

11-Feb-2021

Tyson Foods, Inc. (TSN)

Q1 2021 Earnings Call

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Vice President, Investor Relations, Tyson Foods, Inc.

Samuel Dean Banks

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

Stewart F. Glendinning

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Tyson First Quarter Fiscal 2021 Earnings Conference Call. 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 Megan Britt, Vice President, Investor Relations. Please go ahead.

Megan Britt

Vice President, Investor Relations, Tyson Foods, Inc.

Hello, and welcome to the first quarter fiscal 2021 earnings conference call for Tyson Foods. On the call today are Dean Banks, President and Chief Executive Officer; and Stewart Glendinning, EVP and Chief Financial Officer. We have prepared presentation slides to supplement our comments, which are available on the Investor Relations section of the Tyson website and through the link to our webcast.

During this call, we'll make forward-looking statements regarding our expectations for the future. These statements are subject to risks, uncertainties and assumptions which may cause actual results to differ materially from our current projections. Please refer to our forward-looking statement disclaimers on slide 2, as well as our SEC filings for additional information concerning risk factors that could cause our actual results to differ materially from our projections.

Q1 2021 Earnings Call



Please note that references to earnings per share, operating income and operating margin in our remarks are on an adjusted basis unless otherwise noted. For reconciliations of these non-GAAP measures to their corresponding GAAP measures, please refer to our earnings press release.

I'll now turn the call over to Dean.

Samuel Dean Banks

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

Thank you, Megan. We are pleased to have you as a new member of our Tyson Foods family and appreciate your leadership. I want to thank everyone listening for your interest in Tyson Foods. And I want to thank our 139,000 dedicated team members who come to work every day to help keep each other safe and feed the world. Your work is raising the world's expectations for how much good food can do.

Earlier today, we released our first quarter results for fiscal 2021. We delivered strong operating earnings performance, exceeding \$1 billion in operating income for the quarter. This performance was driven by higher earnings in our Prepared Foods, Beef and Chicken segments and demonstrates our effectiveness in addressing customer and consumer needs, while continuing to manage the ongoing effects of the global pandemic. I am exceptionally proud of our global team for their contributions to this strong result.

Fundamental to our results are the considerable investments that we have made to safeguard the health, safety and wellness of our global team members. This remains our top priority. We also continue to monitor consumer trends; the pandemic spurred changes in consumer demand patterns and created new operational complexities for our team.

We have risen to the challenge that these changes have created, we flexed our footprint to adapt to shifting channel demand, scaling retail production up dramatically and innovating with attractive retail offerings. Our investments into insights, innovation and R&D are helping us win with consumers. As demonstration, we now have delivered 10 consecutive quarters of retail volume growth across our core business lines.

As we navigate continued market volatility, we're focused on operational excellence and disciplined cost management. During the quarter, we realized cost savings and progressively improved our order fulfillment results.

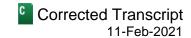
We are also on track relative to our stated capital allocation objectives and have prioritized key growth investments to diversify our asset base. Looking forward, I am confident that our team is executing on the right priorities to meet our commitments and drive shareholder value creation.

Turning to slide 4, team member health and safety is and will continue to be our top priority. We have an intense focus on team member well being, as a fundamental driver of engagement and satisfaction across our enterprise.

This quarter, we announced the hiring of a Chief Medical Officer. We welcomed Dr. Claudia Coplein in January, and look forward to her additional leadership in ensuring that our organization continues to remain vigilant and aggressive towards overall team member wellness.

We have also hired 200 new nurses and administrative staff, bringing the total occupational health staff to almost 600 team members. With these resources, we're advancing our health and safety priorities to support our vaccine rollout, and build our wellness programs.

Q1 2021 Earnings Call



We're also opening 7 pilot health clinics for team members and their families this year to increase their access to healthcare in the communities where we operate. I'm exceptionally pleased to report that our advanced preparations and investments have allowed us to start COVID-19 vaccinations on a limited basis as vaccines have become available.

We've extended our ongoing partnership with Matrix Medical, a leading clinical services provider to prepare for broad vaccine distribution and to ensure that US team members are educated across multiple languages about the COVID-19 vaccine. This is part of our ongoing effort to ensure our team members have information and access to the best protections available.

In addition to supporting vaccine deployment, we continue to use testing as a major component of our COVID-19 monitoring strategy and part of our health and safety measures to protect team members. We're testing thousands of team members every week and currently estimate that we have tested more than half our workforce.

Our always-on testing strategy is another proactive step in our efforts to search for and fight the virus. The result of our proactive approach has been a dramatic reduction in COVID-19 occurrence within our plants, a strong accomplishment given the surge in cases nationally.

As we look forward to the prospect of recovery in the months ahead, we have an incredible opportunity through our leading position in sustainability and social responsibility to drive a more sustainable future for our company and our planet.

We are excited for the upcoming publication of our Annual Sustainability Report later this spring which will show continued progress across our three key focus areas, including empowering people, conserving natural resources and cultivating innovation in agriculture.

As I consider our impact in these important objectives, I'm very proud of how our teams continue to drive progress in their tireless efforts towards lasting change. Since February of 2020, Tyson has donated nearly 90 million meals to aid hunger relief efforts in our communities, and we will continue to support those local communities where help is needed.

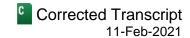
We will also improve our environmental footprint as we feed the world. In fact, we were the first across our peer group to announce greenhouse gas reduction targets that were accepted by the Science Based Targets initiative, a bold commitment to achieving a 30% reduction in greenhouse gas emissions by 2030.

We are also committed to leading in the advancement of animal welfare outcomes with transparency. To this end, we recently partnered with the University of Arkansas Division of Agriculture to fund research in animal welfare and commercial broiler farms, which will guide industry efforts to continuously improve welfare for the birds entrusted to our care.

These initiatives and many more to come solidify Tyson's position as a leader within this space, and our consistent progress is being recognized. We rank number one in the food production category on the 2021 Fortune Magazine World's Most Admired Companies list. This is our fifth consecutive year in a row to receive that recognition.

Turning now to slide 6, while we've experienced an operating environment that has seen pockets of volatility over the past few quarters, we are starting to see consumer behavior stabilize within the retail and foodservice channels. Our diverse protein portfolio continues to be well positioned to support current consumption patterns.

Q1 2021 Earnings Call



Consistent with our experience last year, continued strength in at-home consumption is delivering historically high retail and e-commerce sales. We continue to outperform peers with stronger retail volume growth. Our total Tyson and core business lines have posted 10 consecutive quarters of growth and four straight quarters of double-digit expansion, continuing to outpace total food and beverage.

Volumes in core business lines were up nearly 14%, during the latest 13 weeks and 19% during the latest 52 weeks. Our growth during these periods was driven in large part by our ability to bring incremental households into our brand and product lines.

Total Tyson household penetration reached 81%. And we continue to see an increased number of shopping trips that included a Tyson product, up 11% versus a year ago. As consumers increase their reliance on low to no contact buying methods during the quarter, we experienced e-commerce sales growth of 89%, in the latest 13 weeks, compared to last year.

This equated to approximately \$330 million of sales through our e-commerce channel partners. We expect e-commerce channels to remain very relevant, moving forward, as consumers maintain and shift to convenient, low to no contact buying methods.

Foodservice volumes were still down relative to pre-COVID-19 levels, but our channel and category mix sets us up well for recovery, as nationwide vaccination efforts are expected to drive more away-from-home protein consumption occasions.

It's important to note that some foodservice operators have adapted very well to the current environment and have embraced drive through and take out. Many of these operators are not seeing the volume declines others have. And some are even outpacing historical pre-COVID-19 performance.

Winning with consumers by meeting their needs is core to our strategy, and new innovations are a big part of that. Turning to slide 7, we're excited to share some new product launches that are showing signs of early success.

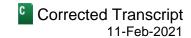
Our Air Fried Chicken line has been in market for just over a year, and is already showing great momentum with very strong repeat purchase rates. We're proud of how our innovation capabilities help us meet consumers' health and wellness needs, and have driven new buyers to the category.

Approximately 11% of volumes from the Air Fried line's initial launch period were generated by new consumers. Jimmy Dean, one of our iconic billion-dollar brands, recently extended into the breakfast burrito category, a natural progression for an industry-leading product line rooted in convenient and tasty offerings across breakfast occasions.

We're seeing strong incremental Jimmy Dean volumes from this product offering, as well as solid repeat purchase rates. And just last month, we launched new, alternative protein offerings under the Jimmy Dean label, including the plant-based patty croissant, which is already exceeding our original demand forecast.

Recognized and trusted brands like Jimmy Dean provide a powerful platform to offer plant-based options, which is an illustration of our One Tyson strategy in action. Each of these exciting product launches reaffirms Tyson's ability to bring innovative and on-trend products to market as part of our overall growth strategy.

Q1 2021 Earnings Call



This innovation engine creates synergies across not only the retail channel, but also foodservice. Turning to slide 8, we are also making progress on several other key strategic areas that will create long-term shareholder value.

First, a core part of Tyson's strategy is operational excellence. We strive to produce high-quality products with efficient operations and top-notch customer service. We are working aggressively to realize improvement opportunities, especially in our Chicken segment.

Later in the call, Stewart will share additional detail, on our actions to improve operating results in the Chicken segment.

In general, through our ongoing financial fitness, we are pursuing significant cost savings opportunities across our business. Next, we are making the organic investments necessary to meet growing global protein demand.

Our international platform increasingly provides an opportunity to grow overall sales and margins by leveraging our global production capabilities to reach an international customer base. We're using our One Tyson framework to identify synergy opportunities and to maximize the value from farm to table at a global level.

Because of our existing depth of experience in protein production, brand management and global customer relationships, we believe we have the right recipe for growth and the right to win in these attractive international markets. Overall, we estimate that approximately 60% of our capital expenditures are going toward growth objectives.

An area of increased investment is value-added capacity expansion and automation technology, which will support increased sales, high-efficiency processing and better customer service, among others. In addition, we're using technology to improve employee health and safety, animal well-being and environmental management.

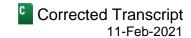
Lastly, our capital allocation priorities build financial strength allowing us to continue to invest in our business and return capital to shareholders. We have disciplined processes to ensure that investments we make optimize our returns and drive long-term shareholder value. We're also committed to return capital to shareholders. Our business performance has allowed us to increase our dividend per share each year for the last nine years.

I'd like to move now to a review of our first quarter fiscal 2021 performance for the total company, which is captured on slide 9. We delivered sales of \$10.5 billion in the quarter, slightly down versus the same period last year. Volumes were lower primarily due to reduced foodservice volumes, partially offset by higher retail volumes. Note also that the \$320 million charge related to our poultry litigation accrual was recorded as a reduction to sales in the quarter.

We delivered operating income of over \$1 billion during the quarter up 24% versus the same period a year ago. The company experienced strong operating income performance in Beef and Prepared Foods, while the Pork segment softened and the Chicken business showed signs of improvement. Total company operating income margin was 9.5%.

This strong performance resulted in \$1.94 in earnings per share for the quarter, an increase of approximately 28% versus the same period last year. In line with our focus on team member health and safety, we incurred \$120 million of direct incremental COVID-19 cost during the first quarter. These costs have not been adjusted out of our results and include items such as PPE, testing, medical partnerships, product downgrades, donations as well as enhanced employee pay and benefits.

Q1 2021 Earnings Call



Overall, our business performed well during the quarter, while showing profitability and operational improvements on a year-over-year basis in key areas. Our retail business has seen continued strong performance as a result of our depth of brand and product offerings. Based on our growing share positions and increasing presence within consumer shopping carts, we believe we're well-positioned for continued strength at retail.

We're also partnering with our foodservice customers to ensure they are prepared to meet increasing channel demand as the COVID-19 vaccination rollout continues and consumers gradually become more active away from home. Finally, I'm proud of how our team and business performed, but we certainly still have growth and execution opportunities ahead that we are actively pursuing.

I will now turn the call over to Stewart. He will share our detailed financial performance before I return to provide closing remarks.

Stewart F. Glendinning

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

Thanks, Dean, and good morning, everyone. Starting with Prepared Foods sales were \$2.1 billion for the quarter, roughly flat versus the same period last year, reflecting higher retail and lower foodservice sales. Total volume was down 9%.

Segment operating income was \$266 million for the quarter, up 48% versus prior year. This substantial improvement in profitability was driven by strong retail performance, lower commercial spending as a result of continued strength in retail demand and lapping of issues experienced as a result of our ERP rollout last year.

Offsetting these improvements were higher costs related to commodity price increases and other input cost inflation, along with COVID-related costs and impacts on our manufacturing efficiency.

As demand gradually normalizes post-COVID, we expect higher levels of commercial spending in order to meet our category growth objectives and negative mix impacts from higher foodservice volumes. As this shift occurs, we expect some benefits from improving fixed cost deleverage as volumes increase back to historical levels.

Operating margins for the segment were 12.6% for the first quarter, an improvement of more than 400 basis points versus the comparable period. We're also happy to see our business operations stabilizing in key areas, which has allowed us to improve our service levels, as well as fill rates with our customers.

Moving on to our Chicken segment. First quarter results show an improved operating income relative to the same period last year. Segment sales were \$2.8 billion for the quarter, down 14% versus prior year, in large part because of a \$320 million reduction in sales from the poultry litigation accrual.

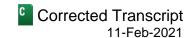
Volumes were down 7% relative to the same period last year, primarily due to lost foodservice sales, but were offset by bright spots in our retail value-added categories as well as strong sales to certain national account QSR chains.

Sales and volumes continue to be impacted by both channel shifts and intermittent operational issues resulting from the pandemic, including higher absenteeism at our production facilities.

Segment operating income was \$104 million for the quarter, up 33% versus the same quarter last year. The operating income improvement was driven by price increases on certain products and cost-saving initiatives as we continue working to improve the competitiveness of our Chicken operations.



Q1 2021 Earnings Call



We also saw a positive impact from derivatives of approximately \$70 million in the quarter. Operating margins for the segment improved 90 basis points to 3.3% for the first quarter.

We are driving actions in three areas within our Chicken business in order to restore top tier performance: being the employer of choice, improving operational performance, and our relentless focus on serving our customers' needs.

Higher levels of absenteeism and turnover have created inefficiency in our operations as they leave us short of team members to fully staff our plants and also drive higher levels of overtime pay.

As a result, we're implementing a range of measures designed to enhance the attractiveness of our production-related roles, including increased pay and the use of automation and technology to supplement some of the more difficult and high turnover jobs.

Next, our process flow in the plant has not been optimal, and we've been working steadily to correct this. Clearly, the disruptions caused by COVID have not helped, but we're starting to see improvement and expect that to continue during the year. This will be the source of considerable savings over time.

Lastly, COVID channel shifts and volatile demand have negatively impacted our order fulfillment rates. Changes we've made to plant operations in response to COVID are yielding improvements, and we expect that further improvements will result as we reduce our staffing gaps and drive operational flow improvements. This is, of course, in addition to the benefits expected, as foodservice begins to recover.

Moving to the Beef segment, first quarter results show an improvement relative to the same period last year. Segment sales were approximately \$4 billion for the quarter, up 4% versus the same period last year.

Key sales drivers include strong domestic and export demand for beef products with volumes up 5.6% for the quarter. Segment operating income was \$528 million for the quarter, up 45% versus prior year.

Operating income improvement was driven by higher volumes, as we lapped the prior year impacts of our Finney County plant fire. We also realized a \$55 million gain related to recoveries from the cattle supplier fraud, offset by higher COVID-related operating costs.

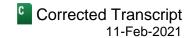
These higher costs were mostly driven by bonuses paid to our frontline team members. Note also, that the comparable period last year was revised down by \$68 million associated with the cattle supplier fraud, affecting the year-over-year comparison.

Operating margins for the segment improved 370 basis points to 13.2% for the first quarter. Now, let's move on to the Pork segment on slide 14. First quarter results show a softening relative to the same period last year.

Segment sales were \$1.4 billion for the quarter, up about 4% versus the comparable period last year. These sales drivers for the segment included, lower volumes as a result of temporary idling of one of production facilities offset by stronger demand.

Volumes were down 3% for the quarter, relative to the same period last year. Segment operating income was \$116 million for the quarter, down 40% versus the comparable period. Operating income degradation was driven

Q1 2021 Earnings Call



by production inefficiencies, the temporary idling of the previously mentioned production facility and COVID-related operating costs.

We also experienced higher live animal costs, which was not fully offset by price. Operating margins for the segment declined by 590 basis points to 8.1% for the first quarter. Moving to slide 15, I'll share the quarterly results impact on certain cash flow and balance sheet metrics.

Operating cash flow totaled \$1.4 billion, up nearly \$500 million versus the prior year. Liquidity strengthened to \$4.2 billion as of January 2, 2021. Gross debt to adjusted EBITDA of 2.6 times was down slightly compared to prior year-end. And on a net debt basis, we were at two times aided by the strong cash flows in this quarter.

Net interest expense totaled \$108 million. Our adjusted effective tax rate was 23.5%. Capital expenditures came in at \$289 million. We paid \$159 million of dividends during the quarter and purchased \$17 million of shares related to our employee stock plans.

Turning now to a discussion on our financial outlook. Clearly, an important headline this quarter is the sharp rise in grain costs. Grain futures for 2021 have continued to strengthen due to diminished stocks to use expectations for corn and soybeans and strong export demand, particularly from China.

We expect hedging and pricing actions will allow our team to mitigate some grain cost impacts moving ahead. But at this time it is difficult to estimate just how much can be mitigated through those actions.

As a reminder, a \$0.10 per bushel move in corn price or a \$10 per ton move in soybean meal translates into an approximate change of \$25 million in cost of goods sold.

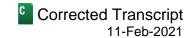
We've also seen some recent inflationary pressure in our freight costs, largely due to a shortage of drivers. In our international and export businesses, these freight dynamics are manifesting themselves through increased container costs. Our team's effort to mitigate future freight and transportation risks will continue to ensure our products are shipped efficiently and effectively to meet customer needs.

Lastly, looking at our assumptions related to the adequacy of live animal inventory, live cattle inventories remain ample to support our Beef business, and we believe hog inventories will remain adequate despite a small decrease in supply. Having said that, both cattle and hog futures have moved higher since October, and we're working to minimize the impact to our business, particularly in the Prepared Foods segment where retail prices do not move as dynamically.

Slide 17 captures our financial outlook for fiscal 2021. We expect to deliver annual revenues at the top end of our previous range of \$42 billion to \$44 billion supported by our strong first quarter performance. We also expect our directional annual guidance versus last year of improved operating margins in Prepared Foods and lower operating margins in Pork to hold.

At current grain prices, operating margins in Chicken will likely be lower than prior year. Because of stronger-thanexpected performance in Beef and current market conditions, we expect Beef to deliver an operating margin similar to last year's 10.1% or marginally lower. Key risks of this guidance include freight rates as well as labor availability and cost across all segments, grain cost in the Chicken segment, raw material costs for our Prepared Foods business and continued export market strength.

Q1 2021 Earnings Call



We are revising our capital expenditures outlook to \$1.3 billion to \$1.5 billion as we continue to build capacity across our network. As we noted last quarter, the majority of this spend will be toward capacity expansions in Chicken, Case-Ready Beef and Pork, Prepared Foods and International.

Net interest expense is expected to be lower than our previous outlook at approximately \$430 million, which reflects a recent term loan repayment of \$750 million that occurred during our second quarter. Our outlook on effective tax rate is unchanged, but we will continue to monitor the potential implications of legislation from the new administration.

Our expectations related to liquidity are unchanged, although we expect our liquidity to decrease from \$4.2 billion at the end of the first quarter based on the term loan repayment as well as our seasonally higher cash usage during our second quarter.

Finally, we have continued to invest in health and safety and well-being of our team members. And our COVID-related costs, which totaled \$120 million in the quarter are now expected to be approximately \$440 million for the year. It remains to be seen what portion of these costs will be permanent.

Now I'd like to turn the call back to Dean.

Samuel Dean Banks

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

Thanks, Stewart. In summary, our multi protein portfolio delivered strong first quarter results that will create the fuel for disciplined investments in higher margin, higher growth opportunities ahead and we will seek opportunities to remove unnecessary costs and invest in the right areas.

Our retail performance is showing tremendous strength, and our operational flexibility positions us well for a gradual recovery in foodservice volumes. We remain focused on fostering a culture of health, safety and wellness, and protecting our team members through workplace protections and a leading COVID-19 monitoring program as well as our vaccine preparations.

I'm energized by our team's commitment to delivering healthy, safe and accessible protein to global consumers, their ability to continuously innovate and their ongoing emphasis on operational execution. We're optimistic about the continued success of Tyson Foods as our diverse portfolio has us well positioned for long-term, sustainable growth.

And with that, I'll now turn the call back to Megan.

Megan Britt

Vice President, Investor Relations, Tyson Foods, Inc.

Thanks, Dean. We'll now move to your questions. Please recall that our cautions on forward-looking statements and non-GAAP measures apply to both our prepared remarks and the following Q&A. Operator, please provide the Q&A instructions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] At this time, we will pause momentarily to assemble our roster.

The first question comes from Ben Bienvenu with Stephens, Inc. Please go ahead.

Ben Bienvenu	\cap
Analyst, Stephens, Inc. Hey, thanks. Good morning, everybody.	Q
Samuel Dean Banks President, Chief Executive Officer & Director, Tyson Foods, Inc.	A
Morning.	
Stewart F. Glendinning Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.	A
Morning, Ben.	
Ben Bienvenu Analyst, Stephens, Inc.	Q

I've got two questions. One about guidance, and then the second, kind of bigger picture strategic question. First on guidance, I want to focus in on the Chicken guidance given that, I think most of the other elements of your guidance makes sense, but I wanted to probe on Chicken. I understand the view around rising grain costs.

And I know it's a relatively low stocks to use, but that's going to be a particularly tight environment this year. If you juxtapose that though with what Chicken prices have done year-to-date, I'm curious around what's embedded in your outlook as it relates to Chicken prices for the year relative to grain costs?

And then also relative to last year, which was tumultuous for the industry and for you. You've had some unusual charges and costs last year that, in some ways, artificially suppressed your Chicken margins. So maybe talk about that relative to your view and your guidance this morning that Chicken margins will be lower year-over-year.

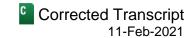
Samuel Dean Banks

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

Sure, Ben. First off, thanks for the question. Thanks for the interest in the company. As you saw in the slide presentation, we are making substantial investments towards improving the Chicken business overall. First off, in being employer of choice, we're making investments in operational performance and really getting our fill rates up to ultimately service our customers.

Those are not bullets on a slide. Those are actions that are actively taking place and as we said before, we're one of the world's largest Chicken businesses. So it's going to take some time for those activities to materialize into our operational performance overall.

Q1 2021 Earnings Call



As it relates to pricing, as we've said before, a lot of the pricing in the company happens – for poultry happens in the first and second quarter. We've made substantial progress there and are satisfied with how it's coming together.

Ben Bienvenu

Analyst, Stephens, Inc.

Okay. So, when we – just as a quick follow-up on that. When we look at kind of commodity Chicken markets, and I guess we need to assume a more tempered impact of the dynamics in that market on your Chicken sales prices to square up with your guidance in your release this morning. Is that a fair characterization?

Samuel Dean Banks

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

The industry as a whole is certainly facing a number of headwinds with grains, with transportation costs, labor, et cetera. We're managing those. Some of that's uncontrollable. We will see – with vaccinations, we will see foodservice recovery, but it's effect on price I'm not going to project.

Ben Bienvenu

Analyst, Stephens, Inc.

Okay. Fair enough. My second question is kind of bigger picture. On the renewable diesel industry and the projected growth in that industry that's growing rapidly. It's having even already a pretty meaningful impact on rendered animal fats and rendered animal fats pricing.

I know you guys are a large renderer in the chicken operation. I'm curious, one, how you think you're positioned relative to that bigger picture structural demand driver? And two, to the extent you can comment on it, how actively you are involved in being a feedstock provider to any producers?

Samuel Dean Banks

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

Sure. A few things there. Rendering is a fantastic part of our business and gives us, certainly some improved margins that we can make full use of whatever animals are entrusted into our care. It also gives us a lot of flexibility in production.

So the purchase of API that we made a few years ago has turned out to be great for the business. You may also know that we've made an investment in a joint venture with Jacob Stern in our Beef and Pork business to take a lot of the byproduct and make that ready and more ready for renewable diesel.

That's a great partnership and progressing well. We do see strong demand for all of the animal byproduct that could be going into that space. And we think it's a promising part of the business.

Ben Bienvenu

Analyst, Stephens, Inc.

Okay. Great. And best of luck. Thank you.

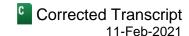
Samuel Dean Banks

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

Thank you.



Q1 2021 Earnings Call



Operator: The next question comes from Adam Samuelson of Goldman Sachs. Please go ahead.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Yes. Thanks. Good morning everyone.

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

Good morning.

Samuel Dean Banks
President, Chief Executive Officer & Director, Tyson Foods, Inc.

Good morning, Adam.

Adam Samuelson

Good morning. So I guess, just continuing on the Chicken business. And I'm just trying to make sure, I'm thinking about the moving pieces here properly. Is the outlook, the revised outlook for profits to be down year-on-year?

Is that, solely a function of grain? Is it – is there some of the absorption of the incremental COVID costs? Has your underlying productivity kind of expectations changed in a material way, kind of thoughts on just mix? So I'm just trying to make sure I understand, how the view has evolved, since you gave the outlook in November? And maybe you'll put finer points on some of those buckets?

Samuel Dean Banks

Analyst, Goldman Sachs & Co. LLC

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

Like I said in the previous answer, we are investing heavily and getting that business back on track. And we do expect foodservice recovery to help with some of the historical deleveraging we've seen there, as we convert business from – back to foodservice. Stewart, do you want to add anything?

Stewart F. Glendinning

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

Yeah, that'd be great. Look, in the presentation, we shared with you, some specifics on where we're working in chicken. We wanted you to be clear, that we understand where the challenges are and where we are making changes.

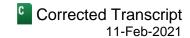
With respect to the change in forecast, you're right. I mean, the biggest change is grains. I mean the change in pricing in grains has been nothing less than enormous. And that is going to weigh on the business. So, that's the simple – the easiest answer.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Okay. That's all very helpful. And then, as we think about, maybe beyond this year, I'm just – look, the grain environment is what it is, those things will work themselves out one way or the other, either pricing in the industry will move higher over time? Or grain markets will actually will get back into surplus at one day. Help me think –

Q1 2021 Earnings Call



has the view on kind of through-cycle profitability in the Chicken business changed? Or how do you think about kind of where the opportunity really is?

I mean, the business has had a – been in a lot of different places from a profitability perspective in the last 5, 7 years. And I think we're all kind of struggling to calibrate a little bit where the portfolio is currently structured can really get to in a normal market environment when it's executing properly?

Samuel Dean Banks

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

A

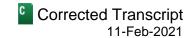
Yeah. I think, we described before that we do expect the operational improvements that we're making to materialize in the second half of the year and really, really show up in 2022. Again, with being one of the largest poultry businesses in the world, it takes some time to get those operational improvements back on track. We've put Donnie King in place. Have a very strong team there that are really on top of the things that we know that we need to improve to be where we want to be.

The long-term supply/demand dynamics in the classic poultry cycles, I'm not necessarily going to comment on. But I will say that our ability to value up our portfolio into our retail businesses and to add features and attributes that bring new households into our brands and into our poultry business, like you've seen with Air Fried are nothing short of exceptional. I think that gives us a real advantage in the future to expand upon – to make the business not only competitive, but winning in the space.

Adam Samuelson Analyst, Goldman Sachs & Co. LLC	C
Okay. I appreciate the color, Dean. I will pass it on. Thank you.	
Samuel Dean Banks President, Chief Executive Officer & Director, Tyson Foods, Inc.	Δ
Thank you.	
Operator: The next question comes from Peter Galbo of Bank of America	a. Please go ahead.
Peter T. Galbo Analyst, Bank of America	C
Hey, guys. Good morning. Thanks for taking the question.	
Samuel Dean Banks President, Chief Executive Officer & Director, Tyson Foods, Inc.	Δ
Good morning.	
Peter T. Galbo Analyst, Bank of America	C

Maybe to choose – pivot a little bit to Prepared Foods. The slide, I think, it's 15 in the deck is helpful in understanding, kind of, some of the input costs and understanding that maybe as foodservice comes back there's a little bit of a negative mix. But I wanted to shift the conversation to pricing ability there within Prepared Foods maybe on the retail side, as you're seeing this levels of – deep levels of inflation.

Q1 2021 Earnings Call



Is there anything you've done or anything you've seen in your internal research that would say, consumer elasticities are different this time around, whether it's due to higher savings rates or people being stuck at home, even in a post-COVID world that you feel like your ability to pass along pricing in Prepared Food this time might be easier just given some of the dynamics of the consumer that have changed? And then I have a follow-up as well.

Samuel Dean Banks

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

A

I would say that we do see higher consumer interest in spending on food. I think that's benefited a couple of our businesses. Prepared Foods is one. Beef is another, just very, very strong demand. And again, our flexibility from retail to foodservice is going to allow us to step-in and meet consumers wherever they are. Some of the costs that we incur, we can happily pass along to customers, some we can't, and we do see rising input costs there. But we're very, very well-positioned with the portfolio to meet consumers where they are and make sure that we're able to take care of them.

Peter T. Galbo

Analyst, Bank of America

Okay. And maybe just one on Chicken and maybe to ask Adam's question in a bit of a different way. Looking at the three kind of pillars you guys have outlined for improving Chicken, I mean, those are all helpful from our perspective. But I guess what's tough is — it's hard for us to view this from an outside perspective and understand if things are actually going right underlying. So is there any way for us to track how these improvements are going from an external basis or anywhere you'd want to steer us to — for us to know that you're on the right track?

Samuel Dean Banks

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



I'd say that what you can do is take a look at our historical financial performance. See where we're going. A lot of the market indicators related to our retail product performance is indicative of us being able to gain customer traction there.

And then you can probably look back at the historical foodservice performance with some rough estimates and see that when we pick up foodservice when that volume comes back, and we can pick our volume back up with the operational improvements that we've put in place, are going to help us deleverage or fix the deleverage and operate at a higher level.

Peter T. Galbo

Analyst, Bank of America

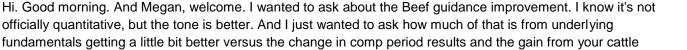


Okay. Thanks very much, guys.

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

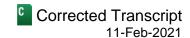
Ken Goldman

Analyst, JPMorgan Securities LLC



fundamentals getting a little bit better versus the change in comp period results and the gain from your cattle supplier issue. I just wanted to get a sense of what the underlying, I guess, dynamics are there?

Q1 2021 Earnings Call



Samuel Dean Banks

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

Generally, the dynamics are very good for the business, and the team is managing those dynamics extremely well. There's very strong demand in really all channels, including exports. And from a supply perspective, it's really clear that we've seen a slight downtick of about 1% in breeder stock, but the cattle supply remains strong for the business and – or, as we've said before, it's a spread business. So the operational component, the teams are nailing and the dynamics for the industry are actually looking attractive.

Ken Goldman
Analyst, JPMorgan Securities LLC

Thanks. And then, my follow-up is, a little more than 10 years ago, grain prices were even more volatile than they are now. At that time the chicken industry reacted in part by changing some of its pricing dynamics. So, I think some agreements went from once a year to maybe adjusting a few times a year. I know you have dozens of pricing mechanisms and agreements. That's probably understating it. But in general, do you have the desire, the ability to amend some of your contracts so that you get a little bit closer to cost-plus across the board in chicken or something effectively like that? I guess the reason I'm asking is I think the stock's multiple sometimes is held back by unpredictability. And the more that you can not have to worry about grain, because there's an adjustment mechanism for your chicken prices, the better. Just curious about your thoughts along those lines.

Samuel Dean Banks
President, Chief Executive Officer & Director, Tyson Foods, Inc.

Yeah. There's a variety of mechanisms that we use in managing input costs. We've talked about the hedging and forward strategy, where when we sign agreements, we do try to lock in the price for those agreements to fix the margin. As it relates to market pricing, as we've described before, there's a lot of different mechanisms, some cost-plus, some market based, et cetera. I can't really give any input on how we would consider changing pricing mechanisms for obvious reasons.

Ken Goldman

Analyst, JPMorgan Securities LLC

Okay. Thanks, Dean.

Samuel Dean Banks
President, Chief Executive Officer & Director, Tyson Foods, Inc.

Operator: The next question comes from Ken Zaslow of Bank of Montreal. Please go ahead.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

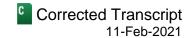
Hey, good morning, everyone.

Samuel Dean Banks
President, Chief Executive Officer & Director, Tyson Foods, Inc.

Morning, Ken.

No problem.

Q1 2021 Earnings Call



Stewart F. Glendinning

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

Morning, Ken.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

My first question is, you said that 60% of your capital spending is going to growth. In an environment where you're a little struggling with your operational efficiencies, particularly in Chicken, why not dedicate more resources to that to ensure the margin structure gets to where you want to do on an operational basis rather than focus on growth? Just a philosophical question, I guess.

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

Yeah, Ken, I wouldn't necessarily conflate those two things. I think, first of all, on the Chicken side, all resources that are necessary to help bring that business back are being deployed there, so absolutely, no shortage of investment there.

But when you look across the portfolio, there are a number of places where we have opportunity to grow our business by adding capacity. You think about our case-ready plant that is opening in Utah. We've got a number of opportunities in Prepared Foods. And we recognize that unless we put money ahead to meet that capacity, we're going to be in a place where we miss out on sales.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Okay. And then my follow-up question is what is your ability to realize the higher pricing in Chicken? It sounds like – I understand the feed cost side, even the operational side, but it sounds like, we're seeing breast prices move. We're seeing leg prices move. Wing prices are pretty substantially higher. And yet, it doesn't seem like you're fully incorporating. Is it just because of the contracts have to kind of get through and we'll start to see that by the end of the year or into next year? How do you think about that? Just the realization of pricing seems a little bit more delayed than I would have thought.

Samuel Dean Banks
President, Chief Executive Officer & Director, Tyson Foods, Inc.

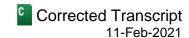
We are obviously gaining from the market prices. We do have some buy versus grow strategy, where we do buy some breast meat in the market, et cetera. I can't really comment on pricing looking forward. So, I can't comment there.

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

Ken, the only thing I'd say is that, to Dean's earlier comments, we have a wide range of pricing mechanisms. Some of those are, as we've shared in the past, fixed over a longer period of time. Clearly, those are not going to move as quickly. Others are spot and we'll respond quickly as the market rises.

I wouldn't discount, obviously, the fact that, my earlier point, which is that the move in grains is pretty substantial. And I wouldn't overlook either the increase in transportation costs that we're seeing in the marketplace. So it's – there's a number of factors there that are going to play out in the P&L.

Q1 2021 Earnings Call



Kenneth B. Zaslow

Analyst, BMO Capital Markets Corp.

Great. I appreciate it. Good luck.

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

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Yeah. Hey, good morning, Dean, Stewart. And thanks for taking my question, and congratulations on a surprisingly strong quarter. Quick – two quick ones. So first of all, within the broader concept of Chicken and obviously, your investments in new plants. So just to understand, and if you could maybe reiterate what you said about three months ago, so clearly, there's still going to be the start-up cost to consider, right? And that's part of your guidance, just to be clear, what you said three months ago to have this properly reflected in the model. Is that correct?

Stewart F. Glendinning

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

Yes. That's correct. I will just give you a little bit of update on that. I did say, at the time that I thought the start-up in Humboldt was going to cost about \$100 million. That's coming in a little less expensively now. And we think it's going to run about \$75 million in the year.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Okay. Perfect. That's a good update. And then, just following up a little bit on the Beef segment and what you came to obviously there. And I mean, it really looks like it's going to a very profitable year. But how do you think about the Beef business more in the medium-term?

I mean, clearly, it's been on a profitable basis and on a strong run rate over the last couple of years now. Last year, was by far exceptional, you expect another very, very strong year in 2021 with the updated guidance.

But, where do you think this is going to turn out more like a normalized run rate? How do you think cattle suppliers are going to work through? And where do you think there might be a little bit of a headwind if grain prices were to stay high to reflect also maybe higher cattle prices? And how can you prepare for that?

Samuel Dean Banks

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

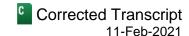
So we do see that cattle, while it – breeder stock is a slight downtick and could decline overtime, herd supplies are actually still very, very strong into the foreseeable future. And what is also quite good for the business is the demand is very strong. And so we feel like the business is positioned good for the long-term. We're not setting long-term margin guidance for the business, but we feel like the dynamics do look positive into the foreseeable future.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Okay. Perfect. I will leave it here. Thank you very much.

Q1 2021 Earnings Call



Operator: The next question comes from Alexia Howard of Bernstein. Please go ahead.	
Alexia Howard Analyst, Sanford C. Bernstein & Co. LLC	Q
Good morning, everyone.	
Stewart F. Glendinning Chief Financial Officer & Executive Vice President, Tyson Foods, Inc.	A
Good morning, Alexia.	
Samuel Dean Banks President, Chief Executive Officer & Director, Tyson Foods, Inc.	A
Good morning.	
Alexia Howard Analyst, Sanford C. Bernstein & Co. LLC	Q

Hi, there. So coming back to the Prepared Foods business, the margin obviously improved very nicely this time around. You mentioned that you pulled back on marketing spending. I'm just wondering, is that from – assuming that, that comes back, and I'd like to hear what you're plans are for marketing spending going forward. Is that – is this kind of the margin run rate that we might expect on that business? Or is there still lumpiness that could play out there?

Samuel Dean Banks

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

A few things that I would just emphasize. You are correct that we will continue to reinvest in marketing and advertising as needed. There's been such strong demand in [ph] outstripping (49:09) production in many ways. And so we've pulled that cost back for the time being. It will ultimately return. We won't be getting projections necessarily on how much that will return to.

The other thing to keep in mind is just from a mix perspective. We've been thrilled at having consumers go to retail outlets in order to get our food. We will see foodservice recover. And from a mix perspective, that will come in probably at a slightly lower margin. And therefore, we do know that Prepared Foods will have some normalization as foodservice ultimately recovers with vaccination rollouts, et cetera.

Alexia Howard

Analyst, Sanford C. Bernstein & Co. LLC

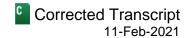
Okay. Great. And then as a follow-up, on the Pork side of the business, can you talk about the strengths of the export markets at the moment? You've talked about that in recent quarters, particularly given the African swine fever dynamic. As we see the swine herd in China, kind of get back to not quite normal levels, but moving in that direction. Do you think that that whole dynamic of African swine fever pushing up global pork prices is what innings are we in, I guess, is the question? Are we more than halfway turned out at this point? I imagine we are.

Samuel Dean Banks

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



Q1 2021 Earnings Call



It's hard to project, to be honest. We still hear reports of ASF in China. We also do know that they're making aggressive measures to build a commercial herd there and making some progress towards that. We've seen global redistribution protein-related to ASF cases in Germany and Vietnam and others. That continues to play itself out generally positively. We see very strong demand for pork, which is helping offset some of the increase in hog prices. And so far, the business is performing well. Projecting ASF is very difficult. We've seen historically it to take decade plus to recover from ASF in certain markets. And so we hesitate to call whether or not we're halfway through that.

Alexia Howard

Analyst, Sanford C. Bernstein & Co. LLC

Thank you very much. I will pass it on.

Samuel Dean Banks

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

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. I just wanted to get a flavor on the Pork side of the business. Are you doing anything in terms of trying to prepare for California's Prop 12, which is supposed to take effect next year?

Samuel Dean Banks

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

So we're obviously aware of the legislation. We are looking at the impacts on the business, but otherwise can't comment.

Michael Piken

Analyst, Cleveland Research Co. LLC

Okay. And then, I guess, just kind of shifting gears over back to the Beef side a little bit. I know, you mentioned that you think there's going to be adequate availability of cattle. What are your expectations in terms of as we progress through the year in terms of kind of the cattle weights, the grading? And does that have any impact on your mix if weights come off between the Choice, Select? Or is it relatively – are you guys relatively indifferent, if there's any changes in the way it's kind of moving forward?

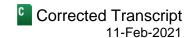
Samuel Dean Banks

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

Whether it's weather or grains, we will always be looking for the most – the highest value and the most valuable cattle in the market. It's not really – at this point, not really something we can project out impacts from that, although our team has done a phenomenal job at buying in the marketplace and making sure that we get the right cuts, and we can put those out in the highest margin, highest value.

We have invested substantially in our portion business. We have capacity coming online in a couple of places in this year and next. And I think that's going to actually continue to support both Beef and Pork and those

Q1 2021 Earnings Call

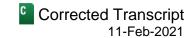


businesses as we continue to add value and really meet the customers where they want to buy them with the portions and pieces that they want. Michael Piken Analyst, Cleveland Research Co. LLC Okay. Thank you. **Operator:** And just to reiterate, is there time for one last question today. Samuel Dean Banks President, Chief Executive Officer & Director, Tyson Foods, Inc. One last question. **Operator**: Thank you. That question will be from Michael Lavery of Piper Sandler. Please go ahead. Michael S. Lavery Analyst, Piper Sandler & Co. Thank you. Good morning. Stewart F. Glendinning Chief Financial Officer & Executive Vice President, Tyson Foods, Inc. Good morning. Samuel Dean Banks President, Chief Executive Officer & Director, Tyson Foods, Inc. Good morning. Michael S. Lavery Analyst, Piper Sandler & Co. I wanted to touch on the international piece of the business. And I guess maybe understand how much, if any of the growth CapEx is there, is directed there? And where you see the biggest opportunities internationally, either from an organic growth perspective or potentially interest in M&A? **Samuel Dean Banks** President, Chief Executive Officer & Director, Tyson Foods, Inc.

As we've said before, the international markets are where we see the majority of protein demand growth coming from going forward. We're really proud of our teams embracing the One Tyson concept and looking at how we can use our global footprint to take whether it's variety meats in the US and export those and have those valued up into the global marketplace.

The acquisitions that we've made internationally are really helping us both in further processing product that's exported from the US, but also in really taking advantage of synergies related to different skill sets, functions, innovation that we've established globally. So, the international business is a continued focus for ours and we will continue to invest capital from an organic perspective. And we are always looking for acquisitions. You've seen

Q1 2021 Earnings Call



the recent announcement that we are partnering with Malayan Flour Mills. There'll be more deals like that and others to come.

Stewart F. Glendinning

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

capacity to meet the demand that we see.

The only other thing I'd just add on top to your – specific on the CapEx, Michael is we have announced investments in plants in both Asia as well as in Europe. So yes, specific money is going there to build out new

Michael S. Lavery

Analyst, Piper Sandler & Co.

Okay. That's great. Thanks. And just a follow-up on the Jimmy Dean plant-based patty, could you just touch on, some of your thinking using the Jimmy Dean brand with plant-based? And what the consumer insights were behind that? And how you think about that launch?

Samuel Dean Banks

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

Sure, sure. That brand has just tremendous value to the customer. And if you've been to a retail grocery store, and looked at the freezer, the breadth and depth of that portfolio resonates with just a variety of customers.

Plant-based protein, not only do we have a phenomenal substrate in our innovation there. But we think that, that brings another customer to that freezer aisle and complements our business. And so, it was a very thoughtful approach. And you'll see more of that to come.

Michael S. Lavery

Analyst, Piper Sandler & Co.

And so I think you just alluded to this at the very end, but that there'll be - we should look for more plant-based options to come as well?

Samuel Dean Banks

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

Yeah. Our investments in plant-based protein are continuing to show velocities and results that we would expect. So we'll continue to be investing in that area.

Michael S. Lavery

Analyst, Piper Sandler & Co.

Thank you very much.

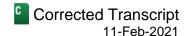
Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Dean Banks for any closing remarks.

Samuel Dean Banks

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

Thanks, again, everyone, for your interest in Tyson Foods. We hope you and your families stay healthy and safe. And we look forward to speaking to you all again soon. Thank you.

Q1 2021 Earnings Call



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

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