelson

*Analyst, Goldman Sachs & Co. LLC*

Jeremy Scott

*Analyst, Mizuho Securities USA LLC*

Robert Moskow

*Analyst, Credit Suisse Securities (USA) LLC*

Heather Jones

*Analyst, The Vertical Trading Group LLC*

Michael Leith Piken

*Analyst, Cleveland Research Co. LLC*

Benjamin M. Theurer

*Analyst, Barclays Capital Casa de Bolsa SA de CV*

Alexia Jane Howard

*Analyst, Sanford C. Bernstein & Co. LLC*

Rebecca Scheuneman

*Analyst, Morningstar, Inc. (Research)*

Ken Zaslou

*Analyst, BMO Capital Markets (United States)*

Akshay Jagdale

*Analyst, Jefferies LLC*

---

## MANAGEMENT DISCUSSION SECTION

**Operator:** And good morning, and welcome to the Tyson Foods First Quarter Earnings 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 that 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, sir.

---

Jon Kathol

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

Good morning, and welcome to the Tyson Foods, Incorporated earnings conference call for the first quarter of fiscal 2019. On today's call are Noel White, President and Chief Executive Officer; and Stewart Glendinning, Chief Financial Officer. Slides accompanying today's prepared remarks are available as a supplemental report in the Resource Center of the Tyson Investor website at [ir.tyson.com](http://ir.tyson.com). Tyson Foods issued an earnings release this morning which has been furnished to the SEC on Form 8-K and is available on our website at [ir.tyson.com](http://ir.tyson.com). 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 the 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.

I would like to remind everyone that this call is being recorded on Thursday, February 7 at 09:00 AM Eastern Time. A replay of today's call will be available on our 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. Please note that our references to earnings per share, operating income and operating margin in today's remarks are on an adjusted basis unless otherwise noted. For reconciliations to our GAAP results, please refer to this morning's press release. Because our annual meeting of shareholders takes place this morning, we need to limit the call to an hour so we can get to the meeting on time. I ask that you honor the operator's one question one follow up instructions, and get back in the queue if you have additional questions. We want to get to as many of you as possible, so we will be moving quickly through Q&A while answering your questions as fully as possible.

I'll now turn the call over to Noel White.

---

## Noel W. White

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

Thank you, Jon, and good morning, everyone. Fiscal 2019 is off to a solid start with earnings of \$1.58 per share and 8.3% operating margin. As we evolve from a protein producer to a modern food company, we're reaping the benefits of our established diversified business model. Yesterday we reached a definitive agreement to acquire the Thai and European operations of BRF. The purchase includes four poultry-processing facilities in Thailand, one in the United Kingdom and one in the Netherlands. This deal furthers our growth strategy by expanding offerings of value-added protein in global markets. We completed the Keystone acquisition on November 30, and has provided us with a scalable platform in the Asian poultry market. The acquisition of the BRF facilities will help strengthen our presence in the Thai poultry industry and serve the high-growth markets in that region. BRF assets in the United Kingdom and in the Netherlands give us a stronger foothold in Europe where we are currently under-penetrated.

I'm confident in our ability to integrate the BRF operations in part due to the pace and the level of teamwork taking place with the Keystone integration. Keystone is already playing an important role in our growth strategy, and we look forward to maximizing the opportunities inherent in the combined business to benefit our customers as we strive to meet their needs and grow together. As part of the integration process for Keystone, a few weeks ago we announced several organizational changes. This refinement of our team will help us make the most of our biggest growth opportunities, which are value-added foods in the international markets. I'm glad to have everyone on board, and the team is eager and motivated to deliver results. I'd also like to mention that Fortune magazine recently included us on the list of the World's Most Admired Companies, ranking Tyson Foods number one in the food production category for the third straight year. The rankings are based on key attributes that are important to us as we execute our strategy and grow our business through differentiated capabilities, to deliver ongoing financial disciplines for continuous improvement, and to sustain our company and the world of future generations. I'm committed to our strategy and our team members are committed to deliver results based on the strategy.

Moving to our segment performance in the first quarter, in short, strong organic growth in Prepared Foods and strong Beef fundamentals led to performance, while Pork and Chicken performed well given market conditions. The dynamics across the different businesses highlight the advantage of Tyson's diversified business model as they work together to provide balance and opportunity for long-term growth. In the Prepared Foods segment, it was a record first quarter with \$268 million in operating income and a 12.5% return on sales, building on the momentum of a record year in 2018. The reported performance of Prepared Foods is obscured by the divestiture

of several non-core businesses last year. When those are excluded, Prepared Foods delivered over 3% revenue growth and double-digit profit growth in the first quarter on modest volume increases. This demonstrates the effectiveness of our branded value-added multi-channel Prepared Foods model.

Looking back to Prepared Foods, we've grown the business from \$4 billion in sales with basically a 1% return in 2014 to business that in fiscal 2019 is projected to produce over \$8 billion in sales and 11% to 12% return and approximately \$1 billion in operating income. We've grown this business organically and through M&A and operational improvement. And we're building on our strong portfolio brands. This is best evidenced by the performance of Jimmy Dean, a \$1 billion brand with strong historical growth and high market share. We've increased our brand investment and partnered with strategic customers to drive growth. As result in the latest 52-week period, Jimmy Dean frozen protein breakfast volume was up 7% and sales dollars were up nearly 8%. While we continue investing in our traditional meat protein businesses, we're also committed to incremental growth in alternative proteins.

We are combining our creativity, our scale and our resources to make great tasting protein alternatives more accessible for everyone, both domestically and internationally. We will be leveraging all the resources we have at our disposal, our insights, our innovation, manufacturing, sales, distribution and a global platform. In the weeks ahead you'll be hearing more from us as we announce new products in the alternative protein space. We've also invested in our operations network. We have completed the turnaround of our pepperoni business, and is fully contributing to Prepared Foods growth and plausibly impacting our food service business. With capacity utilization percentages in the high 90% and margin strengthening in Q1, we expect the improvement in the pepperoni business to carry us through the balance of the year.

We will build on the momentum of the profitable growth of Prepared Foods, and we're increasing our projection for operating margins to be 11% to 12% range in fiscal 2019. Rising input costs for pork bellies, beef and pork trim and turkey breasts are expected to present year-over-year cost increases, but we've designed this business to manage headwinds and I'm confident in our prospects. We have a great team and the right plan for Prepared Foods to continue driving earnings growth and stability for the enterprise. In the Beef segment, our largest segment by revenue, we produced operating income of \$305 million with a 7.8% margin. Average price was up 1.9% compared to the first quarter last year as both exports and domestic demand remains strong. Volume was down slightly due to typical, occasional weather disruptions, which have continued in the second quarter.

Demand for beef remained strong globally with visibility in the cattle supplies for 2021, there appear to be plenty of cattle available for the next few years, and there are ample cattle supplies projected for the regions where we operate. This gives us confidence in our expectation with an operating margin near 7% for the year which is somewhat higher than our previous guidance. The prolonged period of strong global beef demand combined with relatively constant global supplies have spurred us to analyze and quantify the apparent structural shifts in the beef industry. This is in addition to the margin expansion we have created through value-added and premium programs. We intend to understand the dynamics of these two factors to better predict the enhanced margin structure that our Beef business could generate in the coming years.

Moving on to the Pork segment, operating income was \$95 million, with an 8.1% margin. Average price was down 4.6% versus Q1 last year, associated with lower livestock costs. Volume was down 3.6% as we remain focused on margin management. We are working to enhance revenue per head through premium programs as well as growing our export business. With hog supplies expected to increase at least 2% for the fiscal year, we are maintaining our guidance for a margin of around 6% for the year. Meanwhile, across the company, we are benefiting from record high retention while keeping team members safer than ever as a result of proactive measures to promote a culture of safety and caring in our plants. Work schedules are changed and provide a

more equitable work/life balance which not only results in improved attendance but also makes our operations more efficient. This practice has made Tyson the employer of choice in the number of labor markets and has the improved outperformance relative to industry benchmarks.

Turning to the Chicken segment, operating income was \$173 million, with a 5.6% margin. Volume was up 17%, and the average price was down 13.1% mostly due to incremental volume from acquisitions. As a reminder, we acquired American Proteins last year, which is a rendering business, and added considerable volumes that impacted pricing within the segment. However, we did face some pricing pressure in some categories along with cost pressures from tight labor markets in some locations and more expensive feed ingredients. Unfortunately, these pressures are offsetting the benefits from acquisitions and new product innovation. For the year, we expect the operating margin for our Chicken segment to exceed 6%. This is lower than we anticipated in November, but I want to be clear, our Chicken business is fundamentally strong. With a highly value-added product mix that's diversified across bird sizes and sales channels, our Chicken business is well-positioned and our continuous improvement, efforts and efficiencies, product mix and cost will keep us well-positioned.

And while there has been pressure on tray pack pricing, our business model is sound, and our operations are solid. Despite the pressure in tray pack, I'd like to point to a new piece of that business that's doing exceptionally well, and that's Smart Chicken brand we acquired last year. Distribution is growing and demand remains strong for this higher-margin product. And one final point I'd like to make on our operations, we're expecting a substantial improvement for our legacy international business, which is reported in Other. As a result of adjusting our business model and increasing sales of value-added products, we're expecting the legacy business to be breakeven by fiscal year-end on a run rate basis before the positive impact from Keystone's international operations.

South Korea is a great example of the shifting dynamics. Our business with them is up nearly 50% year-over-year, and now totals nearly \$600 million per year. This is an example of what a competitive trade agreement can do for both parties.

This concludes my commentary on the business segments. Now, Stuart, if you'll take us through the financials.

---

## Stewart F. Glendinning

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

Thank, Noel, and good morning, everyone. First quarter EPS of \$1.58 was down 13% compared to the record Q1 in 2018. Revenues were roughly flat at just over \$10 billion. Volume was up 3.3%, and average price was down 3.7% as acquisitions and divestitures affected sales volume and changes in product mix affected pricing. Operating income was \$841 million, down 11%. Total company return on sales was 8.3% in the first quarter. So overall it was a good quarter, but we were up against last year's strong comparisons. The Keystone acquisition performed as expected for the one month we owned it in Q1, and it was right at breakeven on a cash-accretion basis. Operating cash flows were \$868 million, and our ability to generate large amounts of cash gives us the flexibility to make opportunistic choices. In the first quarter, we repurchased approximately 1.4 million shares for \$83 million. We also directed \$318 million toward capital expenditures as we continue to invest in growth and efficiency projects with expected returns greater than the cost of capital.

Our adjusted effective tax rate for the first quarter was 22.7%. Net debt-to-adjusted EBITDA was 2.8 times. Including cash of \$400 million, net debt was \$11.6 billion and total liquidity was \$1.4 billion at the end of Q1. Net interest expense was \$97 million. Weighted average shares outstanding in Q1 were approximately 366 million. Looking at the remainder of the fiscal year, we will maintain our capital allocation priorities to drive shareholder value and to grow the business. We'll be paying down debt from the Keystone acquisition and deploying cash to

grow organically. Now, that we've announced the agreement to purchase BRF's Thai and European operations, we're ready to go to the bond market to secure permanent funding for both the BRF and the Keystone deals. Interest rates have been more favorable since year-end. We feel confident in the quality of these assets, and we're happy with a purchase price of a little less than 10 times.

And finally, I'll give an update to our outlook for 2019, which includes Keystone but doesn't yet include the BRF operations. In fiscal 2019, we expect sales to grow approximately \$43 billion with the addition of Keystone. Keystone is expected to be accretive on a cash basis and breakeven on a pre-tax basis for the year. The additional amortization for Keystone will be about \$26 million for the 10 months of fiscal 2019, and approximately \$35 million per year in fiscal 2020 and beyond. CapEx should be about \$1.5 billion in fiscal 2019. However, our planned spending for 2020 is expected to decline to the \$1.1 billion to \$1.3 billion range. Although we're scaling back on CapEx, it will remain higher than depreciation. Net interest expense should approximate \$450 million. Liquidity is expected to remain in line with our \$1 billion minimum target. Our effective tax rate is expected to be around 23.5% for the year. And we are reaffirming our earnings guidance of \$5.75 to \$6.10 per share as we grow our business, drive out costs and create shareholder value.

Now, we'll return to Noel for additional commentary. Noel?

---

## Noel W. White

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

Thank you, Stewart. In summary, we remain focused on stabilizing volatility and growing earnings in Prepared Foods, as well as our value-added and international businesses. We are facing several challenges this year; we do every year, and we have successfully managed them while continuing to thrive and grow the company. We're also aware of circumstances that could provide upward potential, and we will maximize those opportunities. For the long-term, our growth prospects are intact. Our Chicken, Prepared Foods and Fresh Meat businesses are now each earning approximately \$1 billion a year. We have the mindset of continuous improvement and continuous innovation. We have a strategy focused on protein, whether that's animal protein or plant protein.

We have the products and the brands consumers demand. We have plenty to be excited about as we continue to grow this company. Our fiscal second quarter is typically our most challenging. The Pork and Chicken environment is very different than a year ago, and we won't have the earnings benefit from the divested businesses, so we'll have a tougher comparison versus Q2 of last year. But we haven't encountered anything unexpected so far in the quarter. We're looking forward to a strong second half of the year, and we're confident in our ability to deliver on expectations of \$5.75 to \$6.10 per share. And finally, Stewart and I regret that we won't be at the CAGNY Conference. We apologize for canceling on late notice, but we will be handling the BRF Thailand European acquisition and the upcoming bond offering.

That concludes our prepared remarks, and we're ready to begin Q&A.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you, Mr. White. [Operator Instructions] The first question will come from Adam Samuelson of Goldman Sachs. Please go ahead.

Adam Samuelson

*Analyst, Goldman Sachs & Co. LLC*

Q

Yes. Thanks. Good morning, everyone.

Noel W. White

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

A

Good morning.

Adam Samuelson

*Analyst, Goldman Sachs & Co. LLC*

Q

So maybe first, I was hoping if you could dig a little bit on the updated guidance in the Chicken segment. You've changed the margin outlook by something on the order of 150 basis points to 175 basis points from kind of near 8% to above 6%. And I'm just trying to understand how much of that is the increments of Keystone layering into the business versus a change in the outlook for the legacy or existing business that you were guiding to in November? And insofar as the legacy business guidance change, can you help us understand kind of what has changed from a pricing cost perspective that caused you to rein in the forecast?

Noel W. White

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

A

Yeah. Sure, Adam. The change was, in fact, due almost entirely to our legacy business. In the November call there was a lot of pricing that was not complete, particularly on the tray pack side. That business is largely complete. And that is by far the vast reason that we've revised the guidance for the Poultry segment. So Keystone had little to no effect on the change.

Adam Samuelson

*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. That's very helpful. And just maybe then, digging on the tray pack pricing, is it purely tray pack pricing, nothing on the prepared or further process pricing? And maybe just a little more color about the tray pack pricing environment that led to a more tempered outlook.

Noel W. White

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

A

Yeah. Sure. It is the tray pack pricing, Adam. So within the businesses that we operate, whether it's our value-added businesses, our small bird business, our big bird business, pricing outside of tray pack was almost exactly as we expected. It was the pressure on the tray pack pricing that was greater than we expected, and that is what has led to the revision in expectation.

Adam Samuelson

*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. I appreciate the color. I'll respect the one follow-up and I'll pass it on.

Noel W. White

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

Thank you.

A

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

Jeremy Scott

*Analyst, Mizuho Securities USA LLC*

Hey. Good morning.

Q

Noel W. White

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

Good morning.

A

Jeremy Scott

*Analyst, Mizuho Securities USA LLC*

When you stack up all the acquisitions you've made in the chicken industry in the last 12 months or so, can you give us a sense of what's a reasonable synergy capture as you start to roll these businesses in, and when can we expect to see that in the coming years?

Q

Stewart F. Glendinning

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

Well, it's Stewart here. I'll pick that up. I think really, we've sort of announced that acquisition-by-acquisition. As you know in Keystone, we announced \$50 million worth of expected synergies. That's been our biggest acquisition. We're off to a strong start there, and I can say that we feel confident about delivering those synergies. So to get through each of the following acquisitions we'd be happy to talk about those. Specifically on BRF, that's both chicken and international. Synergies will be smaller there because of the size of the business, but we think that's a great opportunity for our company.

A

Jeremy Scott

*Analyst, Mizuho Securities USA LLC*

Great. And just wondering if you could maybe assess the impact of African swine fever on each component of your business, obviously there's some puts and takes that you might see if things were to get really bad. Maybe just give us some color there.

Q

Noel W. White

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

Yeah. Sure, Jeremy. The African swine fever, I mean, different animals have different outlooks as to how it could potentially impact our business. I think the general consensus would be that, it's probably a little worse than what's reported. And that would certainly provide upward potential. We do not have built into our forecast affects from African swine fever. But if we do see, particularly the Chinese back in the market, there could be sizable upside benefit to our Pork business. But aside from that, with that increase in exports, we consider the domestic disappearance of protein in total. So if there's more pork, it's exported, it also helps both our Beef and our Poultry business as well.

A

Jeremy Scott

*Analyst, Mizuho Securities USA LLC*

I'll pass it on. Thank you.

Q

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

Robert Moskow

*Analyst, Credit Suisse Securities (USA) LLC*

Hi. Thank you. I had a question about all the international activity that's going on here in terms of acquisitions, and then Donnie King coming back to the business. It's just in my experience that the Tyson has never done a particularly good job of leveraging its domestic experience to buy and operate international businesses. There's been some false starts along the way. And now you've made two acquisitions in the past 12 months, and Donny is going to be running international. Can you explain why Donny wanted to come back to run that business segment? How his expertise carries over from domestic to international markets, and I guess, why the change in strategy, why now in terms of all this international growth?

Q

Noel W. White

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

Yeah. Sure. So Rob, first of all, we are extremely happy to have Donny back with us. He's been a talented performer for us in many different parts of our company. We are always looking to deepen our bench and that's exactly what Donny brings, is a much deeper bench. Doug Ramsey, who is running our Poultry business, now running our McDonald's business, did a great job, and that is a growing segment for us, so we look forward to Doug's contributions and McDonald's. And then we have Chad Martin who just recently located from our Beef business, did a great job in managing our Beef business, has moved to Poultry. So we have three extremely strong individuals in running those businesses. On the international side, Rob, you mentioned that we may not have done a great job historically. That's not to say that we cannot do a great job moving forward. On the last quarterly report, I mentioned that 90% of the growth in protein demand is going to occur outside the United States. That is the reason we are establishing a presence in those markets. So we have all the confidence in the world that we can deliver the expected results, both domestically as well as internationally.

A

Robert Moskow

*Analyst, Credit Suisse Securities (USA) LLC*

And maybe you could help me, the Brazil Foods assets that you're buying, what's the synergy between those assets and the Keystone Asian export assets or just the Asian assets in general?

Q

Noel W. White

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

A couple of things, Rob. We talked about the European business; it gives us not only a manufacturing base in Europe but also a sales distribution and licensing platform to bring product from Southeast Asia, Thailand in particular, to Europe. The facilities are also complementary. The Keystone assets that we own in addition to the four facilities that come with BRF, they're also complementary to each other. Let me go back, Rob, and make one other point. In your question you asked about a change in strategy. There has been no change in strategy. In the last call I said that the strategy that was in place was based on value-added food products and international, and that's exactly what we're executing, is what I told you in November.

A

Robert Moskow

*Analyst, Credit Suisse Securities (USA) LLC*

Okay. Thank you very much, Noel.

Q

Noel W. White

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

You're welcome.

A

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

Heather Jones

*Analyst, The Vertical Trading Group LLC*

Good morning.

Q

Noel W. White

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

Good morning.

A

Heather Jones

*Analyst, The Vertical Trading Group LLC*

Quick question on your domestic Chicken business. So you mentioned that tray pack pricing – the contracting came in lower than expected. So I was wondering, when would those contracts be renewed, and given that contracting, how much exposure do you have in your domestic Chicken business to benefit if pricing does come in better than expected for 2019? The markets rallied, you mentioned the potential positive impact ASF could have on domestic protein availability. So how are you positioned to benefit now if pricing does improve as we move through 2019?

Q

Noel W. White

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

Sure, Heather. The tray pack pricing, there's not one common date that pricing becomes effective for all customers. It's over, roughly a 6-month period of time, it could start all the way from late fall early winter, through spring. So each customer pricing begins to have an effect at a different time. As far as the strengthening in pricing, we have, in fact, seen some strengthening in pricing over the course of the last 30 days or so. We were at historic lows in the month of December. We've seen some strengthening since then. So that is in fact a benefit to us. We have put some volume back around us that I talked about in November that needed to be done. So our sales organization has done a very nice job in putting that volume back around us, which does help us in our buy versus grow strategy. So that's been helpful. And then on the pricing side with what we are in the market buying, we are back in the market looking to buy product as well. Demand through the month of January was extraordinarily strong due to what we believe in a number of factors; whether that continues into February is yet to be seen. But demand in total was very strong.

A

Heather Jones

*Analyst, The Vertical Trading Group LLC*

Okay. Thank you. My follow-up is, just thinking about your Chicken business, so you've done two international acquisitions. Just when you're looking at that business holistically on a global basis, do you believe there are any

Q

deficiencies in the domestic platform that need to be filled in? Or is your focus solely on building out the international piece of that business?

Noel W. White

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

A

No, Heather, we'll always look to stabilize earnings within Poultry itself. So if opportunities become available, we will certainly look at them, but the primary focus is not either Poultry or international, it's value-added foods and to a lesser degree, international. We've made, obviously most recently, a number of acquisitions on the international side, Poultry-based, but primary focus is going to be in value-added foods and growing that sector. So we will be opportunistic in looking for those opportunities, but it's focused on prepared, and to a lesser degree, on the international side.

Heather Jones

*Analyst, The Vertical Trading Group LLC*

Q

Okay. Perfect. Thank you.

**Operator:** And the next question will be from Michael Piken of Cleveland Research. Please go ahead.

Michael Leith Piken

*Analyst, Cleveland Research Co. LLC*

Q

Yes. Hi. I know you guys had mentioned last quarter that you weren't going to specifically call out the financial fitness savings. But are you guys still overall on track, and is the \$200 million per year still the right run rate to use?

Noel W. White

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

A

The short answer would be yes, Michael, that we don't have the depth and detail, the tracking that Stewart mentioned on the last call that we do follow, but not in significant detail like we were doing before. But yes, all the initiatives, all the efforts, all the tracking is still there, and we are, in fact, delivering.

Stewart F. Glendinning

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

A

Yeah, just a couple of things to add, Michael. Basically what we did is we took all those run rates and we baked them into our budget this year. So we know that the teams are still accountable to deliver the results. We're making sure that at the bottom line they're showing up, and of course they're tracking the projects to make sure that they're delivering the savings.

Michael Leith Piken

*Analyst, Cleveland Research Co. LLC*

Q

Okay. Great. And then my follow-up is, if you could talk a little bit about kind of the margin stability of Keystone and some of your recent acquisitions in rendering and even BRF, are these going to be a little bit more margin-stable or more volatile relative to the rest of your Chicken portfolio? Thanks.

Noel W. White

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

A

Okay. Yes. Michael, the margins would be more stable than other parts of our Poultry business, just by the types of businesses, whether it's domestic or international. With Keystone, we have a number of large customers that we work very closely with, and we won't see the highs, we won't see the lows. So in general, I would say the margin structures is much more stable. And the same thing would be true with some of the other acquisitions that we've made, such as API, our rendering business, relatively stable margins. And then in my prepared remarks I talked about Smart Chicken, which is also more stable in their earnings profile as well.

Michael Leith Piken  
*Analyst, Cleveland Research Co. LLC*

Q

Terrific. Thanks.

Noel W. White  
*President & Chief Executive Officer, Tyson Foods, Inc.*

A

Yeah. Thank you.

**Operator:** The next question will be from Ben Theurer of Barclays. Please go ahead.

Benjamin M. Theurer  
*Analyst, Barclays Capital Casa de Bolsa SA de CV*

Q

Yes. Hey. Good morning. And thank you very much for that. So just to understand quickly on the segment reporting, so is it right to assume that Keystone is going to be fully basically reflective within the Chicken segment, but it did not impact the level of profitability, the downward revision, just to confirm that?

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

A

Yeah. So two things; so first of all Keystone is split. The U.S. portion you'll find in Chicken; the international portion will be baked into Other along with our existing international operations. What we said in the guidance was that, for the year we expected that profit would be about flat after adjusting for some of the integration expenses.

Benjamin M. Theurer  
*Analyst, Barclays Capital Casa de Bolsa SA de CV*

Q

Okay. Thanks for that. And then on the financing needs, so you mentioned you're going to go out with now the two acquisitions done, Keystone, Brazil Foods, to do a proper bond market financing. So you've said something about the \$100 million and then obviously you have some maturities this year. They're going to be paid down, you're going to refinance them within the bond, just to get a little bit of a sense what your outlook on debt capital markets, what we should assume for that in terms of what that's going to be raised and how interest expense is going to look out into next year then.

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

A

Got it. Okay. Well, a couple of things. So first of all, of course, as you'll notice from the past years we have been focused on ensuring we get the right deleverage, and that you'll see that continue. In terms of the upcoming financing, we wanted to get through this BRF deal so we could go to the market in a clean way to raise funds both for Keystone and for BRF, at the same time we should think about amounts that sort approximate that as we go to market. We do have some tranches coming to maturity later this year, and we haven't taken a specific choice on how we'll refinance those. But you can expect that they will be refinanced and not all paid off.

Benjamin M. Theurer

*Analyst, Barclays Capital Casa de Bolsa SA de CV*

Okay. Perfect. Thank you very much.

Q

**Operator:** And the next question will be from Alexia Howard of Bernstein. Please go ahead.

Alexia Jane Howard

*Analyst, Sanford C. Bernstein & Co. LLC*

Good morning, everyone.

Q

Noel W. White

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

Good morning.

A

Alexia Jane Howard

*Analyst, Sanford C. Bernstein & Co. LLC*

Coming back to the BRF deal, can you characterize that in terms of what proportion of that is more value-added product, versus how much of it is more commodity poultry operations? And given that, what's that likely to due to the margin structure of the Chicken segment? Thank you. And I'll pass it along.

Q

Noel W. White

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

Yeah. Sure, Alexia. The mix of the VR business is almost entirely all value-added, very little raw or commodity type products. So almost all of it is value-added profit.

A

Stewart F. Glendinning

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

And in terms of the impact on Chicken overall, remember this section will sit in the international segment, so it won't affect Chicken at all. Relative to international, it will be nice to add to that business, and we'll help drive both synergy and our growth internationally along with growing profitability. You referred to Noel's remarks in which he talked to our existing business, which that businesses profitable in improving. You layer on Keystone and then you layer on top this acquisition, we started to have a good-looking international business.

A

Alexia Jane Howard

*Analyst, Sanford C. Bernstein & Co. LLC*

Great. Thank you very much. I'll pass it on.

Q

Stewart F. Glendinning

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

Thank you.

A

**Operator:** The next question will be from Rebecca Scheuneman of Morningstar. Please go ahead.

Rebecca Scheuneman

*Analyst, Morningstar, Inc. (Research)*

Q

Good morning. Thank you for taking my question. So I was wondering if you could share what the organic volume and price dynamics look like within the Chicken segment.

Noel W. White

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

A

Rebecca, we will need to get back with you. And the reason that I hesitate is because we made an acquisition of API, which has sizable volume impact, which also affects the overall pricing I noted. So I think what you're looking for is some specifics of the businesses outside some of these other areas that we've acquired.

Rebecca Scheuneman

*Analyst, Morningstar, Inc. (Research)*

Q

Yes. That is.

Noel W. White

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

A

I would suggest, we have Jon Kathol can follow up with you and give you more detail on that.

Rebecca Scheuneman

*Analyst, Morningstar, Inc. (Research)*

Q

Okay. That would be great. And then my follow-up would be just on the margin impact on the API business as well. I assume that although I know it's more stable that it would also be a lower-margin business; and that would be another hurdle for that segment to overcome in 2019?

Noel W. White

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

A

No, not necessarily, Rebecca. We do have some – a little bit of depreciation load that we will be paying for a while. But no, it is not dilutive to their return on sales. The Rendering business has been good for us. API was a very good company. And no, it should not be expected to be dilutive to their returns. So particularly once we consider the synergies that are going to be coming from that business.

Rebecca Scheuneman

*Analyst, Morningstar, Inc. (Research)*

Q

Okay. Great. Thank you so much.

Noel W. White

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

A

Yes. Thank you.

Operator: The next question will be from Ken Zaslów of BMO Capital Markets. Please go ahead, Ken.

Ken Zaslów

*Analyst, BMO Capital Markets (United States)*

Q

Hey. Good morning, everyone.

Noel W. White

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

Good morning.

A

Ken Zaslou

*Analyst, BMO Capital Markets (United States)*

Just one quick one. Noel, in your opening remarks you said that there you look to optimize some of the opportunities that might come your way and create upside. I think that's – I didn't write it down perfectly clearly, but I think that was the implication. What opportunities were you looking or thinking about that would create more upside, or that you'd be able to capitalize on? I don't remember the exact wording, but that would seem like the implication.

Q

Noel W. White

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

Yeah. I think, Ken, there's a couple of them. One would be, and the question was asked earlier about African swine fever and/or other trade opportunities. I would say that from a trade standpoint, in the last couple of years, it's been difficult, whether it's with Canada, or Mexico, or the current disadvantages that we have with Japan within Asia. So I would say, anything that is beneficial on the trade side could provide substantial upside. Our exports continue to grow year-over-year, but they can grow a lot more than that. So it's those specific areas that will enhance global disappearance, disappearance that could provide upside to us. At this point we're not building anything in on the grain side. Yet our assumptions, we use a forward grain curve of what the futures market looks like. So that can be an advantage, it can be a disadvantage, but right now we are not assuming any benefit at all.

A

Ken Zaslou

*Analyst, BMO Capital Markets (United States)*

Okay. And then my second question is, can you talk about your resource allocation to integrate four acquisitions? That is usually not a recipe, an easy recipe. So can you talk about how your researchers are allocating to ensure that you have these four acquisitions that are going to be integrated without any execution issues? And does this leave any opportunity to do further acquisitions or will you kind of like, all right, let me digest this? And how do you think about that?

Q

Noel W. White

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

Right. Ken, we put together a very strong integration management office that we have fully dedicated resources and everything is following plan. So we fortunately have some experience now behind us in doing it well. The team that we have in place is delivering exactly what we expected to deliver, both from an integration standpoint, synergy standpoint, so there's been no surprises. As far as continuing to make acquisitions, as I mentioned, we do look forward going to the bond market. We will be very disciplined in what we would take a look at next. It would have to deliver a strong financial return, being a geographic area that might be attractive. But we are fully committed to integrating what we have bought, get our financing in place, and then take a very structured discipline approach on anything else we might consider.

A

Ken Zaslou

*Analyst, BMO Capital Markets (United States)*

Great. I appreciate it.

Q

Stewart F. Glendinning

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

A

So one other thing, Ken, is that when you look at the kind of acquisitions that we've done, there is a strong overlap with the kind of business that those companies are performing and our existing business, and that frankly just makes our acquisition integration a lot easier.

Ken Zaslou

*Analyst, BMO Capital Markets (United States)*

Q

Okay. Perfect. Thank you very much.

**Operator:** And the next question will be from Akshay Jagdale of Jefferies. Please go ahead.

Akshay Jagdale

*Analyst, Jefferies LLC*

Q

Good morning. Thanks for the question. So first question just on Chicken, take a step back, as you assess the business in its current form, how would you say investors should think about the linkage between your margins and the commodity margins that everyone looks at, right? I know in the past there was some talk about like, okay, we will do 600 basis points, 700 basis points better than the market, et cetera, but what's a good way for us – there's so many moving parts, it's very complicated, but how would you say we should think about the business? Because you started at 10% margins a year ago, and now we're guiding to 6%, so there's clearly a step down. Trying to understand how much of that is just the market being really, really weak versus your operation. So help us understand that and do you think maybe that relationship is going to get better over the next 3 years to 5 years?

Noel W. White

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

A

Yeah, I'll talk about the way that I think about, Akshay, and it's been several years since we talked about the spread that you referred to in your question. And what we said at that point in time is that we were not going to hit the higher the highs when the markets are very strong, very high, and we're not going to be at the low of the lows when the markets are down around breakeven. And the numbers are very close to what you just described. I think what we said is that our expected spread was between 500 basis points and 600 basis points, closer to 500 basis points when markets were down at around breakeven. And when a couple of years ago the markets were very strong, there were commodity companies that were generating a 15% plus return, at that point in time we are generating around a 12% return. So we weren't hitting the highs and we're not hitting the lows.

So the fact that we're around 6% right now and from what we can tell, many others in the industry in the commodity space are around breakeven. It's very close to that historical spread that you described. So it's not much different than the expectation. I think Stewart has a comment, but I think before we go on, I think that the part of the store that's been missed is what the performance of Prepared Foods has been. They had a record 2018. They had a record first quarter. We go back four years ago, it was \$4 billion business at about a 1% return. Today it's an \$8 billion-plus business. It's generating \$1 billion. So I understand all the questions on Poultry. However, the story that you should be taking away from this is the remarkable performance of what our Prepared Foods group has done.

Akshay Jagdale

*Analyst, Jefferies LLC*

Q

And just if I can follow up, the opportunity – is there an opportunity to make the Chicken business more like the Prepared Foods business long term? And how are you addressing that?

Noel W. White

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

A

I'd say that that's what we do every day, Akshay, is to try and increase margin, increase the mix, stabilize those earnings. So that is a process. I wouldn't tell you that that's something that you should expect to see over the course of the next 12 months or 24 months. But that is what we do every single day is to try and grow the earnings within our Poultry business, as well as provide more stability within that business as well.

Akshay Jagdale

*Analyst, Jefferies LLC*

Q

Thanks. I'll pass it on.

Noel W. White

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

A

Great. Thank you.

**Operator:** And the next question will be a follow-up from Heather Jones of The Vertical Group. Please go ahead.

Heather Jones

*Analyst, The Vertical Trading Group LLC*

Q

Thanks for taking the follow-up. Noel, you had mentioned that it looks as if ASF could be a little worse than – and I don't know what you were referencing, but you mentioned a little worse. Things we've read and people we've spoken to with feet on the ground and all, the numbers are now moving closer to 15%, 20%. Would that number shock you? Or do you think that could be close to reality?

Noel W. White

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

A

Heather, to be honest with you, I can't answer that. And even within the analyst group, within two days I saw two different reports that said it's worse than what's expected, and on the other hand it's not as bad as what's being reported. So I think, Heather, it'd be speculation on my behalf to say it's either better or worse. And I'm just not comfortable in speculating exactly what the situation might be.

Heather Jones

*Analyst, The Vertical Trading Group LLC*

Q

Okay. Fair enough. Thank you.

Noel W. White

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

A

Yes. Thank you.

**Operator:** And the next question will be a follow-up from Ben Theurer of Barclays. Please go ahead.

Benjamin M. Theurer

*Analyst, Barclays Capital Casa de Bolsa SA de CV*

Q

Yes. Thank you very much for giving the opportunity. Just on Brazil Foods, just quickly following up, if I remember right, in your prepared remarks you said something like the transaction price something like a little under 10 times. So does that mean you assume something like whatever, \$30 million, \$40 million of EBITDA? Because with checking into the results that the company used to report in the assets it looked more like \$50 million to \$60 million. So just to understand what's the base of your assumption, is that a normalized EBITDA, is that something that is a trailing EBITDA, just to understand where the number came from.

Stewart F. Glendinning

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

A

Yeah. You've actually hit the nail on the head. It is a normalized EBITDA. If we use the trailing number, the multiple would look much, much lower, but that would include periods before the ban on shipments from Brazil. So we normalized the number. I'll tell you that we feel really good about the price that we paid. We feel great about the overlap with our operations in Thailand and our ability to drive foods that are value-added. This goes right along with the comments that Noel has already made around Prepared Foods. This company is looking at taking the margins up, and this is not only part of an international strategy, but also part of that value-added approach.

Benjamin M. Theurer

*Analyst, Barclays Capital Casa de Bolsa SA de CV*

Q

Okay. So if I may just on that, so Brazil Foods used to run the European operations for shipments from Thailand into Europe, but also from Brazil into Europe, and then basically further processing and selling and using the distribution network they had in Europe. So now you obviously have the footprint in Asia acquired through the Brazil Foods transaction. You had the Keystone assets prior to that. Is there a way of thinking or are there certain of your plants from the U.S. that could also kind of feed into the European distribution networks, or just using what you can potentially export from either U.S. into Europe, or is that not an option?

Noel W. White

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

A

At this point, it's not an option. There's very little, if no poultry, being exported from the United States to Europe. At some point in time could that be the case? Certainly. What we were looking for is not only the manufacturing capabilities within Europe, but the ability for us to ship from other low-cost supply regions globally into that market. This provides that, both from a manufacturing standpoint, as well as a sales and distribution standpoint. Any opportunities that we see would simply be added to that, which could at some point be the United States, but that's not currently the case.

Benjamin M. Theurer

*Analyst, Barclays Capital Casa de Bolsa SA de CV*

Q

Okay. Understood. Thank you very much for the opportunity of a follow-up.

Noel W. White

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

A

Yeah. Thank you.

**Operator:** And the final question today will be a follow-up from Adam Samuelson of Goldman Sachs. Please go ahead.

Adam Samuelson

*Analyst, Goldman Sachs & Co. LLC*

Q

Thanks. I appreciate the follow-up. I want to just make a clarification on M&A and make sure I'm understanding kind of the messaging. You are going to the bond market to finance Keystone and Brazil Foods. Can you talk about what you view as your incremental kind of acquisition capacity or dry powder after these acquisitions are completed? And is it the signal that you're going to the bond market that you're not actively pursuing additional M&A right now? I just want to make sure I'm understanding kind of how that ties together.

Stewart F. Glendinning

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

A

Well, I mean, I'd say that, first of all, we never comment on any prospect of acquisitions, as you know. But clearly we want to go to the bond market in a clean way for our debt investors.

Adam Samuelson

*Analyst, Goldman Sachs & Co. LLC*

Q

And just as you look at the dry powder that you would think you have after the pending one, like how much capacity do you think you could take on?

Stewart F. Glendinning

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

A

Look, I don't want to be pinned down to a specific number because it's going to be a little dependent on rating agencies, the kind of acquisition, et cetera. But it would be measured in the several billions.

Adam Samuelson

*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. I appreciate the time. Thank you.

**Operator:** And, ladies and gentlemen, this will conclude our question-and-answer session. I would like to hand the conference back over to Mr. Noel White for his closing comments.

Noel W. White

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

Thank you for joining us today and thank you for your interest in Tyson Foods. I know there's a lot of team members who are also listening, and I'd like to thank each of you for what you do every day to make our company successful. Thanks, everyone.

**Operator:** Thank you, sir. Ladies and gentlemen, the conference has 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 2019 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.