

Tyson Foods

First Quarter 2022 Earnings

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CORPORATE PARTICIPANTS

Megan Britt – *Vice President Investor Relations*

Donnie King - *President and Chief Executive Officer*

Stewart Glendinning – *Executive Vice President and Chief Financial Officer*

David Bray - *Group President, Poultry*

Noelle O'Mara – *Group President, Prepared Foods*

Shane Miller - *Group President, Fresh Meat*

PRESENTATION

Operator

Good morning, and welcome to the Tyson Foods First Quarter 2022 Earnings conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask question. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Megan Britt, Vice President of Investor Relations. Please go ahead.

Megan Britt

Hello, and welcome to the First Quarter Fiscal 2022 Earnings conference call for Tyson Foods. Prepared remarks today will be provided by Donnie King, President and Chief Executive Officer; and Stewart Glendinning, EVP and Chief Financial Officer. Additionally, David Bray, Group President, Poultry; Noelle O'Mara, Group President, Prepared Foods; Shane Miller, Group President, Fresh Meats; and Chris Langholz, Group President, International, will join the live Q&A session. We have prepared presentation slides to supplement our remarks, and these 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. 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 Donnie.

Donnie King

Thank you, Megan, and thank you to everyone for joining us for the call today. Earlier today, we announced our first quarter fiscal 2022 results. Tyson Foods once again delivered strong financial results. I would like to start by thanking our team members for their dedication, Herculean efforts this quarter as we managed a complex and dynamic operating environment.

At our Investor Day, I shared our plan to grow our top and bottom lines aggressively over the next three years. This meant EPS growth of high single digits relative to a 2019 baseline and volume growth ahead of the market. Our results this quarter put us firmly on that path. We achieved double-digit sales and earnings growth, both of which were driven by ongoing demand strength, productivity savings, and improving execution across our segments.

Our diverse protein portfolio, omnichannel capabilities, leading brands, and value-added products contributed to our results. Strong performance in our beef segment, earlier-than-expected recovery in prepared foods, and improvement in chicken and pork all supported strong earning results. Our retail core business lines, which include our iconic brands, Tyson, Jimmy Dean, Hillshire Farm, and Ball Park maintain their volume share position even as we work through price increases to address inflationary pressure, and our foodservice focused six product lines grew share year over year in broad-line distribution.

This growth was driven in large part by value-added chicken, which outperformed industry recovery, and breakfast sausage where we were seeing improved fill rates. Importantly, and despite the continued impact of COVID-19, our volumes improved slightly across the company relative to the same quarter last year.

Chicken was a bright spot where we saw our volumes improved 3.6%. While this is a good start, we are not where we want to be on volumes. So, we're taking actions segment by segment to improve our volume performance. These actions include investing in our team members, in additional capacity, and in brands and product innovation.

As discussed at Investor Day, we are also in the process of building 12 new plants. Each of these is progressing, and each will enable Tyson to address capacity constraints and meet the growing global demand for protein.

Bottom line, we're committed to improving our total company volumes during the year. We're also making sure that our pricing incorporates inflationary cost pressures on our business. In the quarter, our cost of goods sold was up 18% relative to the same period last year. We are seeing higher costs across our supply chain, including higher input costs such as feed and ingredients.

We're also managing the higher cost of labor and transportation due to strong demand and limited availability. With these higher costs, we work closely with our customers to achieve a fair value for our products. As a result, our average sales price for the quarter increased 19.6% relative to the same period last year. This helped us capture some of the unrecovered costs due to the timing lag between inflation and price.

Finally, our balance sheet and overall liquidity position are strong, providing optionality to pursue strategic growth priorities and invest in growth across our portfolio. We have a disciplined approach to deploying capital to support capacity expansion while achieving improved returns on invested capital.

Our first quarter results clearly demonstrate that we are making progress on our growth objectives, that we remain focused on outpacing the overall market, improving operating margins, and driving strong returns for our shareholders. While we're growing our business, we are mindful of our corporate responsibilities around environment, social, and governance goals. For example, we committed to investing in and supporting our communities in rural America and around the world. Last year, Tyson Foods donated more than 16 million pounds of protein, the equivalent of 64 million meals, to fight hunger.

We're incredibly proud of this work and the people that make it possible. Tyson is a great company with a great team doing great things, and I'm pleased that this was recognized just last week by Fortune Magazine, who announced that for the sixth year in a row, Tyson Foods was number one in our sector in their rankings of the world's most admired companies.

Now, let's look at a few financial highlights from the first quarter. Our results included double-digit top and bottom line growth. We delivered solid operating income performance up 40% for the quarter. This performance was broad-based across segments where continued strong consumer demand and effective pricing to mitigate the impact of inflation drove higher earnings.

On volume, we are up slightly, and while we're working to achieve optimal throughput across our segments, labor challenges are still impacting our volumes and the ability to achieve optimal mix across our network. Compared to pre-pandemic levels, our volume performance is outpacing our peer set.

In retail, despite substantial market pressures, core business lines held share in the first quarter led by strong performance in lunchmeat, hotdogs, snacking, and bacon. We also realized strong e-commerce results with Tyson Foods outpacing total food and beverage growth and our core lines gaining share in

the quarter. Still, customer demand continues to outpace our ability to supply products. So, we have targeted actions in each segment to improve volumes. This is key to delivering on our commitments.

To realize our volume goals, we must be able to fully staff our plants across the company. We continue to take meaningful action toward becoming the most sought-after place to work. For example, we provided our hourly team members with more than \$50 million in bonuses during the first quarter. We are piloting subsidized and on-site childcare, and we are adjusting schedules to flex with workforce needs. These actions are bearing fruit as we see some improvement on the labor front, and while we have seen some labor challenges during the Omicron surge, we are generally seeing lower turnover in absenteeism.

We saw chicken volumes grow 3.6% in the quarter, driven by strong fundamental demand and improved live production. What is important to note is that we grew ahead of the market and gained market share. In prepared foods, volumes were down 2.6% in the first quarter. About half of the decline was related to pet treats divestiture. We expect to sequentially improve these results over the remainder of fiscal year '22 as we take actions to expand and improve capacity utilization.

In beef, volumes were down 6.2% driven by labor shortages previously mentioned. In addition, port congestion has also dipped in export volumes in the segment. We expect these headwinds on volume to normalize over the course of fiscal 2022.

In pork, we have sequentially improved our capacity utilization. We are still working to optimize the mix. In international/other, while we are starting from a relatively small base, our investment in capacity, innovation, and brands are supporting our market share growth objective.

Overall, we expect to grow our total company volumes by 2% to 3% in FY '22 outpacing protein consumption growth. Chicken remains a top priority and we continue to execute against our roadmap to achieve an operating income margin of 5% to 7% on a run rate basis by mid-fiscal '22.

I remain confident we will meet this goal. In the first quarter, we've started to see profitability improvement resulting from our actions. For example, we're investing aggressively in automation and technology to help us address some of the most hard-to-fill roles. This is not a series of projects, but is a well-planned program with automation designed to use common designs and equipment across our plants to optimize cost, maintenance, and asset utilization.

The second imperative is to improve operational performance, and critical to improving performance is maximizing our fixed-cost leverage which means having enough [indiscernible] to run our plants full. Since September, we've seen an improvement in our hatch rate ahead of our expectations. We continue to expect full recovery in this year.

We were pleased with our volume growth in the quarter and expect further improvements as we grow our harvest capacity utilization from an average of 37 million head per week in FY '21 to 40 million head per week by year end. We've noted previously that strength in spot prices for commodity chicken products put our buy versus grow program at a relative disadvantage. We have reduced our reliance on outside meat accordingly.

We will staff our plants, service our customers, grow our volumes, and be the best in the business. The plan we have continues to be the right plan and our commitment to winning with our team members, winning with our customers and consumers, and winning with operational excellence is delivering results.

Last year, we announced the launch of a new productivity program designed to drive a better, faster, and more agile organization that is supported by a culture of continuous improvement and faster decision-making. The program aims to deliver \$1 billion in recurring productivity savings by the end of fiscal 2024 relative to a fiscal 2021 cost baseline and has three critical focus areas, which are operational and

functional excellence, digital solutions, and automation. We're making some good progress on this front. I spoke just a minute ago about our investments in automation, but we've also attacked other issues.

In prepared foods, we're making use of supply chain, digitization, and advanced analytics. Our digital manufacturing platform allows us to analyze real-time data to take actions to optimize process conditions that drive better yields, lower costs, consistent quality, and increased output. In transportation and logistics, we have established ongoing optimization of the mix and allocation of our private fleet, dedicated fleet, and third-party fleet, mitigating inflationary pressures and supporting better on-time deliveries to our customers. In addition, we continued the expansion of our direct shipment program, reducing miles driven and product touches in our supply chain. As a result of projects like these, we're on track to deliver \$300 million to \$400 million of savings in fiscal 2022.

We shared at our Investor Day that we are taking actions to accelerate our growth and drive disciplined return on invested capital. The five imperatives on this slide show how we will achieve our commitments and drive value creation. This starts first with our commitment to our team members with a focus on ensuring their health, safety, and well-being as well as ensuring an inclusive and equitable work environment.

We are proud of our COVID-19 vaccine policy implemented last year in the US, and of the broader investments that we have made to keep our team members, their families, and our communities safe. Because of our policy, our team members are better protected and the cases we do see have been mild or asymptomatic resulting in an extremely low number of hospitalizations. We are strongly encouraging boosters and are hosting clinics to make it easier for our team members and their families to get boosted.

Second, we are working to enhance our portfolio and capacity to better address demand. This includes increasing the contribution of branded and value-added sales. As a result, we expect our volume to outpace this growing market.

Third, we are aggressively restoring competitiveness in our chicken segment. This starts by returning our operating margin to the 5% to 7% level by the middle of fiscal 2022.

Fourth, we're driving operational and functional excellence and investing in digital and automation initiatives. This is at the heart of our new productivity program. We're working diligently to drive out waste, minimize bureaucracy, and enhance decision-making speed across the organization.

Fifth, to address projected demand growth over the next decade, we are using our financial strength to invest in our business. On capital alone we're expected to invest \$2 billion in fiscal year '22 with a disproportionate share focused on new capacity and automation objectives. We continue to return cash to shareholders. During the quarter, we returned over \$500 million in dividends and share repurchases.

To wrap it up, we are committed to winning with our team members, customers, and consumers as well as winning with operational excellence. I'm more excited about the future of Tyson Foods with each passing day, and I will now turn the call over to Stewart to walk us through our financial results in detail.

Stewart Glendinning

Thank you, Donnie. Let me turn first to a summary of our total company financial results. We're pleased to report a strong overall start to the year. Our sales were up approximately 24% in the first quarter largely a function of our pricing initiatives to offset inflationary pressures.

Volumes were also up slightly, although impacted by continued labor challenges. Looking at our sales results by channel, retail drove almost \$350 million of top line improvements versus last year. Improvements in sales through the foodservice channel drove an increase of \$1 billion, and our export sales were nearly \$333 million stronger than the prior year period as we leveraged our global scale to grow our business.

First-quarter operating income of \$1.4 billion was up 40% relative to the same quarter last year due to increased earnings in beef, pork, and chicken. Driven by the strength in operating income, first quarter earnings per share grew 48% to \$2.87. Higher operating income led to higher adjusted earnings per share compared to the same period last year, and first-quarter EPS also benefited from lower net interest expense and taxes.

Slide 10 bridges year-to-date operating income, which was \$407 million higher than fiscal 2021. Volumes were up slightly during the year primarily a result of improvement in chicken, pork, and international/other, offset by declines in beef and prepared foods. Declines in beef and prepared foods were largely due to continued labor challenges in those segments.

Our pricing actions led to approximately \$2.1 billion in sales and price/mix benefits during the quarter which offset the higher cost of goods sold of \$1.6 billion. We saw continued inflation across the business, in some instances up 20% to 30%. Notable examples were labor, grain costs, live cattle, hog costs, and freight costs.

Finally, SG&A was \$88 million unfavorable to the same period last year which was largely a result of cycling a \$55 million benefit recorded last year for the recovery of cattle.

Moving to the beef segment. Segment sales were more than \$5 billion for the quarter, up 25% versus the same period last year. Sales growth was driven by continued strong demand for beef products, which has supported higher average sales price. Partially offsetting higher sales prices were higher capital costs during the first quarter versus the comparable prior-year period. We had sufficient livestock available in the quarter driven by strong front-end supplies. We have good visibility into cattle availability through fiscal year 2022 and continue to expect it will also be sufficient to support our customer needs.

We delivered segment operating income of \$956 million up 81% versus the prior comparable period. This improvement was driven by strong global demand for beef products and a higher cutout, which were partially offset by higher operating costs. Our operating margin of 19.1% was notably higher than the same quarter last year but was down on a sequential basis versus the last two quarters as cost increases led to a narrowing of the spread.

Now, let's move on to the pork segment on slide 12. Segment sales were over \$1.6 billion for the quarter, up 13% versus the same period last year. Key sales drivers for the segment included higher average sales price due to strong demand and increased hog costs partially offset by a challenging labor environment. Average sales price increased 12.8%, and volumes were slightly higher relative to the same period last year. Segment operating income was \$164 million for the quarter up 41% versus the comparable period.

Overall, operating margins for the segment improved to 10.1% for the quarter. The operating income improvement was driven by higher spreads in the business.

Moving now to prepared foods. Sales were \$2.3 billion for the quarter up 10% relative to the same period last year. Total volume was down in the quarter with strength in the retail channel and continued recovery in foodservice more than offset by labor and supply chain challenges. Sales growth outpaced volume growth driven by inflation-justified pricing.

During the quarter, retail core business mines maintained share driven by consumer demand for our brands and continued strong execution by our team. Operating margins for the segment were 8% or \$186 million for the first quarter. The decline in segment operating margins versus the same quarter last year was driven by significant increases in raw material and other input costs that we were not able to fully recover through price during the quarter. Raw material costs, logistics, ingredients, packaging, and

labor have increased our cost of production. Our pricing lagged inflation, but we expect to recover cost increases during fiscal 2022.

In addition to pricing, we've executed productivity, revenue management, and commercial spend optimization initiatives while ensuring the continued development of brand equity through marketing and trade support.

Moving into the chicken segment's results. Sales were \$3.9 billion for the quarter, up 37%. Volumes improved 3.6% in the quarter due to strong consumer demand and increased live production. Our teams have been focused on streamlining our plants to deliver higher volumes and we expect to deliver substantial volume improvements in fiscal 2022 as hatch recovers, and we continue to look for ways to operate our plant more efficiently.

Average sales price improved around 20% in the first quarter compared to the same period last year. This increase is due to favorable product mix and price recovery to offset cost inflation. On pricing, we made tremendous progress toward driving our pricing mechanisms toward more variable structures and are now seeing those benefits. We restructured our pricing strategies given our experience in fiscal 2021 to ensure that we have the flexibility to better respond to market and inflationary conditions.

Chicken delivered adjusted operating income of \$117 million in the first quarter of fiscal 2022 representing an operating margin of 3%. Operating income in the quarter was negatively impacted by \$185 million of higher feed ingredient costs.

Now, turning to slide 15. As part of our capital allocation approach, we focused on building financial strength, investing in our business, and returning cash to shareholders. In pursuit of our priority to build financial strength and flexibility, we used improved earnings to retire debt in fiscal year 2021 and expect to do the same this year. Continued strength in our earnings this quarter has further improved our leverage ratio to 1.1 times net debt to adjusted EBITDA.

Investing in our business for both organic and inorganic growth will continue to be an important priority and will help Tyson increase production capacity and market capabilities. This will support strong return generation for our shareholders.

Finally, as our track record has demonstrated, we are committed to returning cash to shareholders through both dividends and share buybacks. We finished the quarter with a powerful balance sheet and continued capital allocation optionality.

Let's now discuss the fiscal '22 financial outlook. We are maintaining our total company sales guidance of \$49 billion to \$51 billion, although we expect to perform at the upper end of the range. In support of our sales growth, we still expect a 2% to 3% volume growth on a year-over-year basis as we work to optimize our existing footprint and run our plants full.

Looking at AOI margin target ranges for our segments, in chicken, our operational turnaround is working, and we still expect to achieve a run rate profitability of 5% to 7% by the middle of the year. We expect full-year margins that also fall between 5% and 7%.

Prepared foods is expected to deliver margins during fiscal '22 of between 7% and 9%. Based on our first-quarter performance, we now expect the full-year margin performance in prepared foods to be at the upper end of the range.

In beef, we are maintaining our AOI margin at 9% to 11%, but we expect to perform at the upper end of the range. Also, we expect the front half of the year to be meaningfully stronger than the back half as industry and labor conditions are expected to normalize partway through the year.

In pork, we expect similar performance during fiscal '22 to what we accomplished during fiscal '21, equating to a margin of between 5% and 7%. As is normal seasonality for pork, we expect the first quarter to be the strongest.

In international/other, we expect margins of 2% to 3% as capacity expansions and strong global demand support volume growth and improved profitability.

Consistent with our expectation for a meaningful increase in capex spending to pursue a healthy pipeline of projects with strong return profiles, we anticipate capex spending of approximately \$2 billion during fiscal 2022. We now expect lower net interest expense due to lower anticipated average debt balances during the fiscal year. Our expectations for productivity savings and tax rate changes remain unchanged. Our net leverage is expected to remain well below 2 times net debt-to-adjusted EBITDA providing optionality for inorganic investment and additional return of cash to shareholders over the course of the year.

In summary, we've had a strong start to the fiscal year. We have a great team, growing demand for our products, strong portfolio diversity, and the differentiated asset footprint needed to win in the marketplace. We set out ambitious calls at our Investor Day, and we expect to achieve them.

I'll now turn the call back over to Megan for Q&A instructions. Megan?

Megan Britt

Thanks, Stewart. 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 instruction.

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. Please limit yourself to one question and one follow-up. If you have further questions, you may reenter the question queue. At this time, we will pause momentarily to assemble the roster.

Our first question will come from Adam Samuelson of Goldman Sachs. Please go ahead.

Adam Samuelson

Thank you. Good morning, everyone. So, I guess my first question, just maybe taking the quarter and the kind of updated view of fiscal '22 kind of broadly, can you help us frame kind of the areas where the margin expectations for the year have maybe incrementally inched up on a point estimate basis and some of the drivers? Is that really reflecting the strong fiscal first quarter? Is that a more constructive view of pricing and price cost balance over the balance of the year? Just help us think about how your outlook has evolved relative to what you gave initially in November.

Donnie King

Okay, good morning. Welcome, Adam, and everyone. Let me start off and tell you that we really got off to a good start in Q1, and there are a number of factors with Q1 and what we saw in Q1 and our optimism as we look to the balance of the year.

We've adjusted a number of pricing mechanisms to be more variable in nature. We've seen price elasticity, for example, in prepared foods being less or lower than what they have historically been which is exciting there.

We've been able to maintain volume in this inflationary environment. Inflation, as we see it is continuing to move up. We're really excited about our productivity program relative to the whole company. We're anticipating \$300 million, \$400 million, and we're on track through Q1 relative to that.

Just doing what we do better, and we talk about becoming a more agile and faster decision-making organization. Essentially, that's all about the process and being better, faster, and making decisions with greater speed at lower levels within the organization.

Because of our vaccination position, we've now moved past the surge of the Omicron spike, as we call it, which occurred predominantly in the first three weeks of January, and we're back to normal levels. We think our vaccine mandate served us well and making that commitment and really making our team members' health and safety and their families and communities our highest priority has served us through the new variant. We've seen better absenteeism and turnover throughout the organization. We think labor will be available, will be much greater in the balance of the year, and we certainly have capacities coming online with head and harvest and chicken and further processing capabilities, value-added capabilities in prepared and chicken. We have labor going back into beef and pork plants, and we'll be able to improve those mixes as well as increase the harvest capacity.

Adam Samuelson

Alright. That color is really helpful. I guess just a quick follow-up. On capital allocation, you stepped up the buyback in the fiscal first quarter. It was something that was notably absent from the kind of multiyear view at the Analyst Day in December, and I was wondering if you could just help us think, Stewart, maybe just cadence on buybacks going forward. Should we think about it being more ratable, more opportunistic? You guys certainly have the balance sheet capacity to make it more ratable, but I'm just trying to think about how to bring that expectation going forward.

Stewart Glendinning

Yes. Look, thanks for that, Adam. If you go back to Investor Day, we were really focused on being able to point to the strong growth story that sits in front of our Tyson future, and part of that was a pretty significant allocation of increased capital to capex spending and various capacity expansion.

So, it wasn't intentional to leave stock buyback to the end, but stock buybacks have been forecast in history, and they will be in the future. The one thing we've said is that we do look each year to try to buy back the dilution, and after that, it will be more opportunistic, but growth is a focus for our company.

Adam Samuelson

Okay. That's all very helpful. I'll pass it on. Thank you.

Operator

The next question comes from Peter Galbo of Bank of America. Please go ahead.

Peter Galbo

Hi, guys. Good morning. Thanks for taking the questions. I guess first question for Donnie, and I believe David is on the line as well, Donnie, you've spoken in the past, and it's been helpful just on how buy versus grow gets put at a disadvantage particularly when spot prices move. You've made some strides to lower kind of at meat purchases here on a sequential basis. Just in the month of January with where spot prices kind of moved, how should we think about that impact on chicken and on the overall turnaround maybe just in the short term here?

Donnie King

Okay, Peter. I'll tell you, I'll start, and then I will let David make a few comments. But over the last year or so, the recovery for our chicken business has been a priority specifically as it relates to buy versus grow. The fact of the matter is we became too dependent on the buy portion of the model, and we forgot to grow chicken which hurt us from a capacity utilization perspective, and those additional pounds flowing through our business really impacted our fixed-cost leverage.

So, we tilted too far on the buy portion of this, and over the last year, as we have been building the breeding stock and getting past the hatch issue that we talked about so much last year, we're now in a better position to get more head through our processing and harvest facilities which will give us more breast meat at a much more attractive price point versus the buy in the marketplace right now.

We have not totally abandoned the buy portion and do not anticipate totally abandoning that, but there's a smaller percentage of our overall needs that we will go to the market to secure. We're on plan with what we intended to do.

With that, David, why don't you add a little bit?

David Bray

Yes, Peter, thank you for the question. I think one way also to look at this is we will buy outside meat to the extent it is the right financial decision. From our standpoint, we will continue to manage against what is right as whether buy versus grow, but generally, outside meat purchases are going to be used to supplement what we're doing when it's the right financial decision.

As to what Donnie stated, volume is critical. It's one of the big levers of what we are going to accomplish in FY '22 to grow the animals ourselves into processes, and that will make us much more efficient.

Peter Galbo

Got it, okay. Donnie, in both your comments, prepared remarks and Stewart's, you both commented on restructuring the pricing strategy to be more variable in nature, particularly in chicken. I'm just curious, what percentage of that business now is tied to more of the spot market versus kind of where you had been historically? I think that would be just helpful for us as we think about how to think about the new business going forward.

David Bray

So I would tell you, within chicken specifically, I would tell you, we have restructured our pricing approach, and that's really in large part thanks to our commercial organization as well as the great customer relationships that we have across both our retail and foodservice networks. I would tell you today, we are significantly more variable pricing versus fixed, and again, we're not even utilizing fixed rate within our conversations.

Every contractor program that we have is either tied to grain, tied to market value and we will continue to use that. Pricing was up significantly in chicken in the Q1 time frame of over 20%, and a large part of that was because of the variable programs that we put in place.

Operator

The next question comes from Ken Goldman of J.P Morgan. Please go ahead.

Ken Goldman

Hi. Thank you so much. I wanted to ask, it's obviously extremely early and this could lead to nothing, but there have been a couple of cases of avian influenza, obviously not in the poultry industry. I'm just curious, are you seeing anything? Are you doing anything on your part to take extra precautions against this? I think you're probably one of the most up-to-speed companies in the world in terms of already taking those precautions, so maybe you're already there. I'm just trying to get a sense of what you see the industry doing and if there's been a lot of changes since the last time title came around.

David Bray

Yes, absolutely, Ken, good morning. Thank you, and yes, the USDA has reported that this HPAI variant has only been found in the wild bird population, and it's really been within the east coast of the United States.

I would tell you more specifically to what Tyson is doing versus what the industry is doing is we have very robust biosecurity measures in place across all of our facilities, and that includes testing every flock for avian influenza. In addition, at Tyson we have heightened our biosecurity measures in all of our facilities on the east coast. Some of those things that we've done are we're reducing number of trips that we're taking to farms. We're actually taking extra time and doing more cleaning of our vehicles that do go to the farms, but we are ahead of this and have been watching it very closely.

Donnie King

I would add to this that we have in our biosecurity programs, we have green, which is just normal business; yellow, orange, and red, which are progressive. On the east coast, as Dave mentioned, we are in the orange category at this point. So, a lot of attention and a lot of watching. I saw the case over the weekend in Florida, which I think now is five states, in which we have seen avian influenza.

Ken Goldman

Okay, thank you for that. That is helpful. Then, I wanted to also ask, you obviously still have a plant-based alternative business, not obviously the biggest part of your business at this point, but it was a little bit of an initiative for you a couple of years ago and still mentioned from time to time.

We've heard some of your competitors and peers out there talk about how demand has slowed for that part of the business. I'm just curious what your take is on the industry in general, has your optimism waned at all for that? Just want to get a sense of how you see that current balance between animal-based and alternative-based needs.

Donnie King

Sure. Well, I mean, we're still in the plant-based protein business. We still like it. Consumer demand continues to be good. We've seen a lot more growth domestically in foodservice than retail of late, but across retail and foodservice, we continue to see growth. Now, that's off a very small base, as you might imagine, but we're continuing to see growth.

For us, with our presence outside the United States, in Europe and China and also in Southeast Asia, we also have plant-based products in those markets that are doing really, really well also. So we're still excited about the plant-based business, and when consumers prefer that we want to have the opportunity to be able to provide that for them and are currently and are growing.

Let me ask Noelle if there's anything she'd like to add to that.

Noelle O'Mara

Sure. Just as a build, we want to be leaders across all the proteins that consumers seek, and we know that consumer interest in adoption is growing in this space. We'll continue to be guided by the consumer needs and the opportunities. You see the Raised & Rooted products that we've launched domestically, we continue to have opportunities internationally, and we'll continue to ensure that we are participating with consumer interest and adoption growth.

Ken Goldman

Thank you so much.

Operator

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

Anthony Hernandez

Good morning, and this is Anthony Hernandez [ph] on behalf of Ben Theurer. My question is regarding prepared foods, and you basically performed in line with guidance during this last quarter with decrements, the long-term target of 10% to 12%. How do you see the potential I prepared foods to recover margins within this year and also next fiscal year as well? Thanks.

Noelle O'Mara

I can give you a bit of context to what we're currently seeing. So, demand continues to be strong across both retail and foodservice driven by our strong equities and our diverse portfolio. As you said, we're pleased with the market performance that we're seeing despite the price increases which is really due to the strength of our brands and the strong partnerships and relationships that we've built with our customers.

Elasticity has been less than the historical models that Donnie has mentioned, but it's clearly something that we're watching closely, and so we're constantly reviewing our pricing and revenue management strategies as the landscape changes. We'll continue to take thoughtful approaches on those critical levers.

As you also heard in the comments, we're taking significant actions to transform our cost base and we're creating good momentum there. So, on the year, we continue to feel good about the 7% to 9% range that we've given, and we believe we have the right building blocks in place on our path to deliver sustainable double-digit margin.

Anthony Hernandez

Okay. Perfect. Thanks a lot.

Operator

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

Ken Zaslow

Good morning, guys. Just two questions. One is automation. Can you talk about the progress and what anecdotal evidence you've seen, how much has been actually done? Is it changing your yield? Just some framework to the automation story would be helpful.

Donnie King

Well, automation, I've talked about it in a great deal in our productivity program. I talked about it at Investor Day that we anticipate over the next three years as that be worth about \$450 million to us. So, we're spending significant amounts of capital on that. Stewart talked about in his opening remarks about the \$2 billion of capex for capacity, but a great deal of the money being spent is on automation and technology that we are deploying.

I would tell you, in our Q1, we are on track. We had a number of different projects, and we've moved really from a project-to-project to more of a programmatic approach where we attack common things across our production footprint, for example, could be deboning across all chicken, could be like palletizing, for example, an automation that's available there across the entire enterprise, material handling-type things, but all of these in terms of priority or the more difficult, harder-to-staff jobs. So, I would tell you, in short, we are on track. We will deliver \$300 million to \$400 million in productivity savings, and some of that is coming from the automation piece.

To the best of my knowledge, we've not disclosed how much is coming from each sector, but we're moving as quickly as humanly possible, as quickly as the supply chain will allow us to get new pieces of equipment, and so forth.

Ken Zaslow

Great. My second question is on hatchability. We haven't really seen it in the data, on the public data, but you're saying that you're moving faster than you've expected on the hatchability. Can you talk about what you're actually seeing in your operation, and when do you think it will actually translate to the numbers in the publicly-available data? Just kind of give us a little bit of what you've actually done to move that hatchability up to where you are actually ahead of schedule?

David Bray

Absolutely, Ken. Thank you. I think first and foremost we do need to say that we are ahead of what we had expected from a Q1 standpoint related to our overall hatch. I'll also share with you that—and again, this is everything specific to Tyson. I won't speak to and cannot speak to what's happening within the industry.

Understand we ended FY '22 with a growth mindset. We really demonstrated that within Q1 where we grew our volumes 3.6%. As we enter '21, I can tell you we are up in egg sets. We are up in both chicks placed as well as overall breeder production. Our plan is to continue to grow like we did in Q1 for the balance of '22. Our hatch is a critical component to that.

Donnie King

I would add this piece of context to that, Ken, that in '22, where we intersect in public benchmark data, we have crossed that line with competitors, the industry at large with our hatch.

Ken Zaslow

That's great. Thank you very much.

Operator

The next question comes from Ben Bienvenu of Stephens. Please go ahead.

Ben Bienvenu

Thanks, and good morning, everybody. So, I want to ask, in your presentation that you issued concurrent with the results this morning, you noted on the pork business that there's a continued opportunity around mix. I hoped that you could elaborate a little bit on that. Then, also to the extent that you think about that as a component of your chicken business, I know repricing contracts, hatchability, and plant productivity are all kind of the highlight items associated with improving that business. Where does mix stand and the opportunity to margin up the chicken business?

Donnie King

Okay, let me start broadly, and then I will let Shane speak a few details around pork, and there are similarities with that. For example, in the pork business, the labor availability in pork and chicken has been the single biggest challenge that we've had over the last two years in the pandemic. Capacity utilization has been better in pork than it has been in chicken. Labor and capacity utilization is continuing, it has been good in pork and continues to get better.

The thing that has hurt us to some degree on both pork and chicken is mix or capturing some things like of harvest in chicken or [indiscernible] or similar specialty products in pork. We've just not been able to fully optimize that, for example, in pork, maybe the inability to debone a ham versus selling a whole ham.

Those are the type of things, but as we enter '22 in both businesses, we're in a much better position in terms of labor improving, and we still have some ways to go, but we see improving mix and capacity utilization across all businesses.

I'll let Shane speak to maybe a few more things in pork.

Shane Miller

Yes. Thanks, Donnie, and you hit on most of it there, but I think the other thing to add to this, too, is as we think globally here, Tyson is a global company and we're servicing a lot of companies and countries across the globe. The key to this is being able to balance that with our domestic business and looking at what we have from a throughput and a labor perspective.

So, labor has been a challenge. We're getting the animals through the facility, but it's the further processing we're doing on the backend of the plant that's been a bit of a challenge. So, staying focused on optimizing our labor usage and maximizing throughput and contribution when we look at it on a labor per man-hour basis has been the key.

Ben Bienvenu

Okay. That's great, Thanks. Then, my second question is related to export demand. You called out in the presentation as well around beef that port congestion and labor shortages impacted the business. Export demand has been exceptionally strong for beef in particular. I'm curious about your outlook for this year for continued export demand?

Then, for chicken, I know that there's a mix challenge that perhaps weighed on leg quarters domestically, but with this very strong crude backdrop, I would think that would also benefit export demand for domestic leg quarters. So, can you talk a little bit about exports and your outlook for that across all the businesses for the balance of the year?

Shane Miller

Yes. So, I'll take the beef question. So the US is a leader in global beef production, and it's centered around our superior taste and quality. The producers that we're partnering with in this country are doing a phenomenal job of bringing quality to the marketplace. So, global consumers are increasingly preferring US-produced beef, and we're seeing stronger global demand as a result of that.

Port congestion on the west coast, as you mentioned, has been an issue, and it's impacting not only the short-term international demand but also fulfillment on orders that have taken prior to this, and that's really what we've been focused on is implementing strategies and options to not only diversify shipping ports, but also to mitigate our risk as we go forward.

We continue to see very good interest coming out of Asia especially for our high-quality yield in beef, and a good example around that is China. China has become the number three destination for US beef, and Tyson has a competitive advantage with not only our direct business but our international business unit that we have in-country there in China.

So, significant resources in-country, a lot of customers demand in beef, and we feel real good about 2022 and going forward.

David Bray

To answer your question relative to what we're seeing within poultry, very similar to the comments that Shane was making that the demand remains extremely strong. I would tell you that it's really not demand and price are really not the issue. We're dealing with the same port congestion in the poultry organization, but that really underscores the need for us as an organization to make sure that we are upgrading our mix and to utilize those in domestic use.

A lot of work being done right now relative to leg quarters and cutting those into drum and thighs and using them within alternate channels domestically. We are targeting both deli and foodservice for some of those opportunities.

Donnie King

Let me add one comment to this that I try to remind everyone. In addition to all the things that both Shane and David have said, I would remind us of the One Tyson approach, which is our international business unit that we have in China, and with leg quarters and pork and beef products and prepared foods product as well. When we export those commodity-based products outside the United States, in many cases today, or in most cases today, we take them in and further process chicken leg quarters and the like into value-added branded products into China in an approach we call One Tyson. Then, we're able to sell it and capture an additional margin on top of all that eliminating a number of activities and hands touched in the middle of the process. So I'll leave it at that.

Ben Bienvenu

Awesome. Thanks so much for taking my questions, and congratulations on a great start to the year.

Donnie King

Thank you.

Operator

The next question comes from Rob Moskow of Credit Suisse. Please go ahead.

Rob Moskow

Hi. I have a couple of questions. One I think easy to answer, and maybe one that's not so easy. So, I'll start with the first. You talked about being able to get fair value for transportation surcharges. A lot of your branded food peers can't seem to recoup those charges. So, why is yours different? Is it easier in fresh meat than it is in branded foods to charge the customer for that surcharge? Then, I'll wait and ask another one.

Donnie King

Let me start with that one. Let me start with simply saying that freight costs are up 32% for us. I talked about some of the technology in my opening remarks where we would intersect between our private fleet, contract fleet, outside carriers and try to optimize how we do that. We've had a lot of success. A lot of the inflation happened so rapidly, it took a bit to get on top of that, but thus far we have been successful in being able to get the transportation and we've asked our customers to pay us for that, to pay us for freight, and we've been successful in doing so.

Rob Moskow

So, is it easier in one part of the business than it is in another part of the business, like easier in fresh and not so easy in branded?

Donnie King

As I look around the room and all those leading the businesses, I don't think if you're a branded portfolio versus a more commodity-oriented business, I don't think that really matters. What we've tried to do with our customers is say, freight is freight and the price of the product is the price of the product, and we try not to blend the two. So, I wouldn't say one is any easier than the other, but I think the fact of the matter is freight being up 32%, that's what it cost to get the product moved and delivered to a customer, and we're asking our customers to pay for that.

Anything to add?

Shane Miller

This is Shane. The only thing I'd add on to that is if you think of it regionally, too, there are certain markets that are a little more difficult to shift into versus others. So, you have to think about backhauls and what your cost mechanism is going to be to recover that, too. So, that would be the only other component I'd add on to what Donnie said.

Rob Moskow

Okay, great. Here's the second question. The industry has been dealing with a labor shortage for a long time. It's unclear when it's going to get better. In the past, I remember hearing that Tyson and others have found pockets of international immigrants, communities to source to improve their labor utilization in certain facilities. Is your access to international immigrants compromised in the current environment, more so than it has in the past, and is there something that the industry can do to gain access to more people from international locations in a legal fashion?

Donnie King

Well, you're right. Labor has been a challenge for a bit now. We looked at this in terms of trying to solve for Tyson, and our approach has been to try to create a better place for people to work, a better work experience with less turnover and less absenteeism with just keeping team members safe.

In our first quarter, we paid \$50 million in bonuses to our team members for no reason other than to say thank you for choosing Tyson. Thank you for being on our team, and we've had to do a number of things like piloting childcare and subsidized childcare, onsite clinics. We also are investing with our strong balance sheet heavily in terms of automation to take away some of those more difficult jobs.

Now, our workforce to be clear, is made up of a number of different immigrants and people from all over the world in different nationalities, and so we've benefited through the years like many others have of having such a diverse workforce.

So, we continue to pursue those things like Afghan refugees. We tried to be available with working with the government in terms of having availability, and we've worked with communities in terms of trying to build or define housing to support that, to make it easier.

I mean, we're doing all kinds of things along that line to be able to make it easy to do business with Tyson, easy to go to work for Tyson and do it all the right way. So, that's been our approach. I know of no magic or no pool of people anywhere that we are targeting to try to take care of the labor situation. We're trying to solve it by doing a number of things to make us a better place to work.

Rob Moskow

Got it. Thank you very much.

Operator

The next question comes from Michael Lavery of Piper Sandler. Please go ahead.

Michael Lavery

Good morning. Thank you.

Donnie King

Good morning, Michael.

Michael Lavery

You touched on elasticity a little bit, and I realize they've held up quite well. We've heard that from a lot of companies, but just curious how you think about some of your assumptions for that going forward especially just with pricing up as strongly as it is. That's a few multiples of what wage growth looks like. So, just curious what your planning assumptions are for how that unfolds over the rest of the year, and maybe a little bit color by segment, if you can.

Donnie King

Noelle, would you like to start with that?

Noelle O'Mara

Sure. So, as I mentioned, we're constantly reviewing pricing and revenue management strategies, and it is a dynamic environment. As the environment continues to evolve, we'll be very thoughtful about our approaches. Pricing is just one of the levers in our toolkit.

We look at productivity and cost opportunities and other levers to ensure that we have all the pieces coming together to best grow our brands and create business continuity and profitability. So, maybe the other aspects that I would point to is that we have a broad and diverse portfolio with a range of price points to ensure that we have offerings that meet a variety of consumer needs, and price pack architecture also becomes critical in these inflationary times. You see that focus for us across the business.

Donnie King

I would add this to what Noelle said. We have seen a lot of inflation, but I would remind you the cost of food in the US, while it is higher, is still very attractive relative to the balance of the world. Labor costs have been up 20%, cattle costs are up 22%. Grain has been up 29%. This year in freight, I mentioned earlier, is up 32%.

We're not asking customers or the consumer ultimately to pay for our inefficiencies. We're asking them to pay for inflation, and the rest of what we do is we try to find ways to be more productive, to lower costs and increase throughputs, and so forth. We feel good about our ability to do a lot of that while serving our customers.

Michael Lavery

The inflation headwinds are obviously clear and certainly a driver of the pricing, but just maybe expect some of your assumptions on the elasticity, maybe a very high level, do you assume they revert to more normal levels or that they can hold at sort of what we're seeing currently?

Donnie King

They are where they are right now, and I know that's not a very good answer. I mean, there is a price point where it could be impactful, but at Tyson we play across the spectrum from the most value-added products to the most commodity of commodity products, and we meet the consumer wherever they are on the value chain. So, we intend to continue to grow our business and serve those consumers wherever they are.

Michael Lavery

Okay, great. I just want to follow up on the chicken pricing and understand some of the flexibility that you've implemented, and maybe just understand if it's meant to allow for more upside or if it drives more volatility. Is it flexible in both directions, or does it have any sort of floors that just mostly allow for easier increases?

David Bray

Absolutely. Thank very much. Again, there's flexibility both going up and there's flexibility going down. Our partners in both retail and food stores understand what those metrics are, and we will go up and we will go down based on how we put our programs together. The biggest piece of it is the fact that it is much more variable today than it has been at any point in time.

Michael Lavery

Okay, great. Thanks so much.

Donnie King

Thank you.

CONCLUSION**Operator**

This concludes our question and answer session. I would like to turn the conference back over to Mr. Donnie King, President and CEO, for any closing remarks.

Donnie King

Thank you, Andrea, and thanks again for your interest in Tyson Foods. We look forward to speaking again soon.

Operator

The conference is now concluded. Thank you for attending today's presentation, and you may now disconnect.