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# Tyson Foods, Inc. (TSN)

Q4 2019 Earnings Call

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### Stewart F. Glendinning

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

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### MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, and welcome. All participants will be in listen-only mode. [Operator Instructions] Please note, this event is being recorded.

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

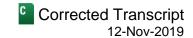
### Jon Kathol

Vice President-Investor Relations, Tyson Foods, Inc.

Good morning, and welcome to the Tyson Foods Incorporated Earnings Conference Call for the Fourth 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.

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. 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 risk and uncertainties that could cause actual results to

Q4 2019 Earnings Call



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 risk that can affect our business.

I would like to remind everyone that this call is being recorded on Tuesday, November 12 at 9:00 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.

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

### Noel W. White

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

Thank you, Jon, and good morning, everyone. First, I'd like to welcome Dean Banks as President of Tyson Foods. I'm delighted Dean is joining our team. He brings extensive experience as a leader, an entrepreneur, and has a background in innovation technology. I've served on the Board with Dean since I became CEO and know him as a thoughtful leader who respects and truly values Tyson Foods' heritage. He's an excellent cultural fit with our company. I'll remain CEO and Dean will report directly to me, and will be based here in Springdale.

Now on to review our fiscal 2019 which was a year highlighted by record sales and significant progress in delivering our strategy for long-term growth. We remain focused on ways to grow, deliver and sustain our business. This includes growing our Prepared Foods and value-added Chicken business. Secondly, growing our International business, and reducing earnings volatility across our business. Here are some examples of our fiscal 2019 accomplishments.

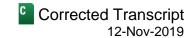
We expanded our global business with operations in Asia and Europe. We continue to innovate our iconic brands, which outpace the industry. We launched alternative protein products into the marketplace. We're improving efficiencies by opening new distribution centers. We're positioning ourselves for the future by integrating our business through a new enterprise technology platform.

We continue to invest in advanced analytics, as well as the development of automation and robotics with a new technology center here in Northwest Arkansas, and we're making strides in our sustainability initiatives.

For example, earlier this year we announced a new partnership with the Environmental Defense Fund. We've also partnered with Proforest to help conduct a deforestation risk assessment across our supply chain. We're leading innovation in animal welfare research, and we also continue efforts to expand the progressive Beef program, which certifies cattle feedlot operators for following best practices.

Here are some additional highlights as we look back on fiscal 2019. Sales dollars grew 6% to a record \$42.4 billion driven mostly by Chicken related acquisitions and increased pricing in the Beef and Prepared Foods segments. We achieved record Beef operating income. Tyson's retail core business lines outpaced the top 10 retail food manufacturers in the 52-week period. Core volume was up 4.1% and total Tyson retail volume was up 2.7%. Both the core business lines and total Tyson retail have posted five consecutive quarters of growth with total Tyson showing its highest retail growth in the last two years.

Q4 2019 Earnings Call



In the fourth quarter, Tyson's core business lines outpaced category growth with overall share of almost a full share of points.

Turning to foodservice, Tyson's Focus 6 product lines continue to double the broadline sector with a 2.5% volume increase over the prior year. In addition, we see growth opportunities in other areas for foodservice beyond broadline. Digital marketing and mobile ordering accelerated growth in major QSR and convenience store chains, with foodservice traffic from digital ordering up 25%. Tyson is leveraging new digital and social platforms within the K-12, convenience and broadline distribution channels, and we're investing in building new digital capabilities in fiscal 2020.

We're also continuing to move forward with plans to grow our value-added Fresh Meats business to better meet consumer demands in the Western United States. Two weeks ago, we broke ground on our new facility in Eagle Mountain City, Utah. The plant will convert fresh beef and pork into steaks, chops, roast and ground beef for grocery meat cases. This additional production will allow us to increase our already growing value-added Fresh Meat sales. Our growth is enabled by an ongoing financial fitness mind-set and we are more focused than ever to drive down cost across the enterprise to enable future investments.

I'd like to highlight some of our progress our operations team made in fiscal 2019 toward making Tyson the employer of choice. We experienced record low turnover in many of our operations over the past year. In addition, we improved our safety record again this year by reducing OSHA recordable incidents by 18% versus our goal of 10%. This is on top of the 20% reduction we experienced in fiscal 2018.

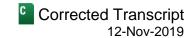
And we continue to expand our program that offers on-site life skill training classes for front-line team members.

A significant part of our focus in fiscal 2019 was on building for the future. As a result, we're optimistic about fiscal 2020 results as we drive for constant improvement. Currently we expect to meet or exceed our long-term target of high single-digit adjusted earnings per share growth. We also continue to drive innovation, deliver on our customer promise, and meet global consumer expectations. We'll do this while controlling costs and increasing efficiencies. As I transition to the segments, I want to remind everyone in our press release this morning we provided guidance for our segments. Stewart will provide more clarity on other guidance items in his remarks.

Now turning to our segments, Prepared Foods continued to perform well at retail with strong growth supported by increased MAP spending. Volumes of Jimmy Dean Frozen Breakfast were up 6.6% in the most recent 52-week Nielsen data on the strength of new product launches including Simple Scrambles, Egg'wiches and Breakfast Bowls. We continue to innovate and will build on the success of these breakfast on the go products by expanding the Jimmy Dean line into biscuit rollups and morning combos. We drove volume across retail with sales of Hillshire Farm smoked sausage and lunchmeat both up 5%, while sales of Ball Park hotdogs increased nearly 3% and Hillshire Snacking was up 15% in the last 52 weeks.

We're excited about the momentum we're seeing in our new alternative protein products and the power that Tyson sales, culinary and supply chain bring to this category. We introduced Aidells Whole Blends as our first offering earlier this year. Since our last earnings call, we've nearly doubled our retail distribution of Raised & Rooted nuggets to more than 7,000 stores and expanded into foodservice. This month we began shipping our new Raised & Rooted blended burger made with Angus Beef and plant protein. We have a deliberate go to market strategy for alternative protein products. They must taste good and they must be a healthier alternative to other products already in the marketplace.

Q4 2019 Earnings Call



In 2020, we continue to expand with new products in both the retail frozen and fresh space, as well as in foodservice. Alternative protein projections remain strong, and we're well-positioned to lead in this growing space. Last year's sale of our non-protein foodservice businesses improved our product mix and pricing while reducing sales volume for the Prepared Foods segment. Operating income for the year was relatively flat as strong demand and improved mix was offset by increased raw material and operating costs.

Looking ahead to 2020 for Prepared Foods, we expect continued growth in retail consumption, as well as foodservice channels like convenience, K-12 and non-commercial. As African Swine Fever reduces global pork supplies, we could see increased raw material costs. But keep in mind a large portion of our business is pricelist and direct pass through pricing. This allows us to react quickly to recover costs when we see sustained raw material price movement.

Moving onto the Beef segment, we experienced strong demand and favorable domestic market conditions in the fourth quarter, offset by increased costs associated with a fire at our Finney County, Kansas plant in August. We recorded \$31 million of fire-related expenses in Q4, net of primary insurance recoveries for a portion of the claim. I'm pleased to say our team members whose jobs were affected by the fire are still being paid. There have been tremendous steps taken by the entire Beef team, our contractors and the community to rebuild the plant and get us back to full operations as quickly as possible. And we currently believe the plant will be up and running in the next 60 days.

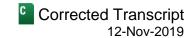
The Beef segment's operating income for the year was a record \$1.1 billion despite logistical challenge and lost volume resulting from the fire. Our premium Beef programs contributed to the overall success with a record year for sales volume and value-added margins. Looking ahead we expect market fundamentals to be similar to fiscal 2019.

And now turning to the Pork segment, our revenue enhancement strategy continued to boost our performance, driving wider spreads relative to the industry benchmarks. This includes our premium programs which experienced 27% category growth year-over-year as well as increases in exports and foodservice penetration. Our workspace initiatives are helping our pork plants be the employer of choice and keeping them fully staffed with record low turnover. Exports to Mexico, Japan and China are picking up, and we've started seeing the improved pricing because of supply shortages in China and other Asian countries affected by ASF. We'll be in a better position to compete for these export opportunities as we move to buying only ractopamine-free hogs. Overall, we expect industry hog supplies to increase about 3% year-over-year. We also expect increased livestock costs, record export volumes and pricing improvement.

Now turning to the Chicken segment. As I said in September, we have a solid Chicken business, and we fully expect to see operational improvement in 2020. We're doing so by streamlining processes, improving operations and lowering costs. Sales volume for the year increased with incremental volume from acquisitions. The additional rendering volume from these acquisitions lowered our average sales price. Operating income decreased due to higher costs and a challenging pricing environment. Additionally, operating income was impacted by net feed ingredient and derivative losses of approximately \$55 million in the quarter. On a run rate basis, this is nearly \$100 million more than Q3.

We now have the right people in the right roles, and we're seeing improvement, although we're not satisfied with the pace. In addition to achieving operational improvements, we also expect improved pricing in select products and categories, continued performance gains and synergy capture from our Keystone and American Proteins.

Q4 2019 Earnings Call



We continued growing our flagship Tyson brand. Our core retail frozen value-added poultry sales volume was up 1.2% in the fiscal year according to Nielsen. We plan continued branded growth with new products like Tyson Air Fried Chicken and Tyson Smokehouse case-ready chicken and we're accelerating foodservice growth through innovation and limited time offers.

In International and other, the acquisitions of Keystone and our new Thai and European operations led to increased sales. Along with Keystone in China, we're closing the gap through a better performance by our legacy Tyson operations. In fact, legacy China business had a record fourth quarter and was profitable after breaking even through the first three quarters of the year, and our China retail business continues to see strong volume growth.

Our International operations, along with exports are an important part of our growth strategy. That's why we continue to advocate for trade agreements that will benefit our industry and farmers. For example, we're working with lawmakers on both sides of the aisle to ratify the U.S., Mexico, Canada agreement. The U.S. and Japan recently signed a trade deal that will benefit our Beef and Pork businesses by putting them on an equal basis with other export countries. Two weeks ago, it was reported that China is planning to lift its four-year ban on U.S. poultry. We welcome these positive developments and the more stable operating environment they provide.

I'll now ask Stewart to take us through the financials.

### Stewart F. Glendinning

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

Thanks, Noel, and good morning, everyone. Fourth quarter and fiscal year results were in line with our revised expectations with earnings of \$1.21 and \$5.46 per share, respectively. Operating income was \$686 million with a 6.3% return on sales in the fourth quarter, and just under \$3 billion with a 7% return on sales for the fiscal year.

Revenues were a record \$42.4 billion and volume was up nearly 9% for both the fourth quarter and the fiscal year primarily due to acquisitions.

Average sales price was flat in the fourth quarter and down 3% for the year, primarily due to the product mix from the acquisition of the American Proteins' rendering business.

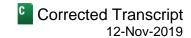
We are very diligent with our capital allocation strategies. In last quarter, I mentioned we were focused on debt reduction. We paid off the \$1 billion of senior notes that matured in the fourth quarter, mostly with cash generated in the quarter. We also were able to repurchase 300,000 shares for \$27 million. Fiscal 2019, in total, we repurchased 3.7 million shares for \$252 million. Our operating cash flows at year-end were \$2.5 billion and liquidity was \$1.2 million.

Including cash of \$484 million, net debt was \$11.4 billion. Net-debt-to-adjusted-EDITDA was 2.8 times for the 12 months ending September 28. With net debt coming down and cash up, we are well-positioned to have all of our capital levers available in 2020.

Net interest expense was \$121 million in Q4 and \$451 million for the full year. Capital expenditures were \$288 million in the quarter, and \$1.3 billion in the fiscal year, and we continue to see strong returns on these investments.

In 2019, two new distribution centers were brought online, and we invested in new processing capacity for Chicken and value-added Fresh Meats. We also invested in additional enterprise technology as well as our new

Q4 2019 Earnings Call



Tyson manufacturing automation center. These investments will provide long-term benefits and support our growth strategy. We continue to target an overall CapEx return of approximately twice our cost of capital. Our effective tax rate was 20.5% in the fourth quarter and 20.7% for the fiscal year. Depreciation and amortization was \$289 million in the fourth quarter and approximately \$1.1 billion for the full year. Weighted average shares outstanding in Q4 were approximately 367 million.

As I mentioned on our last call, we faced hurdles integrating new information technology that resulted in short-term increases to our working capital. Within the fourth quarter we also had increased distressed inventory sales in parts of our Prepared Foods and Chicken segments. This negatively impacted operating income by approximately \$40 million. Our metrics are improving each month and our on-time customer service is nearing our historical targets, but some amounts may carry into our first quarter.

Now I'd like to provide our thoughts on the 2020 fiscal year. As I'm sure you noticed in our release this morning, we did not provide specific EPS or sales guidance. The timing and magnitude of potential impacts resulting from African Swine Fever are still hard to quantify. Additionally, there are continuing developments in trade negotiations, which can create uncertainties in our external environment. While these factors alone did not drive our decision, they do significantly compound the difficulty of accurately forecasting EPS and sales. To be clear, we believe we're positioned to deliver our long-term's earning algorithm of high single-digit adjusted EPS growth, and there is potential for profound upside depending on how events materialize.

There are a number of additional metrics I will provide on 2020, which will be a 53rd week. However, take note, we've adjusted our outlook to be comparable to 52 weeks. Net interest expense should approximate \$450 million. We plan for capital expenditures of approximately \$1.3 billion as we continue construction on the Tennessee Chicken plant and begin construction on the Utah case-ready plant. We expect liquidity to remain above our \$1 billion target. Our effective tax rate is expected to be around 23.5%. And you've seen our segment return on sales guidance in our press release this morning.

Our capital allocation in 2020 will continue to prioritize debt reduction, while reinvesting in our business for organic growth, buying back stock and increasing our dividend.

In the case of inorganic opportunities, we will be very disciplined and return-focused in our approach to any acquisition. Our track record on acquisitions continues to be very encouraging. Consistent with my comments last quarter, we are already exceeding our cost of capital on an after-tax basis in 2019 for our most recent four acquisitions: Smart Chicken, American Protein, Keystone and the poultry operations in Europe and Thailand. As we start to realize the full benefit of synergies, while driving further growth, we expect strong returns on these acquisitions. And finally, yesterday the Board of Directors increased the previously declared quarterly dividend to \$0.42 per share on Class A stock. We anticipate the remaining quarterly dividends in fiscal 2020 will be \$0.42, resulting in an annual dividend rate of \$1.68 per Class A share.

That concludes my remarks, and now we'll go back to Noel for additional commentary. Noel?

### Noel W. White

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

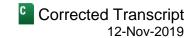
As Stewart said, the positive impacts we anticipate from African Swine Fever are still hard to quantify, but here's what we do know. It's likely to improve export markets and change protein consumption dynamics for a number of years. You also saw our return on sales expectations for the segments in our press release. We're well-positioned to benefit from ASF, but our long-term success is not dependent on ASF or any other one-time event. Tyson Foods is a strong company with a sound strategy and a unique diversified business model.

In summary, we're optimistic about fiscal 2020. Our outlook is based on our diverse portfolio, the strength of our brands, our willingness to enter adjacent categories, partnerships with customers and ongoing focus on financial fitness. We have opportunities not to only grow, but to thrive, while creating long-term shareholder value.

### **QUESTION AND ANSWER SECTION**

<b>Operator</b> : We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Peter Galbo of Bank of America. Please go ahead.	
Peter T. Galbo Analyst, Bank of America Merrill Lynch	Q
Hey, guys. Good morning. Thanks for taking the question.	
Stewart F. Glendinning Executive Vice President & Chief Financial Officer, Tyson Foods, Inc.	A
Good morning.	
Noel W. White President, Chief Executive Officer & Director, Tyson Foods, Inc.	A
Good morning.	
Peter T. Galbo Analyst, Bank of America Merrill Lynch	Q
I guess taking into account that you didn't put out a range for the EPS guidance, even if we just kin midpoint of each of your segment guides, you kind of come up with a number that meets more of the end of the guidance that you did give, something in kind of the low double digits to low teens EPS guess just can you help us reconcile that in terms of how you're thinking about each of those marg should be thinking about the lower end of that range at least coming out of the gate or if it's really no some conservatism on your part. And I have a follow-up as well.	hat, exceeds growth. And I ins, whether we
Noel W. White President, Chief Executive Officer & Director, Tyson Foods, Inc.	A
Yeah. Well, Peter, let me say we are very optimistic about 2020 and what we can deliver through the Each segment is a little bit different. I would say that as we enter 2020, Beef is off to a very strong view 2020 as another exceedingly strong year for it. Started a little slow. However, it's come on very the month of November as you can probably see in the public reports. Chicken was off to a bit of a it's improving as well. So, the reason that we didn't give guidance is that we have a very good outled think we would earn in 2020, without the impact of ASF. The difficulty was actually in predicting who be. So we have a good sense of the base. It's the top that becomes the problem. That's the reason give the guidance.	start and we ry strong as in slow start, but bok of what we at the top could
Peter T. Galbo Analyst, Bank of America Merrill Lynch	Q

Q4 2019 Earnings Call



Got it. Okay. That's helpful. And then maybe just on Prepared Foods, I think that's kind of what caught investors by surprise in terms of the raw material inflation being I think you called out \$60 million year-over-year in 4Q. Just what does the timing lag look like in terms of the price increases? When might we actually start to see that roll through? And just how should we think about demand deterioration if there is kind of a large step-up in pricing?

Noel W. White

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

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Yeah. Well, the impact in Q4, Peter, wasn't necessarily on the increasing price in raw materials. It was some other factors. I think, Stewart mentioned the inventory levels, the write-offs that we incurred. That situation is largely under control. There's going to be a little bit roll into Q1. But it was basically, the issues that we talked about in – at the end of our Q3 call, on an SAP installation, some inventory levels, and we did take a pretty sizable adjustment in fourth quarter. So much improved, but not quite where we want to be here as we enter Q1.

Peter T. Galbo

Analyst, Bank of America Merrill Lynch

Got it. Okay. Thanks, guys.

Noel W. White

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

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Yeah. Thank you.

Operator: The next question comes from Michael Piken of Cleveland Research. Please go ahead.

Michael Piken



Analyst, Cleveland Research Co. LLC

Yeah, good morning. Just wanted to get a little bit of an update on where you are in some of those Chicken plants that were struggling operationally. Are you back to the normal line speeds? And how much of a impact or headwind might we see in 1Q fiscal 2020 from any operational issues that took place last quarter?

Noel W. White



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

Yeah, sure, Michael. We have made progress, and as I mentioned, we're not satisfied with the pace. Over the course of the last couple of months. I would say operationally we are improved in performance. It's still not at the standard that we would expect. However, there has been some other pressures within the Poultry segment. You can see public reports that margins have been compressed, just to market dynamics. So operationally, we are performing better, still not where we need to be, but there have been some other pressures that are affecting Poultry as well as we entered Q1.

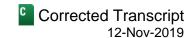
Now from a pricing perspective, it's still early in the pricing season. There's been no surprises, and as I said in my remarks, there are pricing opportunities on specific products. So we are optimistic as we enter 2020 and we do think that the range that we've provided in Poultry is achievable throughout the year.

Michael Piken

Analyst, Cleveland Research Co. LLC

Okay. Great. And as a follow-up, I know you mentioned that the contracting is sort of underway and no surprises. I mean, how do you sort of think about the contracting season knowing there is potential opportunity from ASF?

Q4 2019 Earnings Call



Like, is that changing the duration of the contracts or how they're structured in terms of how much you would have as like a fixed price versus cost-plus versus index? Any kind of color there would be helpful.

Noel W. White

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

Yeah, Michael, I'm sorry, I can't talk about pricing scenarios just from an antitrust standpoint. So, I can't go there.

Michael Piken

Analyst, Cleveland Research Co. LLC

Okay.

Operator: Okay. Was there a follow-up, Mr. Piken?

Michael Piken

Analyst, Cleveland Research Co. LLC

Sure. Then, yeah, in that case, I mean, I guess maybe we could just, within the Chicken segment then I guess, if you could just sort of provide any sort of color in terms of the mix maybe of your business kind of going forward, I mean, in terms of can you at least provide some color in terms of how much is spot sales versus more indexed? Anything that could kind of help us model things out would be helpful.

Noel W. White

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

Yeah, Michael, the pricing really doesn't change that much year-to-year with us. It's fairly consistent, and as I've mentioned before, we have a wide variety of pricing mechanisms which does in fact help stabilize our earnings to a certain extent. There's not sizable shifts that takes place with most of our customers. They're on a variety of different pricing mechanisms, so those customers, as we enter pricing season, you don't necessarily change from a fixed price to a grain-based or vice versa. Most of the pricing scenarios are pretty consistent as we move from year to year. Obviously, the markets will move, but no surprises yet this year.

Michael Piken

Analyst, Cleveland Research Co. LLC

All right. Thank you very much.

Operator: The next question comes from Ken Goldman of JPMorgan. Please go ahead.

Ken Goldman

Analyst, JPMorgan Securities LLC

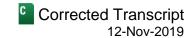
Hey. Good morning, and thank you. I wanted to just follow-up on the distressed inventory sales. It's probably not that big a deal because you said it's mostly behind you, but were you hinting that that is SAP-related? I just didn't quite understand exactly what the dynamics were there. I wanted to get a little bit of color.

Noel W. White

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

Yes, Ken, to a large extent it was SAP-related. We had some issues, if you remember, I talked about last quarter in Q3 with accurate inventory levels, and ultimately that ended up with some – an increase in distressed product

Q4 2019 Earnings Call



as we closed out the year. So, it was related to SAP, inventory levels and the visibility that we had into the accuracy of our inventories. So largely corrected, not completely, but feeling much better about where we're at today than where we were even 30 days ago.

#### Ken Goldman

Analyst, JPMorgan Securities LLC

Hand that stuff to me next time, I'll take it. Good stuff. And I just wanted a clarification, another one, from something that was said in the press release, or written in the press release. You said that the Pork segment operating margin or income rather decreased because of compressed margins, and that was in part driven by increased livestock supplies. I wasn't quite sure how increased or higher livestock supplies hurt your margin. You may have mentioned this or clarified this, but I didn't quite pick up on that.

Noel W. White

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

Ken, to be honest with you, I'll need to look back as well, because that intuitively doesn't make sense to me either. If that was the case, it's not completely accurate, let me tell you what the scenario has been though throughout calendar 2019.

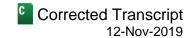
I think that by and large, most people were expecting an increase in exports, whether it's to China or other countries. Now with that, both the futures market and the cash price of hogs has moved higher, and it's moved higher in anticipation of those exports. Now as we finish calendar 2019, those exports have materialized. So, we saw the run-up in hog prices, we didn't necessarily see the corresponding increase in pork prices, which led to the compression in 2019.

Now since the product is being produced for export today, we are seeing product prices move higher, as publicly reported. And it's extremely unusual. It's counter-seasonal for us as an industry to be processing 2.7 plus million hogs per week and seeing product move higher. So, we are seeing the impact particularly over the course of the last several weeks.

Ken Goldman Analyst, JPMorgan Securities LLC	Q
Great. That's very helpful. Thank you.	
Operator: The next question comes from Heather Jones of Heather Jones	es Research LLC. Please go ahead.
Heather Jones Analyst, Heather Jones Research, LLC	Q
Good morning. Thanks for the questions.	
Noel W. White President, Chief Executive Officer & Director, Tyson Foods, Inc.	A
Good morning.	
Heather Jones	$\cap$

Analyst, Heather Jones Research, LLC

Q4 2019 Earnings Call



So quickly on a trade question. So late Friday I think it was, there was a final rule published in the Federal Register about the U.S. setting up terms for us to be able to start the importation of Chinese cooked poultry.

Noel W. White

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

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Yes.

**Heather Jones** 

Analyst, Heather Jones Research, LLC

Q

I was wondering, if is it your reading that that is done and there will be no way to undo that? And what are your thoughts about the implications of that for China open – lifting the ban on U.S. poultry?

Noel W. White

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

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Yes, Heather. Since it was published in the Federal Register, we do think that it is, in fact, done and it would take a Congressional act to change it at this point. So we saw it, we understood it, we somewhat anticipated it. And the comment I would make, Heather, is that we are pro-trade. And whether other countries allow export access to their country or to ours, we're pro-trade. So it was actually encouraging to see the agreement that was made, and we would fully expect that there'd be some type of trade agreement reciprocity with access to China from U.S. poultry. So, no surprise. And the fact that there has been seemingly some type of an agreement, not been made completely public yet. But we view it as encouraging.

#### Heather Jones

Analyst, Heather Jones Research, LLC



Okay. Thank you for that. And then my follow-up is on chicken. So you mentioned operational improvements. You mentioned select price increases in certain segments. You said you're still not where you want to be operationally. But, basically from your Q4 run rate, you're projecting a pretty sizable jump in EBIT margins, and like you said, excluding any benefit from ASF. So I was just wondering if you could flesh that out some to give us comfort as to how you go from the Q4 run rate to 6% to 8% without ASF. Just help us think – understand more how you're thinking about that.

Noel W. White

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

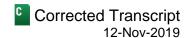
Well, it's not going to happen overnight, Heather. It will be a process, and we are in the middle of that process. And the plan that was laid out as we came into fiscal 2020, our team is executing on. So the operational improvements and whether it's labor efficiency, cost, yields, we are on track with where we expect it to be. Now I did talk about some of the pricing pressure on some specific items, and that's in USDA data. It's visible. On the other hand, there are select items that are in strong demand, and I'm not going to necessarily talk about specific items. But that creates pricing opportunities for us. So in some cases, there's surplus product in the market, and other cases there's somewhat of a shortage. So you take the pricing opportunity where, in fact, there's strong demand. And in the case where there's excess supply, then there's some pricing pressure. So, the market does its job.

Stewart F. Glendinning

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

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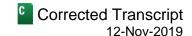
Q4 2019 Earnings Call



Yeah, Heather, one additional item just for you to note that in the quarter if you adjusted for the hedging that we saw at the end of the quarter, there was a \$55 million loss there in Chicken. If you adjust for that, you pick up about 1.5 extra percentage points on the operating margin. And I think that will help you reconcile when you add Noel's comments about how we get to the year-end.

Analyst, Heather Jones Research, LLC  Excellent. Thank you so much.  Noel W. White President, Chief Executive Officer & Director, Tyson Foods, Inc.  Thank you, Heather.  Operator: The next question comes from Robert Moskow of Credit Suisse. Please go ahead.
President, Chief Executive Officer & Director, Tyson Foods, Inc.  Thank you, Heather.
Operator: The next question comes from Robert Moskow of Credit Suisse. Please go ahead.
Jacob Nivasch Analyst, Credit Suisse Securities (USA) LLC
Hi. Thank you. This is actually Jake Nivasch on for Rob. Just one quick one. It's about pricing, which I know we kind of spoke about. But if I can ask it another way. The persistent problems at your plants. Is that a risk going forward in terms of losing customers or any sort of negotiation, I guess, loss of negotiating power?
Noel W. White President, Chief Executive Officer & Director, Tyson Foods, Inc. No.
Jacob Nivasch Analyst, Credit Suisse Securities (USA) LLC
No, okay.
Noel W. White President, Chief Executive Officer & Director, Tyson Foods, Inc.
No, no. Don't view it that way at all, Jake. Now though the course of 2019 with some of the new platform that we installed, there were challenges. Now, that's largely behind us. But it has nothing to do with the operational challenges. It was more so the visibility that we had of inventories, timely shipments, shipments in full. But as Stewart said in his script, that is largely behind us. We are back very close to the historical standards that we would expect. So, no. Two completely unrelated topics.
Jacob Nivasch Analyst, Credit Suisse Securities (USA) LLC
Got it. Thank you.
Noel W. White President, Chief Executive Officer & Director, Tyson Foods, Inc.  Yeah. Thank you.

Q4 2019 Earnings Call



Operator: The next question comes from Adam Samuelson of Goldman Sachs. Please go ahead.		
Adam Samuelson Analyst, Goldman Sachs & Co. LLC	Q	
Yes. Thank you. Good morning, everyone.		
Noel W. White President, Chief Executive Officer & Director, Tyson Foods, Inc.	A	
Good morning.		
Adam Samuelson Analyst, Goldman Sachs & Co. LLC	Q	
Colluga basing Neel you sould halp maybe from within the individual cost	reports kind of what's driving what	

So I was hoping, Noel, you could help maybe frame within the individual segments, kind of, what's driving – what would drive you margin-wise to the low end versus the high end? And I know that you framed the guidance excluding any ASF impacts, but it seems like it's hard to separate that out from the state of the world today. So just maybe help us understand, Prepared Foods, what gets you to 10% versus 12% margins, Chicken 6% versus 8%, and maybe any comments around how you would see the bigger ASF impacts in each of the businesses.

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

Right. Right. Boy, that's difficult to answer, Adam, because we don't view it as being at the low end of those ranges. In Prepared, it would – I would say the risk would be if there was a rapid rise in raw material prices, and we didn't timely reflect that in the pricing of our products.

Now, you've heard me say before that we've already had conversations with many of our customers about the potential of prices rapidly increasing, and you also heard me say that there's a large portion of our business that is, in fact, somewhat of a – it's a pass-through. So I'd say that's probably the risk on the Prepared side. But I can tell you, our Prepared Foods segment is in really strong shape. We are capturing share gain, our volumes are strong, so we are very encouraged where our Prepared Foods business is at.

In the other segments, I'd say the only risk would be, and as we stated the ranges, it was absent ASF. The only risk I can see is, if we had a similar occurrence in 2020 that people were anticipating exports, Hog prices stayed high, and exports don't develop.

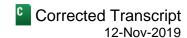
Other than that, I think Beef is headed for a very similar year, if not better, in 2020 than what they delivered in 2019. So obviously in the industries in which we compete, there's always risk. We deal with that every single year, but there's nothing stands out that is a particular concern right now.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Yeah, that's helpful color. And then specifically in the Chicken business, I wonder if you can provide any comments on the demand environment domestically that you're seeing. I mean, it seems like, especially on the Foodservice side, increased promotional activity on Poultry could be a nice opportunity for you moving forward. But just how you're seeing that demand environment on the Poultry side would be helpful.

Q4 2019 Earnings Call



Noel W. White

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

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Yeah, I think Poultry is a great value right now, Adam. You look at the price spreads that exist between each one of the proteins in the course of last three or four weeks, it's continued to widen. And so I think Poultry presents a great opportunity for stronger promotion, both at Foodservice as well as retail levels through 2020, and it – I don't think we've seen the full impact of that. I mean, we've seen some of the Chicken sandwich promotions that have been rolled out at the QSR level. That's been helpful, I would say, but as we go – as we move through 2020, I think Chicken will continue to be a great value, and as I mentioned earlier, it's extremely unusual to see the Pork cutout moving higher at this time of the year. Beef, it's not that unusual, but it has been extraordinarily strong. So net disappearance, domestic disappearance, we're encouraged by. We're actually projecting per capita consumption to be down this year, and that's despite the fact that total production is going to be up. So obviously, exports are a significant help to us.

Adam Samuelson Analyst, Goldman Sachs & Co. LLC	Q
All right. I appreciate that color. I'll pass it on. Thanks.	
Noel W. White President, Chief Executive Officer & Director, Tyson Foods, Inc.	A
Thank you.	
Operator: The next question comes from Alexia Howard of Bernstein. Please go	o ahead.
Alexia Howard  Analyst, Sanford C. Bernstein & Co. LLC	Q
Good morning, everyone.	
Noel W. White President, Chief Executive Officer & Director, Tyson Foods, Inc.	A
Good morning.	
Alexia Howard  Analyst, Sanford C. Bernstein & Co. LLC	Q

So I know that you're not giving guidance numerically around the impact of ASF, but could you possibly walk through the segment and just talk about the risks and opportunities relating to ASF? I imagine that in Pork, it's really the question of what happens with the lean hog prices than maybe a big opportunity in Chicken because you are backward integrated in there and demand might come up probably not much wiggle room on supplying beef.

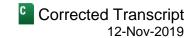
But could you just give us an idea of qualitatively how you're thinking about the puts and takes around ASF? Because obviously being within the company, you probably have a better insight into what all the moving pieces are here than we do on the outside. And then I have a follow-up.

Noel W. White

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

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Q4 2019 Earnings Call



Okay. Alexia, let me speak in terms of what's happening from a global perspective rather than talking about each one of the proteins. So from a global perspective, if we take just China and the public reports would say that they're somewhere around half the hogs that have died in China. Might be a little more, might be a little less. Nobody knows the actual number, and China produces half of the hogs in the entire world.

So there's somewhere around 25% reduction that's taking place on a global basis which translates to a total protein supply globally of someplace between 5% and 6% decrease in global protein supplies, and that's everything else being equal. Now at the same time, we have trade patterns that are shifting as well.

So with those shortages as an example, we see increase in exports from Australia, from New Zealand, countries like that, it's moving into China. We're seeing less imports into United States, we're seeing more beef and pork move from South America into China and Southeast Asia.

So the global dynamics are changing. They're evolving. And any time that the world loses that amount of protein supply, and demand growing, prices are impacted. And that's the difficulty in forecasting what that impact is going to be for us in 2020 because of those market dynamics that continue to shift. They're all favorable, they're all positive, and we can all run different economic models of what we think the impact is going to be, and that's one of the reasons I think you see the range that is EPS on our stock and there's basically a \$2 range as we look into 2020.

And I don't think it's responsible, for Stewart and I, to put forth a number where the visibility that we have we're very encouraged, but we don't want to put forth a number that we think could in fact be low.

#### Alexia Howard

Analyst, Sanford C. Bernstein & Co. LLC

Great. Thank you. And then as a quick follow-up on a very different topic, want to welcome Dean Banks on board. Just curious, I understand that his experience in innovation and technology brings something that's very timely and very needed. What does that mean for the CEO role? And how is your personal agenda changing here Noel as that transition occurs? Thank you. And I'll pass it on.

Noel W. White

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

Sure. Well, Dean and I, we've worked together in the past. I have a tremendous amount of respect for Dean, his capabilities. He's going to be a great addition to the Tyson team. As you saw, he's been on our Board for several years so we've had the opportunity to work together. Technology is a growth platform for us. As you saw in my statement that we have put in place several initiatives, and we have a lot more to go. Dean is a great cultural fit with the company and with the leadership team. So as far as my role, Dean and I will be working very closely together over the course of time. So, it's an opportunity for Dean just to have a much deeper understanding of our business and at the same time I can tell you I'll be learning from him as well.

Alexia Howard

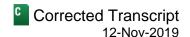
Analyst, Sanford C. Bernstein & Co. LLC

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

Noel W. White

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

Okay. Thank you.

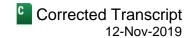


Operator: The next question comes from Ken Zaslow of Bank of Montreal. Please go ahead. Kenneth B. Zaslow Analyst, BMO Capital Markets (United States) Hey. Good morning, everyone. Noel W. White President, Chief Executive Officer & Director, Tyson Foods, Inc. Good morning, Ken. Kenneth B. Zaslow Analyst, BMO Capital Markets (United States) A couple of follow-ups. How much of the Chicken margin improvement is operational versus environmental? I guess that's my first question and then I have a follow-up on that. Noel W. White President, Chief Executive Officer & Director, Tyson Foods, Inc. Okay. Ken, the operational improvements, there's a minimum of 200 basis points that's built into that from an operational improvement standpoint. You heard us talk about that at the end of our third quarter. So, there's a minimum of 200 basis points, that's built into this. Kenneth B. Zaslow Analyst, BMO Capital Markets (United States) So you're not looking for a material improvement in the Chicken environment year-on-year, if you take your fullyear numbers versus 2020 outlook. And I'm assuming that doesn't also include the potential of China actually – a trade agreement with China, this whole reciprocity. Like, I think, you discussed the reciprocity between us - US accepting Chinese chicken, but the US potentially being able to export to China, that does not include that as well? And what products can actually move to China, do you think? Noel W. White President, Chief Executive Officer & Director, Tyson Foods, Inc.

The answer to both questions were yes. That as I spoke about earlier, there is some pricing improvements that's built in on specific items, and that is, in fact, independent of ASF. So, regardless if we had ASF or we did not, we would expect to see some pricing improvement. So there is some that's built in.

Now the significant impact of ASF is not built into it. So, true in both cases that there is some pricing improvement that's there. There's operational improvements, but we're not taking into consideration if there was significant quantities of poultry that moved to China. The products specifically that would move to China, can't really answer since we've not have access for quite some time. However, it's likely going to be some form of dark meat, and including wings. So, wings are, as you know, in strong demand in China, as well as the dark meat from poultry. So, those are probably the two most – the two specific items, as well as the paws that are also in very strong demand.

Q4 2019 Earnings Call



#### Kenneth B. Zaslow

Analyst, BMO Capital Markets (United States)

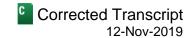
Great. And then just on Beef, your outlook, that does not include the insurance proceeds. I'm assuming that the insurance proceeds are what lost profitability you'll have. So when you give that 6.5% to 7.5% margin for Beef, how much does that exclude for the potential recovery of lost profits, lost logistic costs? How do we think about that because that 6.5%, to 7.5% is probably not the real margin, right, it's understated by whatever you would have earned prior to the fire? Is that not the way to think about it, and can you put some parameters to that?

have earned prior to the fire? Is that not the way to think about it, and can you put some parameters to that? Stewart F. Glendinning Executive Vice President & Chief Financial Officer, Tyson Foods, Inc. Yeah, let's keep it simple, Ken. We've looked at the year. We've looked at when the plant is come online, our costs, et cetera, and we've estimated that in giving you that number. Know that on the insurance side, we've adjusted that out, and when we get those proceeds, we'll adjust those out, as well. So that said, we're holding that to the side. Kenneth B. Zaslow Analyst, BMO Capital Markets (United States) So it does not include the insurance proceeds. Stewart F. Glendinning Executive Vice President & Chief Financial Officer, Tyson Foods, Inc. It does not take any benefit from the insurance proceeds. Kenneth B. Zaslow Analyst, BMO Capital Markets (United States) But that's real cash and real margins, right? You'll actually be able to take that to the bank, right? Stewart F. Glendinning Executive Vice President & Chief Financial Officer, Tyson Foods, Inc. We'll be able to take that to the bank, but remember of course, that we took a \$31 million hit in this past quarter, and so... Kenneth B. Zaslow Analyst, BMO Capital Markets (United States) Okay. Great. I appreciate it, guys. Thank you. Stewart F. Glendinning Executive Vice President & Chief Financial Officer, Tyson Foods, Inc. Yes. Thank you, Ken. Operator: The next question comes from Michael Lavery of Piper Jaffray. Please go ahead. Michael S. Lavery

Analyst, Piper Jaffray & Co.

Good morning. Thank you.

Q4 2019 Earnings Call



Noel W. White

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

А

Good morning.

Michael S. Lavery Analyst, Piper Jaffray & Co. Q

On the Prepared Foods guidance, you didn't qualify it with excluding an ASF impact. You mentioned how most of the pricing passes through. Is that really the biggest factor? Is it just that you've got some range there to allow for cost pressures, if it comes? Obviously, there could be an ASF impact. How do you factor that in? What offsets it? And just how should we think about maybe risks or sensitivities on that segment?

Noel W. White

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

Yeah, the Prepared Foods is probably the most difficult to forecast, but we think the impact might be. Our other segments, obviously there's a positive impact, since it's significantly positive. In the case of Prepared, it's on the risk side. So it is a matter of how quickly those increase in costs are captured. And we're very confident that we'll continue to grow our business, as we have over the course of the last several years. So, the team that's in place running our Prepared Foods business are very focused on delivering growth and volume. And I can tell you, if it comes down to a choice of selling a lot more at 10% or not much more at 12%, I'll take the money on the bottom line that's growing our business at 10%.

Michael S. Lavery



Analyst, Piper Jaffray & Co.

Okay. That's helpful. Thank you. And just on the alternative proteins, can you give us a sense? You mentioned you prefer to launch the ones that are positioned as healthier. How do you define that? And how incremental do you expect some of those products to be? What kind of sourcing assumptions do you make around those?

Noel W. White



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

Yes, it is incremental, Michael. So it's – we don't see cannibalism of any of our other products. So it is, in fact, incremental. And when we say healthier, that's the reason that we've been a little bit slower to launch is that we view the alternative protein when we go to market, those products not only need to taste great, but they have to be healthier than whatever the alternative is. And that's where we think we can compete and win in the marketplace.

Michael S. Lavery



Analyst, Piper Jaffray & Co.

And you measure that on things like sodium or calories? Or what's - how do you define what healthier means?

Noel W. White

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

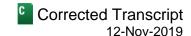
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All the above. All the above, Michael.

Michael S. Lavery



Q4 2019 Earnings Call



Okay. Thank you very much.

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

### Benjamin M. Theurer

Analyst, Barclays Capital

Yeah. Good morning, everyone, and thanks. Just two follow-ups actually on what's being discussed. So one on Beef. So, if we take a look at the operating income versus the adjusted operating income, so basically the increase on the adjusted one is because of the loss that was related to the plant fire. And that's how we should have to think about it going into next year. A little bit of a follow-up to understand what one, you adjust and you get the insurance, you're going to take it out, but then your reported operating income might be higher just because you did recover it back then. Is that fair to assume?

### Stewart F. Glendinning

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

Yeah, that's the right way look at it. If you look in our price release, you'll see a reconciliation that shows you the amount of that. And that's exactly the way you should think about it going forward.

### Benjamin M. Theurer

Analyst, Barclays Capital

Okay. Perfect. And then we've talked about it, and I remember we've talked about it during the third quarter conference call, the improvements you think you can achieve of roughly 200 basis points in the Chicken segment once you've accomplished all the initiatives you've been aiming for. So, if we take that roughly 5% operating income margin for full year and then you assume you do get the 200 basis points into next year, would bring us to the 7%, which is right at the midpoint of your guidance anyway. So the question is, how advanced are you currently going into – being already in the first fiscal quarter? And how much of that do you think will be delivered in the first half versus the second half of your fiscal year just to get a bit of the sense of how the ramp-up of those operational improvements is going to look like?

Noel W. White

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

Yes. Ben, I would say that it's going to be a just a gradual, steady improvement. It's difficult to exactly quantify that for you by quarter. But there will be a gradual improvement throughout the year.

#### Stewart F. Glendinning

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

Yeah, Ben, and we don't – as you know, we don't break those numbers out quarter-by-quarter.

Benjamin M. Theurer

Analyst, Barclays Capital

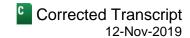
Yeah.

### Stewart F. Glendinning

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

Each quarter we'll update our forecast as we go, so you'll see that. But as Noel mentioned earlier, you've got the right people in the right place. We're starting to see some of those metrics improving.

Q4 2019 Earnings Call



### Benjamin M. Theurer

Analyst, Barclays Capital

Okay. Perfect. And then just maybe one last one. When do you think the beef plant that was impacted by the fire is going to be back on? How much of a time – lead time do you still need to be basically back operational there?

Noel W. White

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

It will be within the next 60 days, Ben. So we think that's probably on the long end. We think it could be potentially quicker than that. So, there's still some contractors that are finishing up, but the team has done a remarkable job to get it back where it needs to be.

Benjamin M. Theurer

Analyst, Barclays Capital

Okay. Perfect. Well, surprisingly possible. Thank you very much for giving me the chance to ask my questions. Have a good one. Thanks.

Noel W. White

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

Thank you, Ben.

**Operator**: And our last question today will be a follow-up from Heather Jones of Heather Jones Research LLC. Please go ahead.

**Heather Jones** 

Analyst, Heather Jones Research, LLC

Hi. Thanks for taking the follow-up. Just wanted to delve in. You said – made the comment, the right people in the right place a few times, I think, on the Chicken business. I was wondering if you could just elaborate on that, any management changes there've been or whatever. Just was curious about that.

Noel W. White

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

Yes. There has been, Heather, some management changes. We changed the leadership of Poultry at the end of January of this past year. There's been a number of changes that have taken place over the course of 2019. So Chad Martin leads our Poultry business, and then within the business segments, there's been changes that have taken place as well as at the plant level. So there are a number of changes that have been made and we have complete confidence in the team that's in place today.

**Heather Jones** 

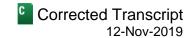
Analyst, Heather Jones Research, LLC

Okay. So besides the one that we knew about at the end of January, the changes since then have been more at the plant level?

Noel W. White

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

Q4 2019 Earnings Call



No. It's been throughout the organization, Heather, so not just at the plant level, but there's been a number changes directly underneath Chad. And keep in mind that Chad has a fairly sizable team. So, he chose his team, he put them in place, and we think we have the right team.

**Heather Jones** 

Analyst, Heather Jones Research, LLC

Okay. Perfect. Thank you so much.

Noel W. White

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

Thank you, Heather.

Α

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

### Noel W. White

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

Okay. Thank you for joining us today. And from all of us at Tyson, we wish you a happy holiday season. Thank you.

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

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